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Financial Focus

A Monthly Insight Into Your Finances
March 2022

Taxes in Retirement

When it comes to retirement planning, it's only natural to be consumed with big picture items like finding the ideal community, whether to stay in your current home or downsize, and how much travel you'll be able to do.

And those are all great and very important things to think about. But a successful retirement often boils down to some of the more nitty-gritty details.

And perhaps nothing is more nitty-gritty than having a strong tax strategy to see you through retirement.

Traditional IRAs and 401(k)s

Let's first look at traditional IRAs and 401(k)s, which are tax-deferred retirement accounts that many Americans rely on during retirement. Money that you dedicate to these accounts typically slashes your current taxable income which thereby trims your tax tab in a given year. Savings, dividends, and investment gains in these accounts grows on a tax-deferred basis.

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Tic Tac Mints are Named After the Sound Their Container Makes

In 1970, Ferrero was looking to replace "Refreshing Mints" as the name of its now iconic mini mouth fresheners.

Instead of going with a similarly straightforward approach, the brand says the name we all know now was inspired by the tic and the tac sounds heard when you open and close the little plastic container the mints come in.

<https://bestlifeonline.com/astonishing-facts/>

INGREDIENTS

- 1 medium zucchini
- 2 eggs, lightly beaten
- 1/2 c. + 2 tbsp fine almond flour
- 1 tsp. garlic powder
- 1 tsp. onion powder
- 2 tsp. dried rosemary
- 1 c. shredded parmesan
- Kosher salt
- Freshly ground black pepper

DIRECTIONS

1. | Set air-fryer to 400°. If you do not have an air-fryer, set your oven to 420°.
2. | Grate the zucchini onto a cheesecloth or a strong paper towel. Wrap up the edges and twist to squeeze out all the water from the zucchini, then transfer to a large mixing bowl.
3. | Add the remaining ingredients and mix everything together. It should be a somewhat sticky batter. Use an ice-cream scoop or a tablespoon to scoop roughly 12 balls. Roll each one in your hand, then place it in an air-fryer basket. DO NOT crowd the basket - do this in batches. Cook the bites for 8 to 10 minutes or until they are crispy and golden on the outside. Set them aside to slightly cool.
4. | Add a sprinkle of sea salt and enjoy with your favorite low-calorie condiment!

<https://www.delish.com/cooking/recipe-ideas/a30554891/zucchini-bites-recipe/>

Zucchini Bites

TAXES IN...

But those deferments don't last forever. Once you're officially retired and begin taking withdrawals, you'll need to pay taxes on any gains and your pre-tax or deductible contributions. And it's important to also bear in mind that these accounts have required minimum distributions, or RMDs, which is the point in time when you have to begin taking money out.

When do those RMDs kick in?

At present, RMDs begin at age 72 for a traditional 401(k) or IRA. If you work past your 72nd birthday you may qualify to delay an RMD from your employer's 401(k) as long as you don't own more than five percent of the company you work for.

Your withdrawals from your traditional 401(k) or IRA are taxed at your standard income tax rate.

Roth IRAs

Next, let's look at Roth IRAs. First things first, they come with one significant long-term tax perk: While contributions to a Roth IRA aren't tax deductible, your future withdrawals may not be taxed.

But to enjoy those potentially tax-free withdrawals, you must have held your Roth IRA account for a minimum of five years. And while you can take out the amount you contributed at any time, tax-free, in most cases you must be at least 59 ½ to take withdrawals without a 10% early withdrawal penalty.

Social Security

Social Security is yet another area where taxes are lurking after you retire. Until 1983, Social Security benefits were tax-free for every American, regardless of income. And while Social Security benefits still aren't taxed for a sizeable chunk of the population, others are hit fairly hard.

If you have provisional income, you may have to pony up federal income tax on as much as 85% of your benefits. To figure out your provisional income, begin with your adjusted gross income and then add 50% of your Social Security benefit and all of your tax-exempt interest.

If your provisional income is less than \$25,000 for individual filers or \$32,000 for joint filers, you won't have to pay taxes on your Social Security.

However, if your provisional income falls between \$25,000 and \$34,000 for individual filers or \$32,000 and \$44,000 for joint filers, then as much as 50% of your benefit is subject to taxation. Finally, if your provisional income is north of \$34,000 for individual filers and \$44,000 for joint filers, then as much as a whopping 85% of your benefit is considered taxable.

Pensions

The majority of pensions are funded using pre-tax dollars, which means the full value of your pension income would become taxable once you receive the money. Payments from both private and government pensions are generally taxable at your ordinary income tax rate.

This is for informational use only and not to be considered advice. Please see a qualified tax professional.

SOURCE

<https://www.kiplinger.com/retirement/602231/how-10-types-of-retirement-income-get-taxed>

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Company stock and Your Retirement Strategy

The opportunity to acquire company stock — inside or outside a workplace retirement plan — can be a lucrative employee benefit. Your compensation may include stock options or bonuses paid in company stock. Shares may be offered at a discount through an employee stock purchase plan and held in a taxable account, or company stock might be one of the investment options in your tax-deferred 401(k) plan.

Either way, having too much of your retirement savings or net worth invested in your employer's stock could become a problem if the company or sector hits hard times, especially if a job loss and stock value loss occur at the same time. There are also tax implications to consider.

Concentrate on Diversification

The possibility of heavy losses from having a large portion of your portfolio holdings in one investment, asset class, or market segment is known as concentration risk. Buying shares of any individual stock carries risks specific to that company or industry, so a shift in market forces, regulation, technology, competition, scandals, and other unexpected events could damage the value of the business.

Holding more than 10% to 15% of your assets in company stock could upend your retirement strategy if the stock suddenly declines in value, and over-concentration can sneak up on you as your position builds slowly over time. To help maintain a healthy level of diversification in your portfolio, look closely at your plan's investment options and consider directing some of your contributions into funds that provide exposure to a wider variety of market sectors.

You might also consider strategies that involve selling company shares systematically or right after they become vested. But make sure you are aware of the rules, restrictions, and time frames for liquidating company stock, as well as any tax consequences.

Take Advantage of NUA

If you sell stock inside your 401(k) account and reinvest in other plan options, or you roll the stock over to an IRA, future distributions will likely be taxed as ordinary income. However, if you own highly appreciated company stock in your employer plan, you might benefit from a special tax break on lump-sum distributions of net unrealized appreciation (NUA). NUA allows the appreciation on company stock in a 401(k) to be taxed at lower long-term capital gains rates when the shares are sold, instead of the ordinary income tax rates that would otherwise apply to retirement plan distributions.

To qualify for NUA, the lump-sum distribution must follow a triggering event such as separation from service, reaching age 59½, disability, or death. The stock must be distributed in kind — as stock — and transferred to a taxable account. You would owe income tax at the ordinary rate in the year of the distribution, but only on the cost basis of the stock.

If your retirement plan consists of employer stock and other types of investments (cash, mutual funds, etc.), the other assets can be transferred into an IRA, to another employer's plan, or withdrawn entirely. This doesn't have to happen simultaneously with the stock distribution, but the distributions must occur in the same tax year, and the account balance on your employer plan must be zero by the end of that year.

If distributions of company stock are handled correctly, the savings from NUA can be substantial, especially for those in higher tax brackets. But keep in mind that taking any partial distribution from your employer plan after a triggering event — even an in-plan Roth conversion or required minimum distribution — could disqualify you from the NUA tax break, unless another triggering event occurs.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. Diversification and asset allocation are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

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