May 2021

Retirement Planning Insights

In This Issue

Up Front

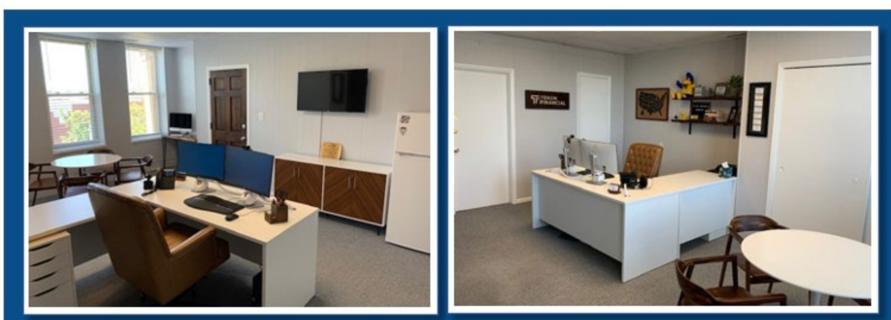
Rocking retirement…in the new office!

I'm super excited to share that I'm now a faculty member of the **Rock Retirement Club!** The Rock Retirement Club, or RRC, is an amazing membership group started by Roger Whitney, host of one of the longest-running and best retirement planning podcasts, **The Retirement Answer Man.**

The RRC is a community of people who are all walking their own retirement journeys and are part of the group to share and learn experiences and knowledge. In addition to having access to lots of great educational content, software and gatherings with other group members, folks in the RRC also have regular meetups, Q&A sessions and discussions with some great faculty.

My role in the RRC will mainly be "the tax guy." While taxes in retirement generally isn't a glamorous or easy topic, I like to think I help make the subject less complicated and more digestible. And I'll be sure to sprinkle in a healthy dose of dad jokes to make it fun!

In other news, I moved into my new office space this past month and so far it's been great! Whether you're a client, a member of **Taxes in Retirement** or a member of the Rock Retirement Club, whenever you see me on video and wonder what the rest of my office looks like, here you go:



I haven't yet commuted to work by bike, but that's definitely my plan as the weather continues to get nicer here in New Jersey. Since the office is only a mile from my house, the trip shouldn't be too bad.

Have a great May!

-Andy

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Retirement Planning News

What to do with your employer retirement plan when you retire

On April 9, 2021, U.S. News & World Report published an article titled, **"What to Do With Your 401(k) When You Retire."** While the article was written specifically about 401(k) plans, some of the info applies just the same to other forms of employer retirement plans such as 403(b)s, 457s and the federal Thrift Savings Plan ("TSP").

The article gives a few things to consider when deciding what to do with your old employer plan:

- **Your age in the year you separate from service** – You typically can't take withdrawals out of tax-deferred accounts, without a 10% early-withdrawal penalty, until you reach age 59 ½. However, many 401(k) and 403(b) plans, as well as the TSP, allow penalty-free withdrawals if you separate from that employer in the year you turn 55 or older. If you're younger than 59 ½ and may need to make withdrawals from your account, it may be better to keep the money inside your former employer's plan instead of rolling it to an IRA. 457 plans typically don't have a minimum withdrawal age and therefore shouldn't impose an early-withdrawal penalty at any age.
- **Required Minimum Distributions** – With any form of tax-deferred investment account, the IRS won't let you permanently delay the recognition of income - and taxation - from the account. Under current legislation, you need to start taking an annual Required Minimum Distribution ("RMD") beginning in the year you turn 72. However, most 401(k) plans allow you to continue to delay RMDs if you're still employed there and own less than 5% of the company. If this scenario applies to you, it may be worth keeping your employer plan where it is until you eventually stop working.
- **Fees** – Check to see if the investment options in your employer plan have reasonable fees and expense ratios. Also, check to see what additional plan-level fees there are such as administrative fees, record keeping fees, statement fees, etc. If fees are relatively high, it could make sense to roll the assets to an IRA to have better control over expenses.
- **Investment options** – Most employer retirement plans offer only a limited selection of investment options. If you want or need more options, you could have a virtually endless selection of investment choices if you instead roll your money into an IRA.

Like most areas of retirement planning, there is no single right answer when it comes to deciding what to do with your old employer retirement plan. The above article at least gives some food for thought to help you make the decision that's best for you.

Practical Retirement Planning

The tax implications of owning rental property

Many people consider investing in rental real estate to generate a stream of income. This income can be helpful at any stage of life, especially in retirement when it can be an additional source of cash flow to supplement Social Security, pensions, etc.

Like any investment, owning rental real estate has its own set of potential risks and rewards. Furthermore, there are some unique tax implications that come along with owning a rental property.

Not that the tax aspects alone should deter you from investing in rental property but, the tax implications that accompany being a landlord definitely need to be considered before deciding if rentals make sense for you.

One of the main benefits of owning a rental property is receiving a stream of income that's likely "uncorrelated" to the performance of your other investments. In other words, even if your traditional stock and bond investments are doing poorly, the monthly rent checks from your tenants shouldn't be impacted much, if at all.

Additionally, potential appreciation in the price of the property is another possible financial benefit; if you buy the property for X and sell it for something more than X, you will have made a profit or realized a gain.

Another aspect of owning a rental property that could be a benefit is the ability to get a tax deduction for certain expenses. Specifically, many rental property owners think it's great to be able to take annual tax deductions for depreciation. "Depreciation" is an IRS-mandated assumed reduction in value of the property where that reduction is treated as an expense and can therefore be deducted against each year's rental income.

Depreciation is indeed a nice little tax savings while you own the property. However, when you eventually sell the property, you will essentially have to pay back all of the years of depreciation tax savings you received. In other words, the IRS makes you recapture all the depreciation expenses you deducted along the way. Furthermore, recaptured depreciation is treated as ordinary taxable income, which means you could have a hefty tax bill when you sell your rental.

Also, any gain you have on selling the property will be taxable. Thankfully, such gain is eligible for the reduced long-term capital gains tax rate if you hold the property more than a year before selling it.

Where rental property taxation gets real complicated is if you've ever lived in the rental as your primary residence. In that case, there are convoluted rules about pro rating things such as depreciation recapture, taxable gain and the $250,000 (if single) or $500,000 (if married) gain exclusion that applies when selling a primary residence.

For more information on the tax implications of owning and selling rental properties, check out my recent video:

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