ProVest Wealth Advisors

Why the month you Retire Matters

223 E. Blackstock Road
Spartanburg, SC 29301

p. 864 582 7766
1-800-277-0025

asknoel@theprovestperspective.com
www.TheProvestPerspective.com
www.ProVestWealth.com

Introduction

Does it really matter the month in which you retire?
Some may say yes, some may say no, some may say I'll never get to retire. But the reality is that the decisions we make and the time of year in which we choose to retire can have a profound difference on us, not only from a tax standpoint, a personal standpoint, from an emotional standpoint and from a financial standpoint.

From a Tax Standpoint

The month you retire can matter from a tax standpoint. Let's say you're married, and you make $150,000 a year. And let's just say that you're thinking about retiring and you're shooting for maybe April……no matter whether it's this year or next year.

So by April, we can mathematically assume that we will have made $50,000. Now, it's important you understand that all of this may vary, depending upon the amount of income that you make, depending upon your marital status. There's lots of different variances, so this is just an example. But we are using this scenario as kind of a broad scope to be able to identify some opportunities that you may be overlooking.

In America today, we have various different tax guidelines. We have tax percentages that increase as we make more. We have the 12% tax bracket. We have the 22 % tax bracket and then it goes to 24%. Well, if we have earned $50,000 because we work January through April and then we retire, what that means is that we've only really reported about one third of our normal annual income.

And this gives us an opportunity to potentially do things like a Roth conversion. That's the 1st possible tax advantage of retiring earlier in the year.

If you're not familiar with Roth conversions or you're not familiar with Roth in general, a Roth IRA account is something that we add post-tax money to, and the promise is that the gains or the accumulation of that Roth are going to be tax -free to us down the road. This includes income that we may draw from that account.

Retirees usually have money in their 401K, a 403B, maybe they have some traditional IRAs. And looking down the road, they understand that at some point in their future at the age of 73, the government's going to force them to begin taking distributions, whether they like it or not.

One of the ways that we can circumvent that, or at least lessen the pain, is to do a Roth conversion. We take money from the IRA, from the 401k, from the 403B, and you convert it into Roth money. Now, the painful part of that is that it's obviously taxable.

If we are married and filing jointly, if our wife doesn't work or is retired, since the top end of the 12% bracket is $94,300, what this means is that if we retire sooner in the year, say April, now all of a sudden we have a lot more ability of being able to move money from the pre-tax account into the Roth, and guess what, it's going to be less taxable to us. We'll only pay 12 % tax instead of 22.

The 2nd tax advantage of retiring earlier in the year, is that you could possibly be in a zero percent capital gains tax situation. See, if you have stock or real estate that has appreciated that you plan to sell once you retire, a lower income for the year, because you retired early in that year, could put you in a zero capital gains tax bracket, instead of the usual 15 to 20%.

The 3rd tax advantage of retiring earlier in the year, is you can make adjustments to the amount of money that you put into your 401K. You can really ramp up the amount that you're contributing to the 401k so that you're deferring more of your taxable income and therefore reporting less earned income for the year in which you retire.
It's awfully hard to do that at the end of the year, but if you retire in the beginning of the year, you have the months ahead of you and you have the ability of being able to really sock money away in your 401k, which will, again, save you money on your income taxes. We all want to pay what we rightfully owe, but not a penny more.

From a Personal Standpoint

As you think about the tax ramifications of retiring early, you also want to talk about the personal side of retiring. Retiring is a big decision. And for the most part, there's an awful lot of individuals that they've worked 40, maybe even 50 years.

When you get closer to retirement, this is where you have to begin to become very contemplative. You want to be thinking and planning. So, there's three priorities that everyone should think about as they prepare to retire. I call them the three C’s.

The first is that I want them to start getting creative. I want them starting to focus on creativity, the things that they're going to do, the places that they're going to go, the things that they want to accomplish on their bucket list of items.

The second thing I want them to focus on is connection. Maybe this is connection to you faith, or connection to your family, or maybe a connection to some old friends. But connection is a big thing that often gets overlooked. And when you retire, that's one of the beautiful things about retirement. You now have one thing on your hands that you just didn't have before…. TIME! You want to be thinking about the things you're going to do. You want to be thinking about who are you going to get connected or reconnected with.

The third thing is contribution. You want to be able to maintain that sharpness in your life. Contribution is a very, very good way of being able to identify some creative ways to keep busy, whether you're contributing at the local soup kitchen, in your church, or you're volunteering to read books to children.

The reality is that you want to be able to think about what are some things that you can employ. Your life, your wisdom, the things you've learned to better and improve the lives of others. So those are the three Cs that are good to focus on prior to retirement.

What are you going to do for activities? **Creativity**
Whom are you going to reconnect with and try to build that relationship? **Connection**
And then lastly, what are the things that you can do to **contribute**?

From an Emotional Standpoint

It can it have an impact on the emotional part of life. When you get ready to retire, you want to be able to focus on **creativity**. What are the things that you're going to do? You should also focus on **connection**. Who are you going to be reconnecting with? Maybe it's your spouse. Maybe it's your kids or grandkids. Maybe it's friends that you haven't seen in a very long time. But connection is a huge part of retirement. And then there is **contribution**. What can you do now that you have the free time on your hands to do?

The reality is that if you can retire earlier in the year, now all of a sudden, not only do you pay less income tax, not only does it give you some capital gains tax harvesting opportunities and some Roth conversion opportunities, but it also gives you an opportunity to spend some time outside.

We obviously know what happens October rolls around. The days get shorter. The temperatures cool down. And then, before you know it, you're spending less time outdoors and more time indoors. You end up getting less light and vitamin D, which could end up having some effect on your mood.

You see, whenever someone retires, there's always some degree of adjustment. And so, it's important, I believe, that you take and plan for a vacation. As I said earlier, when you retire, you're going to have more time on your hands. But are you going to want to go outside if’s cold out?

Retiring earlier in the year, allows you to adjust to life during the warmer temperatures. So, to those of you that have, for whatever reason, a desire to retire towards the end of the year, I always encourage my clients to do themselves a tremendous favor.

If you're going to be retiring later on in the year, say in the last three months of the year, you want to be thinking about potentially going on vacation to somewhere warm so you can get out, you can walk, you can kind of rehabilitate yourself. This is something that's a bit of a necessity.

It's just that you need to acclimate to this new stage of life. So go somewhere that's warm. Go somewhere that allows you to go swimming and walking and have some outdoor activities and get some sunshine. This is awfully important, especially if you've been working and now you're giving up a career that you've had for 35, 45 years.

From a Financial Standpoint

Let's delve into the financial aspect now. When it comes to retiring, the month in which you retire can indeed have an impact on you from a financial perspective.

Since we already discussed income tax, let's cover a couple more item to think about before retirement.

1. Let's say there's a surgery you've been sort of putting off. This is the time to schedule it and get it done, while you're still under your group health insurance plan. You may have a deductible and co-pay, but that's a lot better than having to foot the entire bill, that is, if you don't go on Medicare immediately.

Maybe you need a hip or knee replacement. Before you retire is the time to get it. Now, certainly you could wait until you get Medicare. But if you've already got it paid for, oftentimes group health insurance can be the equivalent, if not better, than Medicare. And so, as a result, it would be wise of you to consider getting that procedure done while you still have the Group Health Insurance.

2. Another thing to consider is going on to Medicare, part A and part B. What happens if, let's say, you're not quite 65. You have to keep in mind that you can't continue on your employer provided group health insurance, you can keep your insurance on something called COBRA, which is going to last 18 months.

   So in this case, if you decide you're going to go ahead and retire, say in June, then you're going to end up having another 18 months worth of COBRA that's going to get you through to age 65, so then you can get off from the group health insurance and go on to Medicare. The only downside to that is we all know that COBRA is not cheap. We know that it's our portion of the premium plus what the employer was paying, so always do your research, always know the numbers before you plan to make that retirement a date solid.

3. It could also be said the same thing is true for ESOPs, that is short for Employee's Stock Option Plan. Oftentimes employers are going to make ESOP or employer stock option deposit one time each year. So, in many respects, you want to know exactly when

the employer makes that deposit and you want to be able to work long enough to get that year's deposit.

4. You may even be one of those individuals that you've got that milestone you're trying to get to. Maybe you've worked for your company for 39 years, but you just simply want the satisfaction of saying that you worked for 40 years for the same employer.

5. If you have a pension, that's another big one. If you are a part of the 20% of Americans that have a pension, number one, consider yourself to be fortunate. Most employers, save for government employees, no longer offer defined benefit retirement plans, like pensions. Instead, they are offering defined contribution plans like 401-k's.

   But, if you do have a real pension, do a little research into how it works. Handled correctly, it could fatten your monthly retirement check for the rest of your life. Some pensions offer their retirees either a monthly income, as you'd expect, or a lump sum payment in one single check. Not all the time, but sometimes it's more advantageous to take the lump sum, and roll it over, tax-free, into your own IRA. We've counseled many retirees who had this option, and I've seen it go both ways. Sometimes they were better off taking the monthly income from the pension and sometimes they were better off taking the lump sum.

   Retiring right takes a lot of thought, a lot of planning, and for the really serious about getting it right, some sound counseling.

Retirement isn't just about the financial product you're going to buy that will provide you the income you need after you stop working. Yet many so-called financial advisors talk about products exclusively. No, retirement is about what to do with the rest of your life. It's about being happy.

ProVest Wealth Advisors / 223 East Blackstock Rd Spartanburg, SC 29301 / 800-277-0025 or 864-582-7766