KEEN ON
RETIREMENT

Keeping Your Financial Plan in Sync with an Early Retirement Goal

Welcome to Keen on Retirement
With Bill Keen and Steve Sanduski

Steve Sanduski: Hello everybody, and welcome back to Keen on Retirement. I am your co-host Steve Sanduski and we got another great show lined up here today with Mr. Bill Keen and Matt Wilson. Hey guys.

Bill Keen: Hey, Steve, how's it going, sir?

Steve Sanduski: Fantastic. How are you two?

Bill Keen: Well, we're holding in strong this summer here. It's July and I was down at the lake, a couple of weekends, finally made it down. And so it's been nice, got a little bit of a tan going even.

Steve Sanduski: All right. You putting your sunscreen on?

Bill Keen: You know, Carissa does stay on me pretty closely. And I was over at my dermatologist's office, a wonderful doctor named Brian Mathis up by where we live at the north part of Kansas City. And he did instruct me to, I might share with you and all our listeners, I asked him. Do you need to wear spf 50 or does 30 pretty much do the job?

Have you ever wondered why there's 20, 10, 35, 30, 50. I don't know. There's a bunch of different levels. And he said, look, most people don't put enough of the sunscreen on. So, if you put enough on the 30 probably would work, but it would really be like two full applications, the way people sparingly put this stuff on.

So more than you wanted to know about whether or not I put my sunscreen on, but yes, I did. The checkup as well.

Matt Wilson: He didn't tell you to put the full zinc on? Completely white.

Bill Keen: He did get on me a little bit because I had skipped a year in seeing him.

It had been a year or two years since I had skin checkup. Serious business. So, and I'm fairly light Carissa tells me. **I** do need to pay attention to that.

Steve Sanduski: We've got a couple topics that we're going to go into here today. The main one is going to be answering some listener questions, but before we do that, we're going to go from Bill's boats to airplanes. Bill, I know, obviously you've got an airplane you love to fly, and we've had a couple things that have happened this month in history. So, what do you got here as it relates to flying in airplanes?

Bill Keen: This month in history marks two significant events in air travel. In 2002 most folks can remember back to that. The House, voted to allow pilots to carry guns in the cockpit to defend against terrorists. And you might recall this came six weeks after the TSA said they absolutely would not allow it.

Instead, they were relying on stronger cockpit doors and security screenings. Although eventually President Bush signed into law, this policy. And although the government does not release the exact number, it's estimated by aviation sources that somewhere between 20 and 30% of pilots are carrying a firearm today still in the cockpit.

But let's go back a little bit farther. In 1938 in this month, Howard Hughes pilot, film, director, and businessman began a 91 hour flight around the world. That's a long time to be up in an airplane, flying around world. It's hard for me to make it three hours on some of my legs.

Steve Sanduski: Yeah, that's a long time. That's a long time to do anything.

Bill Keen: Yeah. Yeah, exactly. Now probably most famously everyone will remember Hughes built a fully functional flying boat called the. What was it called? It's the first question of the day for my panelists. What was that boat called? Bear plane slash boat called gentlemen.

Matt Wilson: I think it was called the money pit. Yeah.

Steve Sanduski: No, that was a movie, Matt

Matt Wilson: ok.

Steve Sanduski: Shelley Long. I think wasn't she in that one?

Bill Keen: Man, you guys are usually on top of this

Steve Sanduski: Uh, This Bruce, this Bruce grew spills. Spruce goose. Yeah. Yup. Yup.

Bill Keen: And this thing was over six times larger than any other aircraft at the time. A wooden plane and at a record wingspan of 320 feet.

Matt Wilson: Could you land that at any airport?

Bill Keen: Yeah. You know, the seven 30 sevens. I should get this right. Try to read the wingspanof the 7 37. Now maybe I'll look it up and check back. Here's the issue with the spruce goose? I mean, it did get off the ground only 70 feet and it made it one mile, but it's still was a feat for the time.

Matt Wilson: So I just found that the triple seven has a 212 foot wingspan,

Bill Keen: And I believe it's also almost a square. So as long as it is wide the triple seven was two months. Imagine that triple 7, was 50% larger back in those days.

Matt Wilson: six times larger than any

other plane.

Steve Sanduski: And it was wooden

Matt Wilson: Wooden.

Bill Keen: So, all right.

Well, that's good information that we have there for our listeners, but there actually is some actionable information around aviation that could help the situation today. So I'd be grateful if Matt, Steve, or you could kind of share a little bit about what we're seeing with respect to TSA and some of the, some of the numbers on travel today.

Matt Wilson: Yeah. We monitor as part of our high frequency data when it comes to the COVID recovery. TSA checkpoint data. And that continues to improve checkpoints are approaching 2 million per day, which is a up over 11% over the last month. And then to hotel occupancies and other things that we monitor the week of June 20th through the 26th actually only 7.3% below occupancy during the same time in 2019.

So pre Covid, and then up 13.1% month over month. So things are coming back to normal as, you know, as best as we can tell when we look at some of this high frequency data, I think it's interesting to share it too, because you know, we hear a lot now about the new Delta variant and what that might cause and the situations around that.

But, you know, the data is still pointing to improvement, which, at the end of this month, we will have a market update webinar where we'll talk even more in depth on all this data.

Steve Sanduski: Yeah, I've got some of the data pulled up in front of me here, guys, and I'm looking at July 13th and in 2019. There were 2,447,000 people that went through the TSA checkpoint in 2020, only 540,000. So massive drop. This year July 13th, 2021, 1.8 million. We've more than tripled year over year.

And we're down about 600,000 from 2019. And that, that's just one particular day. We've got other days here. In July where we've had over 2 million pass through the TSA checkpoints, and historically going back to 2019, it looks like depending on the day, anywhere from maybe 2 million to maybe 2.8 million would be a typical day in 2019.

So yeah, we are fast approaching pre COVID levels for travel for hotel occupancy. And you know, who would have thought a year ago? I mean, I was looking at some of this data at the depths of the pandemic in 2020, we were under a hundred thousand people flying through the TSA Checkpoints.

Matt Wilson: Wild.

Steve Sanduski: Yeah.

Matt Wilson: It is interesting to see. And when we chart that out, you can see the trend, like, as Steve mentioned when you look at it, just in a, just the data, it's a little volatile cause its based on the day, but the trend is improving, which is the important thing to focus on.

Steve Sanduski: You know, I think another thing that's interesting, and I don't know if you have any details on this, but business travel is still way below what it used to be. International travel way below what it used to be. So even without those two pillars, that air travel is not too far away for what it was 2 years ago.

So recreational travelers look like they're back in full force, not the business travelers yet, but once we get the business travelers back, who knows, maybe we'll be even surpassing what we were back in 2019.

Matt Wilson: Well, assuming they have the capacity, you know, that's the other issues. They got to add more flights and planes and everything else too. It's this interesting situation, right?

Steve Sanduski: Yeah. Yeah,

Bill Keen: They weren't thinking about adding capacity a year ago at this point

Matt Wilson: Demand is outstripping supply in so many areas.

Bill Keen: We talked last episode about what the inflation has done to airline tickets and rental cars and so forth as well. So, we'll certainly be monitoring that as we move forward.

Steve Sanduski: Excellent. So, let's jump into some listener questions here. So, what do you got for us?

Matt Wilson: A question that we received recently, was around retiring early. And so here's the question, discuss the implications, you know, with respect to the various topics. If one decides to retire early, say at 60 years old or possibly even at 55 years of age, great question. And two things that pop in my mind.

When someone decides to retire early are related to taking distributions from your investment accounts and healthcare. I mean, there's a lot of different things to factor in, but those are the two biggest ones. And so when it comes to taking distributions from your retirement accounts, it is one, do you have money in after tax assets?

So assets that aren't in a retirement plan? That you could access, if so, we evaluate how to tap those and capital gains taxes and what the tax liability is to access them. If not, and or maybe you have some, but not enough. How do we structure distributions from your IRAs, your 401k, to get around the penalties for distributions before age 59 ½?

So at 60, you don't have to worry about that, but at 55 you would. One way around that is you can, in most retirement plans use the rule of 55, leave your 401k funds in that account and then take distributions and avoid the 10% penalty. If you've already moved that money into an IRA. Well, now you have age 59 and a half.

They have to worry about until you can achieve penalty-free distributions. So there's an IRS code called 72T that allows you to take equal distributions. You know, there's a formula based on an interest rate you have to follow this every single year up until you reach age 59 and a half or five years, whichever is longer.

And you have to take the same amount every year. And this is something we're very familiar with. So we would help, you know, help someone structure a distribution plan like that. If that was necessary. The other aspect I mentioned is healthcare because you know, for most people, that's the big unknown, especially even once you hit age 65 and you're eligible for Medicare.

I mean, even that's scary for people because how is that going to look 20, 30 years from now, but prior to 65, When you're eligible to Medicare, you're on your own. And you know, most companies don't Provide retiree health insurance, and that leaves you having to go find it on yourself. You can carry Cobra for 18 months.

That's, you know, by law, some employers do allow specific retirees to continue Cobra. They call it an extended Cobra up until age 65. Most cases when you have that, you have to pay the full price, the 102% of the premium, but at least you have coverage.

Bill Keen: Folks get pretty surprised about what their company was actually paying for their benefits when that kicks in don't they,

Matt Wilson: They do, unless they're a company wasn't paying very much, I guess. So they can be shocked in that sense too, like, oh, they weren't really giving me very much off this.

Steve Sanduski: Speaking of the health insurance, when your clients turned 65…

Matt Wilson: Yes.

Steve Sanduski: Do 100% of them go on Medicare at that point, or do some of them say, I want to continuewith private insurance, even though I know I got to pay a lot more? What do they do?

Matt Wilson: It is essentially a hundred percent. I mean, the only situations that we have where people won't is under specific government healthcare plans, where they wouldn't opt into Medicare. That's rare, not very common. And so if you're not covered under like a spouse's plan, because that'sa situation where yes, as long as your spouse is working, you have coverage.

You don't have to take it at 65, but let's just assume you have no other coverage. There has not been a situation where we've seen somebody outside of that example with the government where you would not take Medicare or a client has chosen not to.

Steve Sanduski: Alright. So someone retiring early, couple of big things to worry about. One is taking money out of your retirement plans without a 10% penalty. And then second, what are you going to do for health care?

Yeah.

Matt Wilson: Yeah, healthcare, big thing. And there's ways to even, you know, you get on the healthcare exchanges and there's new tax laws currently we've covered these in some of our webinars. You can find them on our, on our website, under the webinars tab, but the exchange is, you can even qualify for a subsidy.

Even if you have a very high net worth it's about keeping your income low.

Bill Keen: And I was going to mention that, Matt, I totally agree with the, your answer to this question. Taking it back one step, and I think you probably assumed that the client actually had the resources to be able to retire.

Matt Wilson: Well, yes, I guess that's.

Bill Keen: Yes. Right? So, but when someone talks about retirement quote early, we always have to really dig down and, run those numbers and make sure that the asset base is there and it's sufficient to meet the income needs for that particular client. And then the, legacy goals. Some folks do not mind eating into their principle later in life that most people do not want to run out of money while they're still living. That's a pretty across the board. Some people want to not eat into the principal at all and see their assets grow so that by the end of life, they have more money actually as their Corpus.

A base than they've ever had, and that everybody's different. And I think the first thing we would want to make sure of is that someone actually had the resources to be able to retire early and get that information to them in a method that they could make some real decisions on. And you hit on this just now.

And maybe, you know, this isn't the place to go that deep, but you talked about living on after-tax. And if someone didn't have that, there's the 72 T that you can avoid early penalty, a 10% or draw penalty, or potentially advise client to leave money in the 401k, if they're over 55 and just pull directly from there.

But I think it's important to talk about really taking advantage of the lower tax brackets. So even if somebody did have enough money in their after-tax account to fully fund those first few years of retirement, it still could make sense to operate one of these strategies.

We mentioned to pull some of that money out of those IRAs in the lower tax bracket, or at least do Roth conversions in those early years. to not miss the opportunity to pull money out in the lowest couple brackets. That's right. Yep. Which then would potentially qualify them for subsidies on healthcare, which is exactly what you mentioned.

So many things, Steve, that go into something, that's a simple question that has all these, these little capillaries of one thing that you make a decision on over here affects something that the lay person would have. No, no idea to think about. Yeah.

Off to the side on another, another level.

Steve Sanduski: Yeah, I think we can also discuss the word retire as well because there's different degrees of retirement. So someone might say, I want to retire from my career job cause I'm done. But I may not want to just quit working cold Turkey either. So maybe I'm going to go into a different field that I enjoy.

Maybe I'm going to make $20,000 a year instead of $200,000 a year. So I've got some nice supplemental income. So even if I may not have enough to retire, I can still do another job that I enjoy two or three days a week. Make some supplemental income, as long as I'm healthy, I can continue to maybe do that indefinitely.

So, lots of different ways to, to pull some different levers here. So. Good. All right. What's another question?

Matt Wilson: Well, this was a great segue. Next question. I am 55. My wife is 52. Can we retire with 1.5 million in our 401k? Well, I think you kind of answered that in the previous question bill, your answer was, well, you need to put a plan together.

Bill Keen: Well, that's right. I mean, and I would say it absolutely depends on how much money you need to live on inretirement, for sure.

And we can actually, get the calculator out here…

Matt Wilson: So the answer I think is yes, you can retire now. It may not be the lifestyle

you want. That's the difference

Steve Sanduski: Yeah. At what level do you want to live?

Bill Keen: Yes. That's right. So remember, all that money is in a 401k, it more than likely is pre-tax money. Most of it, if not all of it, meaning that when it comes out, it will be taxed in the bracket that you're in, in the current year that you withdraw money.

So if we just wanted to do a little calculation here, a lot of our listeners have heard us talk and probably seen if you'd, if you Google, how much can I spend off of a base of amount of money? There's a number that's there’s been thrown around a 4% of your total is a number that a lot of the financial community workswith.

So if you simply just took 1.5 million and said, how much could I pull out off that? And hopefully not eat into the principle over time? Well, that would be 60,000. That would come out pre-tax then be taxed. If you're a married couple and you know, you'd even take the standard deduction. There wouldn't be a whole lot of tax on that.

You'd be in the lower bracket. So you'd probably clear 50,000 or more on that 60 in retirement. But if you're 55 and 52, you're still a ways out from social security and you won't be paying into social security at that point. So it was. Affect to some extent what your social security ultimately will be.

But when social security kicks in, if let's say somebody had a million and a half, when they're 62 or 65, and then they've got a couple of social securities on top of that of say, 3,500 a month. Now you're talking about a nice income potentially after taxes on a million and a half dollars of assets with social security included at 55 or 52, if you could live on 50,000 a year after taxes and you were good with that, then I guess like you said, Matt, the answer would be, would be yes.

Steve Sanduski: Another thing I think is important to talk about. And I know you guys talk about this with your clients. If someone's 55 and 52 and they're retiring, so we know they're retiring from their jobs, but a very important question. It's also, what are you retiring too?

So you're young, perhaps. They're very healthy. What are you going to do with your time?. And I think that's apart that oftentimes financial advisors don't talk about. I know you guys do, but it's like, what are you going to do in retirement? How are you going to spend that time? You're going to travel. Are you going to get part-time job? Are you going to do some volunteer work?

Are you going to play golf? Are you going to boat? Are you going to fish? What are you going to do? Because there's a lot of hours in the day. Once you're retired and we've all seen. A large number of people who have flailed when they retire, because they haven't really thought about what am I going to do?

It takes them a while, two or three times to kind of figure out what's going to work. So I certainly, and I know you guys do as well, encourage people to be really thoughtful about what am I going to do in retirement?

Bill Keen: Who would have thought that you’d get out to a point in life where you truly are financially independent after a lifetime of living within your means and really working on that plan, you get out there, you're independent. You don't have to work anymore, and it's not the happiest time in life. But you do have options at that point, which you didn't have before when you weren't financially independent. So, that is a good thing. You got some time to think about it.

Steve Sanduski: Excellent. All right. Do we have another question?

Matt Wilson: We do next question. At what point do you start paying for Medicare part A and follow up question that they provided? Is it based on your tax bracket? So, first answer to this is there is no premium for part A, so you don't pay anything when you're retired and on Medicare part a now you you've paid for it via your payroll tax while you

Bill Keen: People say it's free, you know, it's well, I'm not sure it's free.

You paid your entire life for it at that point.

Matt Wilson: Premiums at that point, but you've already paid the premium and the current workforce is also paying into it as well. What I believe they probably meant was Medicare. B and D so B is your health insurance, and D as your drug coverage and there are surcharges that are based on your, your taxable income.

Well, actually, it's your modified, adjusted gross income to be technically accurate, but those kick in at different thresholds, whether you're married or single. The married thresholds, about 170,000. Single is right at half that at about 85,000. These aren't exact figures, but a close and your Medicare part B when your income hits that threshold, will go up by $50 a month.

Based on current rules, you know, those could change in the future and your drug coverage would go up by about 1250 a month. And then there's a series of, additional tiers as your income is increased in retirement. That increases both of those premiums. But that's the very first threshold. So, majority of people don't hit it. And the way this works too, which is a little bit confusing, is your 2021 Medicare premium, if you were subject to this surcharge, it's called an IRMA surcharge income related monthly adjustment amount. IRMA. I always like to say Irma is not your friend. If you have a letter stating that you are subject to an IRMA surcharge in 2021, it was from your income in 2019.

So it's a two year look back and it's only for that year. So every single year they re-evaluate. So if your income in 2019 was over the threshold, you were subject to the surcharge in 20211. And then in 2022, you're not subject to the surcharge because your income in 2020 was below the surcharge.

So it's just this constant evaluation.

Bill Keen: So in 2019 you had something occur, like you had a different car working. Yeah.

Matt Wilson: Or you were working

Bill Keen: Sure. And then it changed. Yeah. So now you have to go back and tell Medicare that it is lower again, or will they keep it higher until two years rolls around and you get the credit for it.

You follow me?

Matt Wilson: Just per tax year. So in December of 2021, they will send out letters based on your 2020 tax returns. So they just look at your tax return and say, okay, based on your 2020 tax return, your 2022 Medicare is this. So you don't have to tell them that your income was lower.

If it was lower. Now, you can actually file for an exemption. There's a form you can fill out and you basically say I was still working in 2019. So my 2021 Medicare should not be higher because my 2020 income is actually as a retired person is below the threshold.

We have had a lot of success with people doing that. We have not, actually, I have not heard of anyone getting denied. And so they lower your Medicare premiums. So if you have that two years in a row, you would need to file for those special situations. But if your income is truly just lower, you don't have to notice them up and request it.

They will just see it, that it was lower and provide that adjustment in the, future years when that comes in.

Bill Keen: And then what, if you tell them it was lower and then it ends upnot being lower. They get you there too, though.

Matt Wilson: They'll call you out of your tax return. Yep. Yeah that's

right. Yeah.The government won't forget there.

They will find it just like your social security too. If you claim it at 62 and you work well, you have an earnings limit, there's an earnings test and they'll still pay your social security. It's just when you file your tax return, they're gonna say, oh, you made too much money. You got to pay back your social security.

That's right.

Bill Keen: I think we have time for one more.

Matt Wilson: Yeah. One more question. Okay. Good question. Interesting question how should pension income be accounted for in retirement tax planning? Well, a great question. It is taxable income. So know we add it to all the other sources. So if you have IRA distributions and you have social security and you have a pension, well, all those are taxable income at the federal level.

It's possible. Depending on some states have pensions from municipalities that are tax exempt at the state level, but federally they're still taxable. So you would just add that in with all your other income when you do your, tax projections at the federal. Now that pension income, could change.

I mean, most of the pensions are pretty much fixed, but we've seen some where if you retire early, they give you a little bump and then social security comes in and then it gets reduced. Also some pensions, if you elect a survivor benefit, you get less. When you elect that benefit now Your significant other might pass away, then they will bump your pension income back up because they don't have to pay that survivor benefit anymore. I've seen that in some pensions as well. So when you do your scenario planning and you're projecting what this might look like over the next 20, 30 years, you know, make sure you understand those specific nuances so you can plan for it correctly in those scenarios

Bill Keen:.

I appreciate you answering that additional information because the question was, how should it be accounted for in retirement tax planning, which is great. Cause taxes are a part of the planning, but you went ahead and answered on how should it just be accounted for in retirement planning in general as well? What does it actually provide for a family?

Steve Sanduski: Well, great. Well, I think we'll wrap there. Bill. Any final comments here?

Bill Keen: I think we've covered some really nice topics today. We every so often rotate back to our listener questions. We get a lot of good feedback on that because there, common sense questions. A lot of people have on their mind and we're able to speak to those here. Several of them in one episode that could be helpful for folks.

And it just reminds us that there's a lot of moving parts with this retirement planning. Setting yourself up for the future. It goes all the way from how much money you actually need to accumulate in different asset classes and investments to what do you need to spend in retirement really thinking about those different expenses at certain timeframes in your retired life?

It's about estate planning, having things titled appropriately health insurance. It's about those legacy goals. We mentioned earlier as well. So many things to think about, and in my opinion, professional opinion of nearly 30 years, it would just be impossible to have all those things up in your head or scattered about, and not, to have those somewhere in a written form or at least typed form in a computer that a copy.

Fiduciary team is walking you through. So I think the lesson here today is find a, fiduciary team with a registered investment advisory firm that you trust that is objective, has a lot of experience, doing this for folks over many years that can walk you through the things that are most important to you and your family and get a plan in place so that you just don't miss something in your planning your ideas for what your ideal life will look like in retirement.

Steve Sanduski: Yeah. And for those of you listening, If you are looking for an advisory firm that meets what Bill just talked about, or maybe you already have an advisor that you're working with, but perhaps you're not as happy with them as you would like to be. By all means. Please check us keenwealthadvisors.com, a fiduciary RIA firm.

So guys as always thank you. Great show, lots of valuable information that you're sharing here today. And I look forward to the next episode of Keen on Retirement.

Bill Keen: Thanks, Steve. Thank you.