April 2021

TENON FINANCIAL
RETIREMENT PLANNING & INVESTMENT MANAGEMENT

Retirement Planning Insights

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Up Front

Tenon Financial has moved!

I'm happy to share that Tenon Financial moved, effective April 1, 2021. You can find the new address under the "Contact Us" section on this newsletter.

The new spot is exactly a mile away from my house, so the commute won't be bad. And, weather permitting, I plan on regularly riding my bike to and from!

The new office is right in the heart of a quaint little downtown with lots of shops, restaurants and other people and businesses around. Also, the space itself is great! It's spacious and has plenty of natural light (I have the three windows you see on the top right of the below picture:)

I still have some cleaning, painting and moving in to do. But I'll be sure to share pictures of the new digs once it's all set up.

Switching gears - keep in mind the IRS has extended the deadline to file your federal tax return, and pay any 2020 federal taxes still owed, from April 15 to May 17. This deadline does NOT apply to making 2021 1st quarter estimated tax payments; those are still due April 15.

Also, while many states have since revised their filing deadlines to match that of the IRS, not all have done so. As of the writing of this newsletter, some states have not yet issued ANY extension, and some have extended beyond May 17. Check with your state's department of revenue or taxation for the relevant deadlines in your state.

-Andy

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Retirement Planning News

Making up lost ground if you started late in saving for retirement

On March 24, 2021, MarketWatch published an article titled, **"How to make up lost ground if you got a late start saving for retirement."** I like the article because it gives straightforward and helpful tips on how to attempt to catch up on retirement savings that aren't quite where you want them to be.

Many people get near retirement and realize they haven't saved enough to last upwards of 30 or 40 years. Whether it's a result of not making enough during their working years, bad career luck, poor decision-making, unforeseen health issues, etc., not having sufficient savings is unfortunately a common issue.

However, just because your savings may not be where you want or need them to be, that doesn't mean you still can't make positive impacts to your retirement finances.

Addressing a retirement savings shortfall takes a combination of saving more (which often also means spending less) and/or working longer.

The benefits of saving more are obvious. However, for someone nearing retirement, the emphasis should focus on saving versus investing…there is a difference.

Specifically, the article states you shouldn't take higher than appropriate risk in an attempt to get larger investment returns. In other words, don't swing for the fences to try to make up for lost time. Yes, higher risk *could* mean higher returns over the long-term…but it could also mean losing money.

Instead of focusing on taking more risk, focus on saving more. For example, you CAN control your ability to save 5% more per year, but you CANNOT control the market's ability to (hopefully) increase 5% more per year.

The benefits of working longer are also obvious. Though what may not be so obvious is the fact that it also beneficially compounds other things. As an example, working longer means you can delay Social Security longer, which means your Social Security payment will be larger when you do eventually start it.

Working longer also means you'll be able to delay or minimize tapping into your nest egg, which gives your savings more time to grow and earn interest.

While it may not be pleasant or comfortable to address the reality of not having sufficient savings to retire when you want to, hope is not necessarily lost. With some intentional decision-making and potential reprioritizations, you can make very positive changes to your financial retirement readiness.

Like the article says, "The best time to start saving was 10 years ago, but the second-best time is today."

Practical Retirement Planning

Watch out for the Net Investment Income Tax

Have you heard of the Net Investment Income Tax, or NIIT??? If you haven't, you're not alone.

The Net Investment Income Tax is a sneaky extra 3.8% tax you have to pay on your sources of passive investment income if your gross income is over a certain level.

Specifically, NIIT uses a special definition of Modified Adjusted Gross Income, or MAGI, to determine when the extra tax may apply. For most people, the NIIT MAGI will simply equal Adjusted Gross Income, or AGI.

If you're married and file a joint tax return, you'll be subject to NIIT if your MAGI exceeds $250,000. If you're single, the threshold decreases to $200,000. If you're married and file a separate tax return, the threshold further decreases to $125,000.

If your MAGI is over your respective threshold, your passive investment income may be subject to an additional 3.8% tax on top of whatever tax you already have to pay. The forms of income subject to the extra tax include:

- Interest
- Dividends
- Income from non-qualified annuities (i.e. those NOT held inside an IRA)
- Passive income from rental properties, royalties, partnerships, S corporations, trusts, etc.
- Capital gains from selling investments

While having to pay an extra 3.8% tax on passive income isn't necessarily going to break the bank, it's nonetheless something to be aware of and avoid if you can.

Since NIIT looks at all your other sources of taxable income to determine if your MAGI is over the threshold, you want to be cognizant of how your other income can potentially invoke NIIT.

For example, if you're considering doing Roth conversions, keep in mind that amounts converted will be added to your AGI, which means they will be included in your NIIT MAGI. Therefore, doing conversions may make you subject to NIIT when you otherwise wouldn't be.

NIIT is a great example of how taxes aren't as simple as just tax rates and brackets. There are forms of indirect and quasi-hidden taxes like NIIT that can come into play and increase your effective tax rate. So, keep things like NIIT in mind when doing tax planning and projections.

For more information on the Net Investment Income Tax, check out my recent video: