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Retirement Planning Insights

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Up Front

A dance competition and an RRC meet-up

I recently spent a week in Myrtle Beach, South Carolina for my daughters' dance competition. Their dance school, The Jill Justin Dance Alliance, was one of a few dozen schools from across the country who competed.

My takeaways from the trip are this:

- Myrtle Beach is real humid
- But thankfully the Myrtle Beach convention center has GREAT air conditioning!
- It was fun to travel again after a year of not really going anywhere
- I appreciate how good all of these kids are at dance, especially compared to how bad I am at it 😊

Congrats to all of the teachers and students for all of your hard work and accomplishments. One of our school's dances took the top spot overall in its age category and won a special award for "best choreography!"

I also recently hosted an in-person meet-up at a local restaurant with some **Rock Retirement Club** members. For those who don't know, I'm one of the mentors/coaches in the Rock Retirement Club, which is a really cool membership group created by Roger Whitney.

The group is a place for people in or near retirement to share experiences, knowledge, thoughts, concerns, etc. with others walking the same stage of life. And there are some great coaches who oversee things and provide various tools and resources and host virtual and in-person gatherings called "meet-ups." **Check out the club,** if you haven't already.

That's it for now. It's hard to believe it's already August, so be sure to make the most of the rest of your summer!

-Andy

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Retirement Planning News

A practical retirement planning guide

On July 12, 2021, U.S. News & World Report published an article titled **Your Guide to Retirement Planning.**

The article is kind of a starter kit for financially preparing for retirement.

The key recommendations in the article are:

- **Save regularly** – To the extent you can, put your savings on autopilot by setting up direct deposits into your investment accounts. Save early and save often!
- **Maximize your 401(k) match –** getting matching contributions from your employer into your employer-sponsored retirement plan like a 401(k), 403(b) or TSP is free money. So make sure you contribute enough to get the full match
- **Speak with the right financial advisor for you –** Not everyone wants or needs an advisor. But for those who do, make sure you find the right fit for you and don't just hire the first person who calls himself or herself a financial advisor
- **Take advantage of retirement planning tax breaks –** In addition to being able to defer taxes on some of your contributions (see the "Practical Retirement Planning" section below for more info about tax-deferral), there are certain other tax incentives related to making retirement savings contributions
- **Open an IRA –** Even if you maximize contributions to your workplace retirement plan, you can save even more by opening an IRA. Also, you can save additional money in a traditional (i.e. non-IRA) brokerage account
- **Carefully select a retirement investment allocation –** You want to make sure you don't take too much or too little investment risk for your goals, risk tolerance and financial situation
- **Minimize fees in retirement accounts –** You can't control what return your investments will produce but you CAN control the fees of your investments by picking low cost options. High fees can be a big drag on your long-term results
- **Use retirement planning tools to help you financially plan** - There are plenty of tools to help you answer questions like, "when can I retire?" or "how much do I need to retire?"
- **Boost your Social Security benefit –** Social Security is the foundation upon which most peoples' retirement income plans are built. There are a few benefit-maximizing tips to keep in mind before deciding when to start your payments
- **Sign up for Medicare on time –** If you don't sign up for Medicare when you're first eligible (typically age 65), there will be ongoing penalties you'll have to pay, FOR LIFE, when you do eventually sign up. So don't be late in enrolling!

There is a lot more to retirement planning than just these few points. However, these recommendations will nonetheless get you well on your way!

Practical Retirement Planning

All about Roth conversions

Roth conversions can be an incredibly powerful tool in helping you manage and minimize taxes throughout retirement.

A Roth conversion is when you transfer (technically "convert") money from a tax-deferred retirement savings account like a traditional IRA or 401(k) into a Roth version of that account.

Traditional tax-deferred accounts let you defer taxes on your contributions. In other words, you can take a deduction on your tax return for the amount of your contribution in the year of the contribution. Once contributed, any growth or income on the money in the account continues to not yet be taxed. You only pay tax on money you eventually take out of the account.

On the other hand, a Roth account is essentially the opposite tax treatment; you don't get to deduct the money you contribute, but all distributions will eventually be tax-free (assuming you meet a few qualifying criteria; typically 1) being at least 59 ½ years old and 2) having your first Roth IRA be at least five years old).

In doing a Roth conversion, you have to pay taxes on the money you convert from the tax-deferred account into the Roth account. Why would you want to pay taxes now instead of continuing to defer them??? That's a great question, and one that unfortunately doesn't have a universally right answer.

Traditional logic is that it would be better to reduce your tax bill during your working years by deferring taxes until retirement, when you theoretically should have less income and therefore pay less in taxes.

However, traditional logic assumes your income will actually be lower. Furthermore, it assumes tax rates themselves don't change. In reality, many people end up having MORE income in retirement and/or tax rates can indeed be higher in the future than they are today. This is the case now, as federal tax rates are generationally low and more likely to increase as opposed to stay the same or decrease going forward.

To help explain more about Roth conversions, how to do them, when they may make sense, pitfalls to watch out for, etc., I recently did a live video in my Facebook group, **Taxes in Retirement,** all about Roth conversions:

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