ECHELON
accounting + wealth management

How much can I withdraw from my investments in retirement?

I want to live my best life, but I'm worried about running out of money.

You've sacrificed and saved money throughout your career and now you are finally approaching retirement.
You may be thinking "How do I turn my investments into sustainable income?"

This is a critical decision with lifelong implications for both you and your spouse.

You may be asking yourself

- How much can I actually withdraw in retirement?
- What happens if I withdraw too much?
- How does my investment performance impact my withdrawals?
- What if the market goes down or up? Should I withdraw more or less?

And all of these questions must be taken into account while still living the lifestyle you have been saving for these past 35+ years.

HOW DO I STRIKE THE BALANCE
BETWEEN ENJOYING TODAY WITHOUT DAMAGING MY FINANCIAL FUTURE?

So, what is the strategy to find that balance?

The truth is there is no hard and fast rule that works all the time.

Finding the sweet spot is as much art as it is math.

Instead of focusing on how much you withdraw from your retirement accounts, focus on the planning you can do to increase your total wealth to live the lifestyle you have been planning.

It's smart to ask these questions and we are asked them all the time.

The 4% withdrawal rate

Have you ever heard of the 4% Rule? William Bengen published a paper saying that retirees should start out withdrawing 4% of their assets annually, increase the distribution each year by the inflation rate and rebalance annually, and that their portfolio would last at least 30 years.

If your portfolio is $1,000,000, this rule suggests that you can make a $40,000 withdrawal in year one. Let's assume inflation was 2%, so the next year you could withdraw $40,800 and so on. And theoretically, you would not run out of money.

More recent research suggests that the withdrawal rate may be closer to 3% because of today's low interest rates.

So, How Much Money can I withdraw from my Portfolio?

To base your decisions on a withdrawal rate may ignore all of the complexities of taxes, interest rates, and market volatility that you will face in retirement.

So, how can you increase your spendable income in retirement?

There are two key strategies:

1. Avoid the tax traps in retirement (keep more of your money)
2. Maximize your lifetime Social Security for you and your spouse (maximize guaranteed income)

TAX TRAPS IN RETIREMENT?

WHY TAXES ARE DIFFERENT IN RETIREMENT THAN WHEN YOU ARE WORKING…

The Promise:

Social Security will not be taxed…
It is not intended as a tax resource.

- You are dependent on government benefits by taking Social Security and Medicare.
- Those benefits come with terms and conditions.
- Your income can trigger tax traps on Social Security and Medicare.

TAX TRAP 1 — REQUIRED MINIMUM DISTRIBUTIONS (RMD'S)

If you are like most people, most of your retirement savings are in 401(k) and IRAs. Because the government has allowed the money to grow tax deferred, you must take taxable withdrawals every year starting at age 72 even if you don't need the money.

- The percentage you must withdraw increases annually which causes you to pay more taxes.
- The IRS imposes a 50% tax penalty if you miss your RMD!

And those withdrawals can trigger tax traps on previously untaxed income. Let's look at two of them.

TAX TRAP 2 — SOCIAL SECURITY PROVISIONAL INCOME

FDR made a Promise: Social Security Will Not Be used as a Tax Resource

He kept his promise, but subsequent generations of politicians did not!

Provisional Income is an arcane term you probably never heard of because you have never had to deal with it while you were working. Here is the equation that shows how provisional income is calculated:

PROVISIONAL INCOME

½ Your Social Security Income
\+ Ordinary Income
(wages, dividends, interest, capital gains)
\+ Your RMD's or other taxable withdrawals
\+ Tax Free Interest (from municipal bonds)**

**See following page's Pro Tip

PRO TIP

Did you notice in the Provisional Income calculation how the government is taking previously untaxable income from Municipal Bond Interest and using it to tax your social security? This is one of the clearest examples of how the government take unrelated and tax-free interest income from municipal bonds to trigger a tax trap to make a government benefit (Social Security) taxable!

TAX TRAP 3 MEDICARE IRMAA

You may be thinking who is IRMAA? It's not a who, it's another tax trap.

IRMAA is another arcane government term you never had to worry about until retirement. And it's classic government jargon.

IRMAA is an anacronym for Income Related Monthly Adjustment Amount.

The table below shows the cost of this surcharge on your Medicare premiums is based on your income.

IRMAA Medicare Excess Premiums

MFJ 2020 (per person)

Income	Part B (Annual)	Part D (Annual)
0-$174,000	$1,735.20	Plan Cost Only
$174,001-$218,000	$2,428.80	Plan + $146.40
$218,001-$272,000	$3,470.40	Plan + $378.00
$272,001-$326,000	$4,514.40	Plan + $608.40
$326,001-$750,000	$5,552.40	Plan + $840.00
$750,000 +	$5,899.20	Plan + $916.80

Source: medicare.gov

And IRMAA isn't just affecting the wealthy. Retired City and State employees who were diligent about saving for retirement are having to pay the IRMAA surcharges.

This may not apply to you as the rates are currently structured, but that doesn't mean the government won't lower the brackets in the future.

The government gets to change the rules whenever they want.

Imagine how many people could have to pay these added surcharges if the government lowered the IRMAA income trigger from $176k to $100,000.

KEY TAKEAWAYS

- The government can move the goal posts on us at any time.
- Today's tax rates may be the lowest we see in our lifetime due to our exploding national debt.
- It's important to play financial defense by lowering your exposure to the tax traps in retirement.

MAXIMIZE YOUR LIFETIME SOCIAL SECURITY FOR YOU AND YOUR SPOUSE

WHEN, HOW AND WHY SHOULD I FILE FOR SOCIAL SECURITY TO MAXIMIZE MY BENEFITS, PROTECT MY LIFESTYLE AND KEEP IT TAX-FREE?

For most retirees, Social Security is the biggest source of guaranteed, inflation-adjusted, lifetime income you'll have in retirement, but much of the available information is contradictory, confusing, and downright incorrect. The Social Security Publications can be as confusing as IRS tax publications.

96%

of Social Security claimants fail to make the optimal claiming decision.

That means retirees lose out on an estimated $3.4 trillion in potential retirement income (on average $111,000 per household). The average recipient would receive 9% more income in retirement *if they made the financially optimal decision* about when to claim this retirement benefit.[1]

Even if you call the Social Security Administration, you can get a different answer every time you call. In fact, a 2018 report by the SSA itself found that bad Social Security advice has cost Americans $131 million.[2] There's no such thing as a one size fits all Social Security strategy.

There are over 2,700 Social Security claiming rules, yielding over 567 separate filing strategies for a married couple to consider.[3] One of those strategies is right for you. One of those strategies will maximize your income and protect your spouse when you are gone.

WHEN TO CLAIM YOUR SOCIAL SECURITY

Claiming Social Security Early (Between Ages 62 and 67)

While claiming Social Security early reduces your monthly benefit, it also means that you'll be collecting checks longer.

Why you would want to claim Social Security earlier:

1. You need income early in retirement.
2. You want to let your retirement savings continue to grow.
3. You have a high-earning spouse, and want to let their benefit potentially grow while claiming your own.

Claim Social Security at your Full Retirement Age (Ages 66-67)

You will receive 100% of your Social Security if you claim at FRA.

Here are the 3 reasons you may want to claim at your FRA.

1. Your benefit will be higher than if you claimed early.
2. You can work and still collect your full benefit because the Annual Earnings Limitation no longer applies.
3. You can suspend your benefits at any time to allow them to start growing again.

Claim Social Security at Age 70

Once you are age 70, you have maximized your benefit. There is no benefit in delaying any longer.

If you were born before January 2, 1954, you may be eligible to file a "Restricted Application" to maximize your lifetime benefits.[5] This advanced strategy is a powerful tool for married couples who want to potentially maximize their income, protect a surviving spouse, and manage tax consequences.

Are you asking yourself when is the best time for you to file for Social Security? Do you want to maximize your lifetime benefit for you and your spouse? Get in touch by calling my office. I will answer your questions and show you how to create a customized claiming strategy in a 1-on-1 conversation.

IMPORTANT CONSIDERATIONS IN CHOOSING ONE CLAIMING STRATEGY OVER ANOTHER

- Do you have Other Sources of Retirement Income?
- Are You Married?
- What Are Your Family Health History and Longevity Expectations?
- Will You Work While Claiming Social Security?
- You Want to avoid having up to 85% of your Social Security income taxed

3 Steps To Take BEFORE You Claim Social Security

STEP 1 Consider all the options available to you AND your spouse

STEP 2 Talk to a professional about your retirement income plan

STEP 3 Avoid the tax traps in retirement that can make your Social Security taxable

Three Benefits of Working With a Professional

1. Software that analyzes Social Security rules and shows you how to optimally claim Social Security to maximize income now and later

2. A personalized analysis of advanced claiming strategies, including 62/70, Start-Stop-Start, Claim and Grow, and limited-opportunity loopholes like File and Suspend and Restricted Filing

3. A tax-smart income plan that shows you exactly how to structure withdrawals from retirement accounts and Social Security to minimize taxes

1 - https://unitedincome.capitalone.com/library/the-retirement-solution-hiding-in-plain-sight

2 - https://www.cnbc.com/2018/03/01/bad-social-security-advice-cost-recipients-131-million.html

3 - https://www.nysscpa.org/news/publications/the-trusted-professional/article/social-security-filing-strategies-under-thenew-rules

4 - https://www.ssa.gov/oact/quickcalc/early_late.html

5 - https://www.kiplinger.com/article/retirement/t051-c000-s004-restricted-application-social-security-strategy-is.html better off with a different claiming strategy, we can help you "turn back the clock" with the SSA and get back on the right track.

*To learn how to optimize your Social Security, we're offering a **FREE Retirement Assessment** where we review your taxes, investments, and current financial strategies.*

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