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Retirement Planning Insights

In This Issue

Up Front

Welcome to Retirement Planning Insights!

Welcome to the inaugural edition of “Retirement Planning Insights,” a monthly newsletter about retirement planning and our retirement planning firm, Tenon Financial LLC. In addition to launching the newsletter this month, we’re also launching the company itself. Needless to say, it’s a busy month!

I started Tenon Financial to provide retirement planning financial advice and investment management in a transparent and fair way. Many “financial advisors” are just product salespeople in disguise, and most advisors who don’t sell products will only work with you by managing at least $500,000 (or more) of your investments. We do not sell any products, and we do not require you to have us manage your investments.

The real value in retirement planning is the comprehensive coordination of all aspects of your financial life; Social Security, pensions, annuities, investments, taxes, real estate, healthcare, insurance, family, hobbies, travel, charitable giving, etc. We specialize in helping you integrate all of these things into a cohesive plan which we can help you manage and modify as life happens.

I hope you enjoy this newsletter and I look forward to having the opportunity to answer any questions you may have about your own retirement planning.

-Andy

Andy Panko, CFP®, RICP®, EA
Owner of Tenon Financial

Retirement Planning News

Medicare open enrollment starts in October

For those of you age 65 or older, you most likely get your health insurance through the government-run Medicare program. In fact, if you don’t already have approved coverage through an employer plan, you HAVE TO sign up for

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Medicare when you turn 65. If you don't, you will accrue permanent penalties every month you delay. If/when you do eventually sign up, your monthly premium will be higher - by the amount of those penalties - for the rest of your life!

You are first able to enroll in Medicare when you turn 65. Specifically, you can do your initial enrollment anytime during the three months before the month of your 65th birthday, the month of your 65th birthday, or the three months after the month your 65th birthday.

You are also able to revisit and change Medicare plans and coverage options each year during Medicare's "open enrollment." Open enrollment begins October 15th and runs through December 7th. Any changes you make during open enrollment will be effective the following calendar year, starting on January 1.

If you would like to make changes to your current Medicare plan or coverage, open enrollment is a great time to do so. For more information about Medicare and the coverage options available, visit **www.medicare.gov**.

Practical Retirement Planning

Should you consider Roth conversions?

It's not what you get, it's what you keep…taxes always matter. Like many diligent retirement savers, you've probably spent decades putting money into your employer's 401(k) or 403(b) plan. The main benefit of those vehicles is "tax deferral," which means you don't pay income tax on the money you contribute. Instead, the money stays inside the accounts and grows over time without any tax implications along the way. However, when you eventually make withdrawals, the amounts withdrawn are generally 100% taxable at the time.

Conventional logic says you are likely to have less income in retirement than during your working years. Therefore, it's assumed you will have lower taxes in retirement. I think most people do in fact have less income in retirement than during their working years. However, even if your income is lower in the future, what's to say tax rates won't be higher?

No one knows exactly what tax rates will be in the future, but it's almost a certainty they be higher than what they are today. Between now and the end of 2025, federal income tax rates are probably the lowest any of us will see in our lifetimes. Thanks to the Tax Cuts and Jobs Act ("TCJA"), there were significant reductions in personal income tax rates starting in 2018. However, those reductions will "sunset" - or expire - at the end of 2025, at which point tax rates will go back to their pre-2018 levels. Roth conversions can help take advantage of this generationally low income tax environment.

A Roth conversion is when you take money you have in a traditional tax-deferred retirement savings vehicle like a 401(k) or IRA and move it - or *convert* it - to a Roth 401(k) or Roth IRA. In the process of converting it, you pay tax on it now and typically won't have to pay any tax on it in the future.

A Roth vehicle is a special type of retirement saving account where the tax treatment is basically the opposite of what it is in a traditional tax-deferred account. In a traditional account, you don't pay tax on the money you put in and instead pay tax on the money you take out. In a Roth, you DO pay tax on the money you put in, but generally DON'T pay tax on the money you take out.

When doing a conversion, you need to pay close attention to how much other taxable income you will have that year, because conversions are 100% taxable in the year they occur. You want to be careful to not convert so much that you bump yourself up into an unnecessarily high tax bracket.

A good time to considering doing Roth conversions is the period between when you stop working and when you start receiving Social Security, pensions and/or annuity income. In that time, you are likely to have very low amounts of taxable income, so it may make sense to take advantage of that by filling up your low income tax brackets with Roth conversions. You'll pay the relatively low tax now, and then the money will continue to grow - and eventually be taken out - tax-free.

We can help you do the financial and tax analysis necessary to decide if Roth conversions would be beneficial for you. If you'd like to learn more, feel free to contact us at **hello@tenonfinancial.com**.