Speaker 1: You don't just want financial advice. You want to build skills, discover tips, acts, and strategies to master your finances in easy bite-sized pieces. This is 30 Minute Money, and here's your host Certified Financial Planner, Steve Wershing.

Speaker 2: Welcome to another 30 Minute Money. I'm Kurt [inaudible 00:00:27] with your host, the Star, Stephen Wershing.

Stephen Wershin...: Hey Kurt, nice to see you again.

Speaker 2: Hey, how you doing?

Stephen Wershin...: Good.

Speaker 2: Good. So what are we going to talk about today with 30 Minutes approximately?

Stephen Wershin...: Yeah. So, I go on and on a lot about managing taxes in retirement and how it's critical for people who are going into retirement. But, I wanted to try to talk about why it's important to think about way ahead of time. When you're in your 50's, even 40's why it's so important to talk about that even then.

Speaker 2: Right. I'm 58 right now. So why bother?

Stephen Wershin...: Prime time. Exactly. So, let me back up for a second. The biggest problem that I see, when people come in and they're just about ready to retire and they come in to talk about doing a plan. The biggest problem that I see is how they've got their money spread across the three tax buckets. There's the taxable, the tax deferred. That would be things like IRAs and 401ks and those kinds of things, and the tax-free bucket. And almost everybody who comes in has this massive amount in the tax-deferred bucket, and practically nothing in the tax-free bucket. And what that means is that when it comes time to managing taxes, when they get into retirement, they should have two or three or four levers that they can pull and they box themselves in.

So they've really only got one. And so everything they need to withdraw to provide them income causes them taxes. And it's impossible to control at that point. So trying to head off that problem. Now you can do stuff when you're in retirement, you can still do stuff about that. It's just that you can only do a little bit every year. It's a little like exercise. You have to do a little bit at a time. You can't do it all at once. And so the farther ahead that you can do that, the better off you can be.

Speaker 2: So what about 401ks and things like that too? Can I just go, well, I'm going to wait on that anyway.

Stephen Wershin...: Yeah. And that's the problem is that that's where all the money ends up for people, right?

Speaker 2: Mm-hmm.

Stephen Wershin...: So where the problem comes from too much focus on things like 401ks and IRAs. And I get it. I totally empathize. People end up in that situation because they listen to people like me who say, defer, defer, defer, defer, defer.

Speaker 2: Right.

Stephen Wershin...: But here's the problem. I mean, and deferral's not bad, but we have to think about why we defer in the first place. And we ran through the planning ideas, and it used to be that you worked your whole life and then you retired. And when you retired, you retired into a lower tax bracket.

Speaker 2: Mm-hmm.

Stephen Wershin...: And so if that's the case, it makes sense not to pay tax now when you're at a higher rate, but rather to pay tax on it when you're retired in a lower rate. But those circumstances are changing. And that assumption's not that good anymore for a couple of reasons. But the problem is that most financial advisors didn't go back and think about that. They just say, defer, defer, defer. And they forgot why we defer, because we're going to be in a lower tax bracket. But if your tax bracket's going to be the same, then it doesn't really matter whether or not you defer, and taxes are almost certainly going to be... Well, we know that they're going to be going up. They're going to be going up January 1st, 2026 because it says so in the Tax Cuts and Jobs Act of 2017.

That was the last time that rates were lowered. But there's a sunset, they're going to end. And they're going to stop at the end of 2025. So we know they're going up. They're going up a bit at the beginning of '26, but the overwhelming likelihood, and this is a topic for a different day, is that because of the size of the federal debt, they're almost guaranteed to go up a lot more down the road. So there's a real chance that you could be in a higher tax bracket in retirement than you are now. And-

Speaker 2: So, yeah. Keep going [inaudible 00:05:11].

Stephen Wershin...: Yeah. Well, and there are also other taxes that you pay in retirement that you don't pay when you're working. Your social security becomes taxable potentially if you make too much money, and you pay extra money, pay extra premiums on Medicare, and there are all kinds of things that happen when you get into retirement that you don't have to deal with now. So there are all kinds of reasons why you really want to be able to manage taxes in retirement. So there are real good reasons to be thoughtful about how much you defer and how you might put money into the tax-free bucket along the way.

Speaker 2: So tell me about the tax-free bucket.

Stephen Wershin...: So the tax-free bucket is money that you can get at that when you pull money out, there's no tax on it. So if you have a taxable account, like a regular old investment account, joint account with your spouse, whatever it is, whatever happens in that account through the year, if it creates a taxable thing, you get taxed on it that year. So if you have bonds and you're going to get interest on them, you pay tax on that that year. If you sell a stock and you make a profit, you got to pay a capital gain tax at the end of the year. So whatever happens in that account, you got to pay tax on right away. With the deferred accounts, all that stuff can happen and you don't have to pay tax on it right now, but you pay tax on it when you pull it out.

And regardless of what is going on in that account, when you pull it out, it's ordinary income. It's taxed like salary is taxed.

Speaker 2: Mm-hmm. Mm-hmm.

Stephen Wershin...: Tax free bucket, you put money in and the biggest one of these of course is the Roth IRA. You put money into that and you put it in after tax. You don't get a deduction and it's not pre-tax, but you're not taxed on it along the way. And regardless of what happens in it and how big it grows, when you pull money out in retirement, it's tax free. So, you can pull money out like crazy, never going to get taxed on it. So you can use that to sort of manage what tax bracket you end up in. If you have enough in that bucket, that's why it's so important to have money in that bucket.

Speaker 2: So is this a way of kind of controlling your tax situation then?

Stephen Wershin...: Absolutely. The whole idea of active tax management is that you can, depending on how much you have in the different buckets, you have more flexibility to sort of tailor which bracket you end up in. And that's true now, and it's going to be true when taxes go up. You can take money out of deferred accounts. For example, you might take money out of deferred accounts up to the level of your standard deduction, because the deduction will wipe away any of the tax on that. And then you might pull out some more to put you in the 10% bracket or the 12% bracket. But if you start getting close to the top of that, if you have money in the tax-free bucket, you can start pulling it out of that. So you can keep yourself down in that low bracket where you want to be.

Speaker 2: Okay. All right. So a guy like me at 58, I'm really not thinking about retirement, and tell you the truth. I see myself working probably at least 12 more years sitting [inaudible 00:08:19] 70 with what I do.

Stephen Wershin...: Exactly.

Speaker 2: If you sat down at me and had a conversation about what I should do, what would you say?

Stephen Wershin...: Well, what we would do is we would take a look at where you are in the tax bracket, what tax bracket you're in. We would take a look at how much you're putting into your deferred accounts. If you're in a relatively low bracket, we would take a look at how much space there is between where you are now and the top of that bracket. And so we might do things like, if you're in a good, low bracket, which could even be 22% or 24%, because if taxes are going up, we think about the 24% bracket as the sale of a lifetime. Because when they go up, it's going to be really hard to pay taxes down at that level anymore.

So we might take a look at where you are and where the top of the most attractive bracket is. And we might say, well, Kurt, you've done a good job putting money into this 401k, or building up money in your IRA. You've got about $20,000 or $30,000 between where you are in the top of that bracket, let's take $20,000 or $30,000 and move it from your IRA over into your Roth IRA. What that does is it'll cost you some more tax this year, but it will make the most of that low bracket that you're in. And it will begin filling up that tax-free bucket.

So that if you do that systematically between now and whenever you retire, 65, 70, 75, whenever it is, you have all that time to do a little bit at a time and systematically build up the money in that tax free bucket. So that's the kind of thing that we would talk about if you came to me and said, okay, I hear what you're saying. I'd like to be able to manage my taxes. What should I do? That's the kind of thing that we would look at.

Speaker 2: Okay. All right, well, we're going to continue this conversation after a quick message. We'll be right back.

Stephen Wershin...: Your retirement is at risk, not from the stock market, not from inflation, taxes are putting your retirement at risk. I'm Certified Financial Planner, Steve Wershing, and I specialize in helping people create low tax retirements. Unmanaged taxes can take 30%, 40%, even 50% of your retirement income. Learn how to defend yourself against excess taxation. Our complimentary webinar will cover all the principles you need to know to protect your money for you and your family, and keep it away from the government. This free webinar will cover how taxes are different in retirement, the taxes you pay in retirement that you don't have to pay during your working life, how to move tax savings into a tax-free environment, the widows tax, the Secure Act, the Secure Act 2.0 and what they mean to you.

The webinar is free, but you have to register to save your spot. So go to focusedwealthadvisors.com/webinars and find out more and sign up right there. Even if you're not planning to retire for the next five or 10 years, this information will be critical for you. The longer you have to put the strategies

into effect, the more you can accomplish. That's focusedwealthadvisors.com/webinars to find out more and to sign up today.

Speaker 2: Okay. We're back with 30 Minute Money. I'm Kurt [inaudible 00:11:42] here with Steve Wershing. So why don't you catch us up on what we were talking about again, and then tell us, how do we learn about this stuff?

Stephen Wershin...: Yeah, well, so what we were talking about is doing tax planning for retirement, but way in advance of retirement. And the idea is that the farther you start before retirement, the more you can accomplish. So you can get yourself to a point where you can either better control how much tax you pay in retirement, or you could even... The ultimate goal of course, would be to pay no tax in retirement. Now that's possible, but you've really got to start early for that. But most people who are like you in your 50's, you can still accomplish a lot. So that's what we're talking about is why you want to start thinking about it way ahead of retirement.

Speaker 2: Something that just popped into my head. We're at the age certainly where there's unexpected money from death of parents and relatives and people like that. Or you may come into some money in some other way. How does that figure into the whole equation and tax-free buckets and taxable buckets or how long you defer that money?

Stephen Wershin...: Right. Well, the simple answer is most of the time when you inherit money, it goes into your taxable bucket.

Speaker 2: Mm-hmm.

Stephen Wershin...: So, it's not in any special rapper, it just goes into the taxable bucket. And from there, there are things that you can do to move it over into the tax-free bucket. And again, this is a good reason to plan ahead of time, because no matter how you do it, especially if you have a large taxable bucket, there are special tools that we can use to fill up that tax-free bucket. But again, it's one of those things where you can only do so much in a year. You can't just take a great, big, huge sum of money and immediately stick it into the tax-free bucket. No matter how you cut it, whatever tool you use, you can do a little bit per year. And so, if you get suddenly a large lump sum of money, it's something that you can begin one of those processes of putting a little bit away into that tax-free bucket every year.

Speaker 2: Okay.

Stephen Wershin...: There are some other things I'll just sort of quickly mention.

Speaker 2: Go ahead.

Stephen Wershin...: You might inherit an IRA from a parent. You might inherit a retirement plan from a parent. Those rules have changed recently. It used to be that you could stretch those out, take the payments over the course of your life, but they did away with that a couple of years ago with the Secure Act. And now with the Secure 2.0 Act, they've made it even shorter. So for many people, for probably most situations, the best you can do is to take it out over the course of 10 years. So, that can take some planning too, because whenever you receive the money, then there's a taxable implication to that. But again, it argues for advanced planning ahead of time, because the more time you do the more little steps you can take to gradually build up that text free bucket.

Speaker 2: Oh, this is certainly, obviously not because you're an advisor, this sounds pretty complicated. And you probably really should work with an advisor on how to do this properly, because I think it's just going to be hard to learn on your own and how to do this.

Stephen Wershin...: Right. Well, yeah. So this is the part where I get to shamelessly plug what I do. Woo hoo. Well, really, we try to share as many do it yourself ideas as we can on the show, and try to help people do stuff for themselves. But this area of long-term tax planning, this is one of those areas where an advisor really, really has a lot of value. First, because there are a lot of nooks and crannies. There are a lot of details. There's a lot of complications, and you can understand some of the basic principles when it comes to actually doing it. You really need to have a lot of that detailed knowledge, and it's just not worth it to take all the time to learn the ins and outs of it.

It's good to know the general concepts, but it's a little bit like when I had my first car, when I drove my first car, it was a little Toyota. You could open up the hood and you'd look down you'd see road around the engine. That's how simple. I could do a lot on that car, right?

Speaker 2: Yeah.

Stephen Wershin...: Now I open the hood of the car, I put it back down again and I take it to my mechanic, because it's just not worth it for me to try to figure all that stuff out.

Speaker 2: Exactly.

Stephen Wershin...: I mean, I know some of the basic stuff. I know when I need to get my oil changed. I know if it's making a funny rattle or something, it's a pretty good chance I'll have an idea what it is, but I want to take it to the mechanic to do it.

And this is one of those areas where, when you're thinking about this kind of thing with your money, this is one of those areas where it makes sense to hire an advisor to do that. Of course, one of the challenges is that for as many advisors as there are out there, even as many CFPs as there are out there, there's not that much planning going on in a lot of cases.

Speaker 2: Mm.

Stephen Wershin...: So, you want to make sure that you're talking to somebody who really does this stuff. There's actually a relatively small portion of the financial planner population that's specialized in this stuff. So you want to make sure that you ask. If you're working with an advisor and they're not asking for your tax return every year, or every couple of years, you need somebody who's going to be doing that. You need to-

Speaker 2: That's a flag. Yeah.

Stephen Wershin...: Yeah. But the other thing is that we also have very powerful tools. So they're expensive. You wouldn't want to try to buy those things yourself because they're fantastically expensive. Now, I deal with lots of clients so I spread the cost over many clients. Makes a lot of sense, but we have AI systems that tear apart tax returns and give us lots of really good ideas. And then we add our expertise to that so we can figure this stuff out. So it's really good for people to know the general principles. But yeah, this is one of those areas when you start thinking more seriously about retirement, where you find the right advisor who does this stuff as a specialty, it can really pay off.

Speaker 2: Right. And like you said, you're almost like a mechanic. You have the tools that-

Stephen Wershin...: Right, right.

Speaker 2: ... if you're like me cannot afford those tools to fix something that's really pretty complicated, so.

Stephen Wershin...: Exactly. I take the car into the shop and they plug the electrodes into the computer and they look at the readout and they tell you what's going on with the engine. Well, it's the same kind of thing here. We feed your tax return into the system and the AI pulls it apart and gives us a two or three page report about all the things that go in there. And then we can take those clues and make strategies out of them.

Speaker 2: So again, early planning and the benefits.

Stephen Wershin...: The benefits are you can avoid the biggest problem that retirees have when they come in to see me, which is, they've got a little bit in taxable, they've got way too much in their tax-deferred bucket, and they've got little or nothing in their tax-free bucket. And so, like I said, it's just like exercise. It's just like diet. I can't take a year's worth of vitamins on one day and then not take vitamins the rest of the year.

Speaker 2: Right.

Stephen Wershin...: It's one of those things where it works best. And in a lot of cases, it only works at all when you do it in little bits per year, over the course of years, and the more years you have to do that, the more you can accomplish.

Speaker 2: Okay. And if you do hire an advisor, which is very recommended, how often should you meet with them?

Stephen Wershin...: Well, each advisor of course has a different schedule. We consistently meet with our cycle. Our cadence is we meet with clients twice a year. In the spring, we cover a number of things like portfolio and different kinds of updates. And then in the fall we do our tax planning, because everybody has their tax return for the prior year done. We can take a look at where they are. We still have a month or two left in the year when we can do the stuff that we need to do before December 31st to make the most out of that tax year.

Speaker 2: Okay.

Stephen Wershin...: And so, you want to make sure that you're on a cadence and that you're talking about that stuff consistently every year.

Speaker 2: Okay, great. So what would be our 30 minute action plan?

Stephen Wershin...: Well, 30 minute action plan is, first take a look at the accounts that you've got and take a look at how you've spread your money over those three buckets. What proportion of your portfolio is in the taxable bucket, how much in the tax-deferred bucket, how much in the tax-free bucket? Get a sense of how that's balanced, and then take a look at your tax return and figure out where you are in your tax bracket. So that you can get a sense of how much opportunity there is between where you are and the top of that bracket. So those two things would be on the 30 minute action list.

Speaker 2: And where could our viewers and listeners learn more?

Stephen Wershin...: Focusedwealthadvisors.com. You can go to that website, learn all about it, or you're welcome to drop me a note swershing@focused-advisors.com, or you can call us at (585) 381-2662.

Speaker 2: And of course, people can find you on LinkedIn and things like that too.

Stephen Wershin...: Oh yeah.

Speaker 2: Well, this has been an excellent 30 Minute Money and looking forward to the next one. Thank you, Steve Wershing. And until the next time, we'll see you later.

Speaker 1: Thanks for listening. If you like this show, leave us a review on Apple podcast or like the Stephen Wershing CFP Facebook page, and feel free to leave us a

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