5 ways we bring clarity to retirement planning

by Jon Sevenker

Retirement planning is a big concept with many moving parts, from identifying retirement income sources to calculating a safe withdrawal rate to reducing taxes. Newly retired clients often want to know how to create a retirement paycheck, maximize their Social Security benefits, and decide which accounts to tap first.

From an advisor's standpoint, retirement planning is all about bringing clarity to their client(s). In his book, *To Sell is Human*, Dan Pink defines clarity as "the capacity to help others see their situations in fresh and more revealing ways, and to identify problems they didn't know they had." In a nutshell, this is the job of an advisor.

As our clients transition from working full-time to whatever is next, they want to know:

1) "When should I start taking Social Security retirement benefits?" The best time to file for Social Security involves many factors. Still, generally the three most common dates to begin are as follows:

- As soon as possible (age 62)
- At full retirement age (FRA), which varies based on your birth year (typically age 66-67)
- As late as possible (age 70)

Unless you need the income to live on, your health is compromised, or longevity isn't in your family, you might consider waiting to claim benefits. Your benefit amount increases by roughly 8% per year from age 66 to 70. In other words, you're giving up a 32% increase in your benefit by claiming at full retirement age versus waiting until age 70. The typical breakeven point between receiving benefits at age 66 versus age 70 is roughly age 82. Alternatively, by claiming Social Security at age 62, you reduce your benefits by nearly 30%. Yet some people claim early because they wonder how much longer Social Security will be around.

2) "What are my Medicare options?" The Medicare maze is puzzling to many retirees. Lucky for you, Diane Klein and Elizabeth Sydzyik are SHIP volunteers and they can help our Nebraska clients enroll in Medicare and walk you through Parts A, B, C, and D. Best of all, there's no additional cost in having them help you. Over the last couple of years, Diane and E have saved our retired clients thousands of dollars by reviewing the client's prescription drug coverage during Medicare Part D Open Enrollment (October 15-December 7, 2020). We recommend reviewing your drug plan as coverages and contracts with pharmacies can change from year to year. You don't want to be shocked in January to learn your pharmacy has fallen out-of-network, the monthly premium has doubled, or a prescription is not covered. For our out-of-state clients, you can find a local SHIP office by Googling "Senior Health Insurance Program" and your state. For additional information, check out the Medicare Minute section of our blog.

3) "How do I create a retirement paycheck?" The transition from saving to spending can be a difficult one for many retirees. Flipping the switch involves jumping over a mental hurdle when the inflows stop, and the outflows begin. Creating a regular stream of income from your investment and retirement accounts makes it possible to mimic a paycheck and help alleviate some of these concerns. We've helped hundreds of clients access money from their accounts with a frequency that works for them (bi-monthly, monthly, etc.). Through a Schwab MoneyLink, these cash flows move electronically from your investment or retirement account to your checking account. (Learn more about MoneyLinks here.)

4) "How can I minimize taxes in retirement?" Along with the charitable giving example below, there are plenty of other ways we can help you save on taxes. For instance, we were aggressive in realizing losses in our clients' taxable accounts during the height of the pandemic market decline. Tax-loss harvesting moves a loss from the portfolio to the tax return, where it becomes asset-like. Up to $3,000 of realized losses can go against ordinary income on your tax return each year. Additionally, any unused losses carry forward for use against future gains. We can also help you analyze whether a Roth conversion is right for you and how to minimize taxes from IRA distributions. One such way is the Qualified Charitable Distribution (QCD), which allows you to gift from your IRA directly to a charity without having to pay income tax on the distribution. You can use a QCD to satisfy your Required Minimum Distribution (RMD) in future years, since RMDs were waived for 2020. Lastly, if you have company stock in your 401(k), you might consider taking advantage of net unrealized appreciation (NUA), another tax-advantaged strategy.

5) "Are donor-advised funds a good idea?" A donor-advised fund (DAF) is a great way to support the non-profit organizations you care about in a tax-efficient manner. If you're a charitable person and you have a taxable investment account, consider a donor-advised fund. DAFs work best when you contribute highly-appreciated investments, which help to magnify the tax benefits. Here are five potential benefits when using a donor-advised fund:

- You can receive an income tax deduction in the year you contribute to your DAF.
- You avoid paying capital gains taxes on the investments you contribute to your DAF.
- Your DAF will not be subject to estate taxes.
- You can invest your DAF money for tax-free growth.
- If you are subject to the alternative minimum tax (AMT), your DAF contribution will reduce your AMT impact.

You can find DAFs through community foundations and other public charities, like universities and hospitals. For the majority of our clients, we utilize Fidelity's donor-advised fund.

Retirement planning is about more than picking the right mix of investments. If you're nearing retirement or recently retired and would like our help navigating the financial jungle, please connect with us. We'd love to help you on your financial journey.

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