RETIRING WELL IN THE 21ST CENTURY

A course designed to see you to and through retirement.

SESSION 2

MAGELLAN FINANCIAL

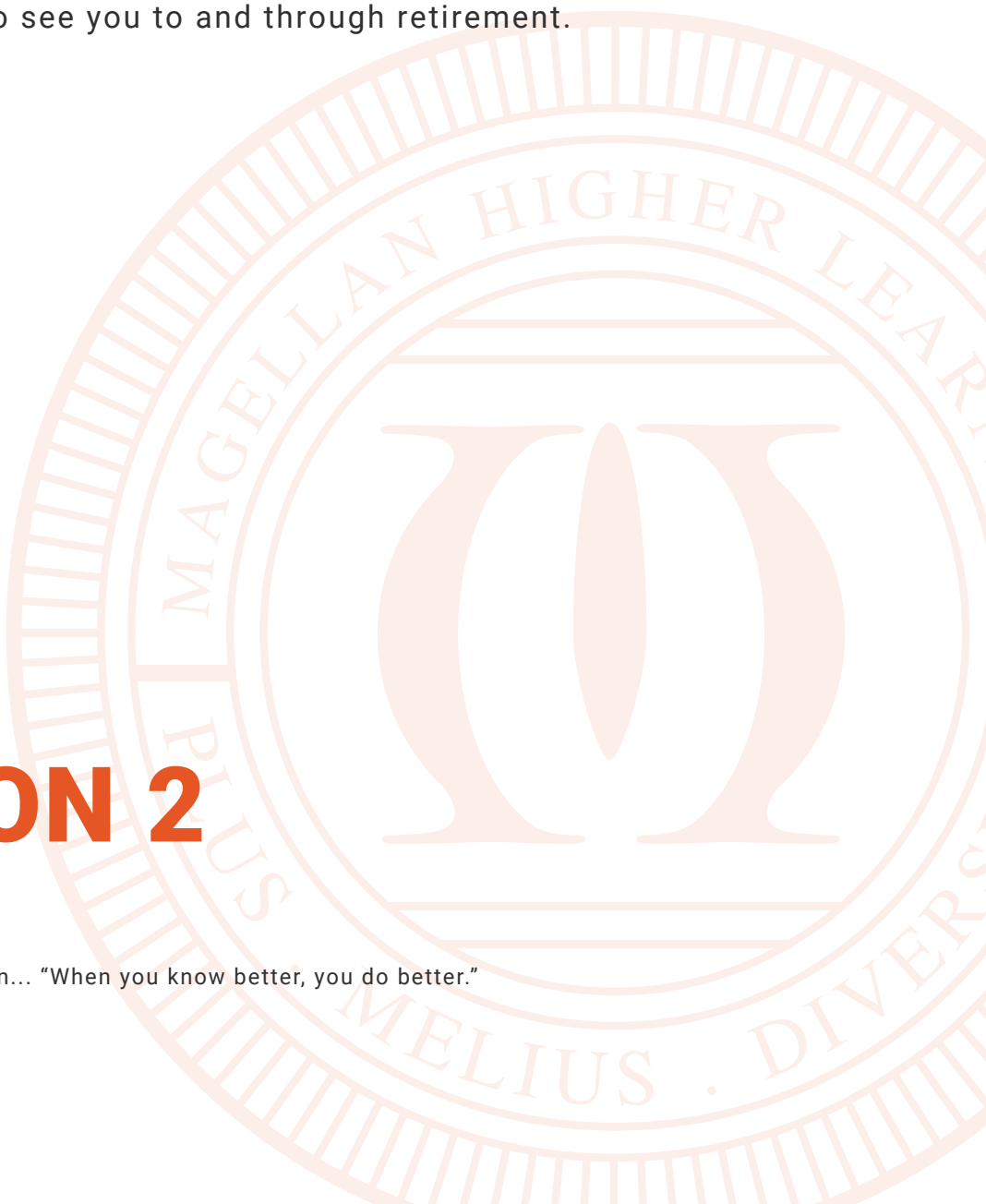
Motivation through education... “When you know better, you do better.”

OBJECTIVE

People are running out of money in retirement, not because they aren't saving enough, but because they aren't doing the right things with the resources they have. Retiring in the 21st century means facing unprecedented challenges: most of us don't have pensions, we're living longer, and we are responsible for funding our retirement. This course is designed to educate you about your options for better asset allocation, tax management, Social Security claiming decisions, and the risks ahead so that you can retire—and stay retired—while enjoying the good life.

RETIRING WELL IN THE 21ST CENTURY

A course designed to see you to and through retirement.



SESSION 2

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CONTENTS

ESTATE PLANNING

Who Needs to do Estate Planning?

The number one reason people give for putting off estate planning is "I haven't gotten around to it." The second reason? People think they need to be ultra-wealthy to qualify for a plan.[1] This isn't the case at all.

One of the most important reasons to get an estate plan together is to protect yourself as you age so that you can maintain control over the decisions being made about your health and assets.

The Unexpected Benefits of Estate Planning:

- Maintain control: How do you want your bills to be managed when you are no longer able to take care of them yourself? Who do you trust to make medical decisions on your behalf? What do you want doctors to know about your end-of-life wishes?
- Document your intentions: Is there a set of dishes or a letter from your great-grandfather that you want to preserve or pass down to a family member? Do you have a special needs child who you want to provide for? Is there an organization that you want to support in perpetuity upon your passing?
- Tax advantages: You didn't save this money so that the lion's share of it could go to Uncle Sam. Keep more of this money in your family by getting a tax plan in place.
- Simplify the process: If your estate passes through probate court instead of passing to your loved ones directly, not only does it take much longer for your people to receive the money, but more of it could be lost to court costs and fees.
- Peace of mind: Imagine how good it will feel to know that no matter what happens, your wishes will be carried out on your behalf.

"ESTATE PLANNING" DEFINED: the transfer of assets from one person or entity to another.

GOOD TO KNOW: Only 32% of American have a will, yet, 64% of Americans say having a will is very or somewhat important.[2]
The Tax Cuts and Jobs Act (2017) provisions were originally set to expire in 2025, but the 2025 "One Big Beautiful Bill Act (H.R. 1)" made most provisions (tax brackets, standard deduction) permanent.

[1] Lustbader, Rachael, 2024 Wills and Estate Planning Study, Caring.com, 2024. https://www.caring.com/caregivers/estate-planning/wills-survey/ Accessed 5/6/2024.

[2] Ibid.

3 Ways Your Assets and Property Can Be Transferred:

Operation of Law: Current laws dictate how some assets will be passed, such as bank accounts and some property. These laws include transfer-of-death (TOD), payable-on-death (POD), or joint tenancy designation. Examples of a TOD might include an automobile or real estate property that passes to a new owner. Life insurance is an example of an asset that passes POD.

- Assets passed this way typically do not go through probate.

Beneficiary Designation: Accounts such as 401(k)s, IRAs, and annuities transfer via a beneficiary designation. This is when you name who you want to directly receive the proceeds. You can list multiple persons or entities and specify what percentage of the asset they each get. For example, if you have two children, you might list them as beneficiaries each receiving 50 percent of your 401(k).

- Beneficiary designations do not go through probate.
- Beneficiary designations trump your last will and testament.

Bequest: Also known as an outright bequest, this is a written document that gifts an asset to an individual or entity through a will, a trust, or a combination of both. Assets can include money, property, or personal items. Assets will pass to the named person or organization.

- Assets bequest through a will typically do go through probate.
- Assets based via a trust typically avoid probate.
- If you bequest an asset that already has a beneficiary designation, the bequest will not override the designation on a life insurance policy, annuity, or retirement account such as an IRA or 401(k).

"BENEFICIARY" DEFINED: An individual entitled to collect assets as decreed by a written, legal document.

GOOD TO KNOW: A living will and a will are two different things. A living will dictates which life-saving medical procedures you would allow in the event of a terminal illness. A will is an outright bequest.

What Is Probate?

Probate is the process of executing your will. It is first proved in court where it is accepted as a valid public document representing the last wishes of the deceased.

ADVANTAGES OF PROBATE:

- It happens in court: The court distributes the assets, making sure they get to the right people.
- Provides supervision: Assets are inventoried and may be liquidated as part of the distribution to ensure that outstanding debts and tax obligations are paid.
- Ensures consistency: If there are children involved, probate provides a vetting process for future guardians.
- Deadlines: Establishes a clear deadline after which creditors or disinherited family members can no longer file their claim against the estate.

DISADVANTAGES OF PROBATE:

- Expense: Court and attorney costs must be paid out of your estate, an expense that typically eats up 5 percent of your estate.
- Exposure: Probate is a public process whereby the value of your bank accounts, investments, and who stands to inherit what are published.
- Time-consuming: The process of probate can take six months to a year or longer, especially if there are any creditor claims or disputes. This can be a hardship for family members who paid for burial and end-of-life expenses out of pocket.

"PROBATE" DEFINED: The legal process by which the assets of the deceased are properly distributed, the objective being to ensure that the deceased's debts, taxes, and other valid claims are paid out of their estate, and the assets are distributed to the intended beneficiaries.

GOOD TO KNOW: Not all assets pass through probate.
Non-probate assets: Life insurance policies and retirement accounts with beneficiary designations, bank accounts with POD or joint tenants, real or personal property with joint tenants, and assets placed inside a properly funded trust.
Probate assets: Checking/savings accounts, real estate, antiques, motor vehicles, house, vacation home, stocks and bonds, royalty interests, personal items, and the kitchen sink.

How to Avoid Probate

Probate is avoidable with planning. Aside from putting all your assets inside a trust, there are several strategies you can use that rely on operations of law and beneficiary designations. You can also gift portions of your estate to family members while you are still alive by taking advantage of current tax law.

Ways to avoid probate without using a trust:

- Gifting: The IRS allows you to gift a certain amount of money each year in cash, assets, land, or property, without having to pay a gift tax or report anything on your federal tax return. This can be a tax-advantage way to distribute wealth after the sale of an asset that has appreciated in value.
- Maximum amounts are set annually by the IRS.
- Joint ownership: Property or accounts held in joint ownership passes to the survivor when the original owner passes. Because the name of the individual is listed in the property documents or contract, it provides for a direct transfer to the new owner without having to go through probate court.
- Can work well with married couples, but caution is advised for other types of relationships.
- Beneficiary designation: Assets inherited through an IRA, life insurance policy, annuities, and retirement plans such as 401(k)s do not pass through probate, however, you want to take care to make sure that your beneficiary designations are up to date. If your first spouse is listed on your 401(k), even if you specifically name your new spouse in your will, the beneficiary designation is what the court will follow. By law, your first spouse would stand to inherit.
- Payable on death (POD): The named beneficiary will receive the balance in the accounts once they prove their identity, provide a signature, and show the original certificate of death. This includes assets in bank accounts and brokerage accounts.
- POD accounts cannot shield money from creditors or estate tax.
- Transfer on Death (TOD): TOD allows for the direct transfer of real estate upon the owner's death. Because the transfer does not go into effect until your passing, you are free to change your mind and revoke the deed or title at any time.
- Be advised that TOD is not allowed in all states.

"GIFT TAX" DEFINED: A federal tax owed on money or property that one living person gives to another without receiving fair compensation.

GOOD TO KNOW: If you and your spouse work together, you're eligible to gift twice as much money without having to pay any gift tax.
For the 2024 tax year, you and your spouse are each entitles to gift $18,000 for a total of $36,000 to each recipient.[3]

Will vs. No Will

A will is a set of instructions that dictates how you want your property and assets divided. This allows you to control the assets that are destined for probate court—such as items that don't have a beneficiary designation option. A will can do things that beneficiary designations alone cannot.

When you have a will:

- You have control over how your estate is distributed, including items that have sentimental value and are important to you or your family.
- You can nominate an administrator or executor who you trust to be in charge of how your estate is distributed.
- You can name legal guardians for the care of minors or disabled children.
- Your asset transfer may be overseen by a probate court judge.

When you do not have a will:

- You are said to have died "intestate" whereby state successions laws will make decisions for you about how your estate is distributed.
- Your estate will be appointed a court administrator and assets will transfer according to operations of law.
- A probate court judge will oversee the transfer of the estate.
- All children will be treated equally regardless of the situation, and guardianship is usually given to the next of kin.
- State law will determine the sequence of how the assets flow to the current spouse, children, ex-spouses, distant relatives, etc.
- No inclusions for charities are allowed.
- Additional taxes, fees, and penalties may apply.

"WILL" DEFINED: A list of instructions to inform a judge exactly how you would like your estate to be distributed, including your guardian preferences for underaged children.

[3] IRS, IRS provides tax inflation adjustments for tax year 2024, November 2023. https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2024 Accessed 5/6/2024.

Creating a Will

Today there is an assortment of do-it-yourself materials available online that allow you to create your own will. The problem is that many people neglect the final step of filling out the paperwork, filing it with the correct entities, and having it notarized when required.

Advantages of having a will:

- Someone you trust: A will gives you the ability to appoint someone you can rely on to carry out the terms of your document. This person is typically known as the estate's executor.
- Written document: A will gives you a place to list who your beneficiaries are and what assets you want to bequeath to them, including assets that have sentimental value as opposed to just monetary value.
- Protection for your children: A will gives you the legal authority to choose who will take care of your children, even if that person is outside the family and not someone they would approve of.

Disadvantages of having a will:

- Limitations: A will dictates who gets what, but it cannot dictate when they get it.
- Probate court still required: Just having a will does not keep you out of probate court. The estate is still submitted to the court for supervision.
- Public exposure: The process of probate exposes your financial information to the public.
- No protections: Creditors and disgruntled family members can file a claim against the will.
- Expense: Court and attorney costs will be paid out of your estate.
- No tax advantages: Just having a will does not consider a tax strategy to help you keep more of your money in the family.

"EXECUTOR" DEFINED: The person who administers your estate and carries out your wishes as spelled out in your will or trust documents upon your passing.

GOOD TO KNOW: Today, younger adults are more likely to have a will than middle-aged adults. Since the start of the pandemic, the number of young adults with a will increased by 50%. During the same time the rate of middle-aged adults with wills decreased by 7%.[4]

[4] Rachael, Lustbader, Caring.com's 2024 Wills Survey Finds That 40% of Americans Don't Think They Have Enough Assets to Create a Will, 2024, https://www.caring.com/caregivers/estate-planning/wills-survey/ Accessed 5/6/2024.

Planning with a Trust

A trust is unique in the estate planning world because it creates an entity separate from you that holds the assets. This gives you the ability to dictate specific instructions for who gets what just like a will; but unlike a will, a trust also allows you to specify when and how your assets will be distributed. A trust is also settled outside of probate court.

Advantages of having a trust:

- Specific instructions: A trust allows you to go into detail about when and how your assets are distributed. For example, you can provide for your grandchildren by sending them a certain amount of money every year on their birthday, effectively sending them birthday checks from beyond the grave. You can also delay the ownership of real estate property until your beneficiary has reached a certain age.
- Avoid probate: The trust administration process happens outside of probate court, which allows you to maintain privacy and settle things on a much quicker timeline.
- Transfer responsibility: For the beneficiary who lacks fiscal responsibility, you can control the management of assets so that the funds are distributed more responsibly. For example, you might stipulate a certain monthly or yearly income.
- Indivisible property: Some assets can be difficult to distribute equally. For example, if you own a family business, how can it be divided equally among your offspring? What if one child wants to take over the operation of the business while the other children have no interest in it? Doing a trust as part of a comprehensive financial plan can give you a way to transfer the business to the person who values it, while also providing assets of equal value to your remaining heirs.
- Protection: A trust can protect your family from future problems such as an unstable marriage that may result in divorce, lawsuits against high-liability professionals like doctors, and medical bills or nursing home costs. You can even create a contingency plan should things change between the time when you write the trust and the time that you die.
- Minimize Taxation: In certain scenarios, you may be able to avoid taxes by placing assets that you expect may grow significantly inside of an irrevocable trust. By transferring them into the trust now, their growth will not be part of your estate when you pass away. This can give your family significant tax advantages. You can also use a trust to maximize your charitable giving.
- Simplicity: By creating a trust, you're able to accomplish several things with one planning tool, creating several important documents that are necessary to your peace of mind as you age.

"TRUST" DEFINED: A legal document that creates an entity that is separate from you designed to hold the title to assets while following a specific set of instructions for the management and distribution of those assets.

GOOD TO KNOW: A trust can help your family to better manage their inheritance. According to a 2018 wealth study by Williams Group, 70% of wealthy families lose their wealth by the second generation, and 90% lose it all by the third.[5]

Taxes and Estate Planning

One of the biggest decisions to make with your assets is how much to give now, when you're alive, and how much to give later, upon your death. There are tax strategies to consider. When you pass away, you're not just leaving behind a legacy, you're also leaving a potential tax burden to your loved ones.

- Any income you earned during the year of your death will be taxed.
- If you have stocks, mutual funds, real estate, or other assets in your estate that have increased in value over time, then taxes will be owed on the capital gains accrued.
- If you have saved money in tax-deferred vehicles such as an IRA or 401(k), then taxes must be paid on this money within a specific timeframe whether your family wants to spend this money or not.

When your beneficiaries inherit these assets, they will be responsible for paying your taxes. With comprehensive and proactive financial planning, you have the opportunity to mitigate this tax burden and increase the value of your legacy so that more of this money goes to your family.

We will focus on three areas:

1. Income taxes upon death.
2. Gifting and/or inheriting assets.
3. Federal estate taxes.

Area #1: Income taxes upon death:

This is the income taxes owed at the time of your death, regardless of how your family members or beneficiaries inherit the assets.

- Income earned by you: Taxes will be due on any income you earned in the year of your death. This might include income from full or part-time employment, stipends, royalties, or any other financial compensation. If you have a spouse at the time of your passing, then they will have the option that year of filing either as a single

[5] Taylor, Chris, 70% of Rich Families Lose Their Wealth by the Second Generation, Money Magazine, June 2015. https://money.com/rich-families-lose-wealth/. Accessed 9/7/2021.

person or married filing jointly. By working with an advisor, you can choose to file in a way that mitigates the tax burden owed.

- Income earned by your estate: Any income earned by your assets after your death but before they are distributed to your beneficiaries will also be taxed. This might include dividend or interest income from brokerage accounts and rental property income.
- Tax returns filed: A tax return must be filed in the year of your death to report this income. A return might also need to be filed in the years to come, depending on how long it takes for the estate to be settled, and how long the assets continue to generate the income.

"CAPITAL GAINS RATE" DEFINED: A federal fee paid on the profit made from selling certain types of assets such as stocks or real estate property. It is calculated by subtracting the original purchase price from the total sales price.

GOOD TO KNOW: The tax rate depends on the type of asset, the type of account that it's held in, and how long it's held.
Assets such as stocks, bonds, and mutual funds held inside a brokerage account for more than one year are taxed at the capital gains rate—either 0 percent, 15 percent, or 20 percent.
Assets held inside basic retirement accounts like a traditional IRA or 401(k) are taxed at ordinary income tax rates, ranging from 10 percent to 37 percent depending on your filing status and income for the year 2024.
Assets held inside a brokerage account for less than one year are considered a short-term gain and taxed at ordinary income tax rates.

Area #2: Gifting and/or inheriting assets:

The amount of taxes your beneficiaries will pay depends in large part on when and how you choose to leave these assets to them. The "when" is a fundamental choice of now or later. "Gifting" refers to the money you give to others while you are alive; "inheriting assets" refers to the money received by your beneficiaries when you are no longer alive.

- Gifting assets: The gift tax is a federal tax that may be owed if you give money or assets while you are alive without receiving fair compensation. Gift tax is only owed on gifts above the annual limit of $18,000 per recipient, per donor, current as of 2024. There is a lifetime gift tax exemption of $13,610,000 per recipient, current as of 2024. The gift tax typically does not apply to charities, non-profits, and spouses.

- Inheriting tax-deferred assets: Tax-deferred assets refer to the money inside of retirement accounts such as traditional IRAs and 401(k)s. This money has not yet been taxed. When your beneficiaries inherit this money, they must eventually pay

the taxes owed. Starting in 2020, the Setting Every Community Up for Retirement Enhancement (SECURE) Act stipulates that anyone who inherits an IRA or 401(k) from someone other than their spouse must withdraw all assets from the account within 10 years.

- Capital gains tax: When an asset such as stocks, bonds, or real estate are held outside of retirement accounts, they may qualify for a step-up basis provision that adjusts the value of the asset when it is inherited. This reduces the amount of capital gains tax owed by the recipient.

"STEP-UP IN BASIS" DEFINED: An increase in the cost basis of appreciated property transferred at death to its fair market value.

GOOD TO KNOW: Before the passing of the SECURE Act, if you inherited an IRA or 401(k), you could "stretch" the distributions, taking the money out and paying the taxes owed in small increments over your life expectancy.
According to the Joint Committee on Taxation, the new 10-year requirement for non-spousal inherited retirement accounts is forecast to generate $15.75 billion in federal revenues from 2020 through 2029.[6]
The TCJA temporarily doubled the estate tax exemption through 2025. Under new law, the exemption is now permanent at indexed levels.[7]

EXAMPLE CASE STUDY:

A father purchases Apple stock with a cost basis of $10,000 back in 2012. Eight years later, the stock is worth $14,000.

- Option A: He sells the stock while he is alive and owes a capital gains tax on $4,000. Given that he earns more than $40,000 and is single, he will owe $600 in taxes.
- Option B: He leaves the stock to his daughter as part of her inheritance. She inherits the stock worth $14,000 upon her father's death, and because of the step-up basis provision, no capital gains taxes are owed.

[6] Prescott, Gregory L., Hardin, James R., Rich, James C., The Secure Act Ushers in Sweeping Retirement Plan Changes, CPA Journal, April 2021, https://www.cpajournal.com/2021/06/23/the-secure-act-ushers-in-sweeping-retirement-plan-changes/ Accessed 9/10/2021.

[7] Federal Estate and Gift Tax Exemption Permanently Increased Under the OBBBA, 2025, Arnold & Porter, https://www.arnoldporter.com/en/perspectives/advisories/2025/07/increases-to-the-federal-estate-and-gift-tax-exemption-under-the-obbba/ Accessed 7/20/2025

Considering the cost basis of your non-retirement account assets, which option would you choose?

LONG-TERM CAPITAL GAINS TAX RATES FOR THE 2024 TAX YEAR			
FILING STATUS	**0% RATE**	**15% RATE**	**20% RATE**
SINGLE	Up to $44,625	$44,625 - $492,300	Over $492,300
MARRIED (JOINT)	Up to $89,250	$89,250 - $553,850	Over $553,850
MARRIED (SEPERATE)	Up to $44,625	$44,625 - $276,900	Over $276,900
HEAD OF HOUSEHOLD	Up to $59,750	$59,750 - $523,050	Over $523,050

Area #3: Federal Estate Tax:

The estate tax is a tax assessed on your right to transfer property upon your death. Most estates will never have to file an estate tax return as the exclusion amount is generous by most standards.

- Exclusion amount: Estate tax is only due on the portion of the estate that exceeds the cutoff amount set forth by the IRS. In 2024, that cutoff amount is $13,610,00 per person, or $27,2220,000 for married couples.
- Maximum tax rate: The portion of the estate that surpasses the exclusion amount is taxed at a rate of 40 percent as of 2024. State taxes vary, but 20 percent is the maximum rate that can be charged.
- Exemptions: Assets inherited by a spouse or by a charity are exempt from the federal estate tax, meaning they don't have to pay it regardless of the exclusion amount.
- Portability: Estate tax law allows the surviving spouse to take advantage of the unused portion of the estate tax exclusion of a deceased spouse. Consult with an estate planning attorney to learn what provisions may apply.

"ESTATE TAX" DEFINED: A tax levied on the net value of the estate of a deceased person before distribution to the heirs.

Planning for Incapacity

Perhaps the most important part of an estate plan has to do with the vital documents that protect your interests while you are still alive. Without the proper documentation in place, you and your family may be forced to be under court supervision for both your financial affairs and your healthcare decisions.

With proper planning, this can generally be avoided. There are several commonly used documents to help provide clarity should you become unable to speak up on your behalf.

Financial Decisions

- Financial power of attorney: This allows you to assign someone you trust to help you with financial decisions and actions.
- Durable power of attorney: Similar to the financial power of attorney, this document gives someone you trust the authority to act on your behalf should you become incapacitated. For example, they may be allowed to write checks on your behalf so you can meet your financial obligations should you become hospitalized.
- Revocable Living Trust (RLT): This estate planning solution typically includes documents for financial and healthcare decisions and allows for the alteration of the trust should the need arise.

Healthcare Decisions

- Healthcare Power of Attorney: This document names someone to make healthcare decisions for you if you're unable to speak for yourself. This includes the consent, or refusal of consent, for any type of medical care, treatment, or procedure. This person can make these decisions on your behalf without the delay of court proceedings.
- Living Will/ Healthcare Directive: This document spells out what you want to happen should a situation come up that involves life-sustaining treatment. This is a document that gives the instructions directly to the doctors and medical staff. For example, if you do not want to be revived and kept alive should you have a terminal illness, then your living will could communicate these wishes to your medical provider.

GOOD TO KNOW: Living wills only apply to decisions regarding life-sustaining treatment in the event of a terminal illness; it does not apply to decisions involving Alzheimer's, dementia, or coma. One out of every three seniors dies from Alzheimer's or dementia.[8]

[8] Alzheimer's Disease Facts and Figures, Alzheimer's Association, 2024, https://www.alz.org/alzheimers-dementia/facts-figures. Accessed 5/6/2024.

A Solid Estate Plan

An estate plan is about more than just getting the right stuff to the right people; it's about ensuring that your wishes are carried out in the manner you choose. This goes beyond just financial matters to include your healthcare and the care for the people that you love. A solid estate plan will include the following components:

- A will.
- A living will/ advance care directive.
- A trust when needed.
- An executor.
- A durable power of attorney.
- Life insurance to mitigate estate taxes if needed.
- A thorough review of tax implications and opportunities.
- Regular ongoing reviews to update changes as needed.

COURSE LAB: SESSION 2G

Identify your essential estate planning documents.

THINK ABOUT WHO YOU WOULD TRUST WITH YOUR LIFE, AND THEN TAKE A FEW MINUTES TO ANSWER THE FOLLOWING QUESTIONS:

Who is an available and dedicated person you would trust to handle your finances if you are unable to do so yourself?

First Choice: _____

Second Choice: _____

Who is an available and dedicated person you would trust to make healthcare decisions on your behalf?

First Choice: _____

Second Choice: _____

TAXATION IN RETIREMENT

Paying Taxes in Retirement

Your tax bill doesn't go away when you retire. In fact, for some people, the amount they owe in taxes goes up after retirement. Anticipating taxes and implementing a proactive tax plan is an integral part of a successful retirement. Without a plan, you may have little or no control over how much you pay in taxes down the road.

Things to Consider:

- Tax laws and tax rates are not fixed. They change with different administrations, different Congresses, and different times.
- Think about how your retirement savings will be taxed. Not all money is the same. Some may be in a 401(k) on a tax-deferred basis; some might be in a Roth IRA and be tax-free upon withdrawal. You need to know what your tax bill will be for each dollar you own.
- Allocating assets based on taxation will help you make the most efficient decisions about how and when to withdraw your income.
- You may want to consider choosing investments and accounts that offer tax advantages and can reduce your future tax bill.

ROTH IRA DEFINED: Individual retirement arrangement made with income after the taxes have been paid where designated funds can grow tax-free with no taxes due on the interest earned if the rules for withdrawal are followed.

GOOD TO KNOW: If you are taxed at a 25% rate, one quarter of your money is essentially not yours. Your tax rate may be even higher than that.
The more you can reduce your tax bill, the less pressure there is on your portfolio to provide high and sustaining returns to support the cost of your lifestyle. That also means you can take on less risk with your investments to achieve the same outcome.
The TCJA rate schedule, once set to expire in 2025, is now permanent: brackets remain 10%–37%, the standard deduction stays higher, personal exemptions are repealed, and the SALT cap is fixed at $30,000 (MFJ).[9]

Tax History

Tax rates are at historic lows. Many experts predict that a rapidly increased national debt and large spending bills related to Covid-19 could cause an increase in tax rates.

The Federal Reserve raised interest rates 11 times from 2022 to 2023. As interest rates rose, so did the federal government's borrowing costs. The Congressional Budget Office projects that annual net interest costs on the national debt will total $870 billion in 2024.

[9] What You Need to Know About the One Big Beautiful Bill Act, 2025, Muncpas, https://muncpas.com/what-you-need-to-know-from-the-one-big-beautiful-bill/ Accessed 7/26/2025

U.S. DEBT VS. INTEREST ON DEBT	
2000	**2024**
U.S. National Debt: $5,660,462,093,668	U.S. National Debt: $33.17 trillion and growing …
Interest on Debt: $222,892,183,890	Interest on Debt: $659 billion
Interest Rates: 5.5%	Interest Rates: 3.4%

Source: Current US Inflation Rates: 2000-2024, https://www.usinflationcalculator.com/inflation/current-inflation-rates/

Tools for Tax Control

There are ways to anticipate higher taxes and reduce your taxable income. Remember, your net worth is not as important as your secured income when it comes to a successful retirement. By creating as much tax-advantaged income as you can, you will help to create durable retirement that can weather tax increases.

Tax Control Toolbox

- Diversify the types of accounts you have your money in.
- IRA
- Roth IRA or 401(k)
- Life insurance policies
- Non-qualified money
- Take advantage of tax-deferred opportunities when it makes sense.
- Withdraw from multiple accounts to build your retirement income based on your expected income tax bill.
- Anticipate larger withdrawals and spread them out over two or more years if possible, to minimize the tax bill.
- Put thought into determining which of your assets should be in which type of account.

ROTH CONVERSION DEFINED: A Roth conversion moves part or all of the balance of a traditional IRA into a Roth IRA. The converted amount is subject to regular income tax. Once it is in a Roth IRA, however, it grows tax-free.

GOOD TO KNOW:

As of March 2024, it costs $522 billion to maintain the debt, which is 16% of the total federal spending in the fiscal year 2024.[10]

[10] Higher Interest Rates Will Raise Interest Costs On The National Debt, Peter G. Peterson Foundation, May 2024, https://www.pgpf.org/analysis/2024/05/higher-interest-rates-will-raise-interest-costs-on-the-national-debt#:~:text=Higher%20Interest%20Rates%20Will%20Raise%20Interest%20Costs%20on%20the%20National%20Debt&text=The%20Federal%20Reserve%20has%20held,steady%20since%20July%2026%2C%202023.

Tax Preparation Vs. Tax Planning

- Tax preparation is what your CPA does. They record history by filling out your tax forms with what already happened.
- Tax planning is a proactive, forward-looking strategy that anticipates future taxation and works to minimize tax bills while maximizing net income before the end of the tax year.

COURSE LAB: SESSION 2H

Identify your assets according to the three types of taxation.

CIRCLE THE ASSETS YOU OWN IN EACH CATEGORY:

Taxable:

- Savings accounts
- Checking Accounts
- Bank CDs
- Stocks, bonds, and mutual funds not inside a retirement account
- Money market funds

Tax-deferred:

- 401(k), 457, 403(b)
- Keogh plans
- Annuities
- Traditional IRA, SEP IRA, SIMPLE IRA

Tax-free:

- Roth IRA
- Roth 401(k)
- Municipal bonds
- Life insurance

RETIREMENT ACCOUNT DISTRIBUTION PLANNING

Saving for retirement is about putting the money into the accounts; distribution planning is about taking the money out. Depending on your household size, its total income, and your financial goals, you will want to be strategic about when and how you take the money out of each type of account in order to minimize the taxes you will pay.

Retirement Accounts

Having your money in the right accounts is just as important as selecting the right investments.

Common retirement accounts include:

- IRAs
- Roth IRAs
- 401(k)s
- 403(b)s

An Introduction to Distribution Planning

- Be strategic with your account contributions to maximize your cash flow during the decumulation phase of your financial life.
- Diversify your tax landscape by determining when to use tax-deferred or tax-free accounts for tax-efficient income distribution.
- Examine whether a Roth conversion makes sense for you and identify when and how to do it.
- Work with an advisor who specializes in distribution planning to reduce or eliminate taxes, maximize your net income, and lower your tax bill.

DECUMULATION PHASE DEFINED: The financial phase during your non-working years when you are spending the assets you spent a lifetime trying to save.

GOOD TO KNOW: The interest earned from your investments in taxable accounts and tax-deferred accounts is taxed as regular income.
Interest earned from capital gains in brokerage accounts is taxed at capital gains rates, which can vary from 20 to 0 percent according to your tax bracket.[11]
Reminder: With TCJA brackets now permanent, Roth conversion timing is even more critical. Planning can assume stable tax brackets beyond 2025.[12]

[11] Taxation of Retirement Income, 2024, FINRA.org, https://www.finra.org/investors/learn-to-invest/types-investments/retirement/managing-retirement-income/taxation-retirement-income 5/6/2024

[12] Federal Estate and Gift Tax Exemption Permanently Increased Under the OBBBA, 2025, Arnold & Porter, https://www.arnoldporter.com/en/perspectives/advisories/2025/07/increases-to-the-federal-estate-and-gift-tax-exemption-under-the-obbba? Accessed 7/20/2025

The 3 Types of Money

From the perspective of a retiree there are three types of money. There is a mathematically efficient way to calculate the amount of each type of money you should have to maximize your retirement income. This is especially important for today's retirees in a low-tax environment, as that is likely to change in the future.

Let's take a look at each type of money and how they can affect your cash flow and after-tax retirement income.

1. Taxable
2. Tax-deferred
3. Tax-free (tax-advantaged)

#1 Taxable Money

We're all familiar with taxable money. This is money you pay income tax on every year. You might even own taxes on the interest even if you don't spend the money.

Examples include:

- Savings accounts
- Money Market accounts
- Bank CDs
- Individual bonds
- Individual stocks
- Brokerage accounts

#2 Tax-deferred Money

Tax-deferred money is the money socked away in your 401(k) or similar retirement account. Instead of paying taxes on your contributions on an annual basis, you pay taxes upon withdrawal from the account.

Tax-deferred accounts include:

- 401(k)
- 403(b)
- 457
- IRA (SEP, Simple, and Spousal)

How to Benefit from Tax-deferred Investing

The benefits of tax-deferred money are many.

The rule of thumb for tax-deferred investing is to contribute up to your employer match but not more than that.

Take the free money, and then find somewhere more beneficial to invest.

By carefully balancing tax-deferred contributions, you can create a scenario where your balance is low enough to keep your RMDs at or below the amount of your standard deduction and personal exemptions. This way you get the benefit of tax-deduction upon contribution, triple compounding from tax-deferred growth, and withdrawals that are tax-advantaged.

Benefits of tax-deferred investing:

- A deduction when you contribute to the account AND
- Tax-deferred growth AND
- Tax-advantaged withdrawal.

RMD DEFINED: The minimum amounts you must withdraw from your retirement accounts each year. You generally must start taking withdrawals when you reach age 73.

IRA Distribution Side Effects

Drawing money out of your traditional IRA to pay your bills is just like receiving regular income. It is fully taxable at the current tax rate and tax bracket you are in. Essentially, not all of the money in your IRA is your money. A good chunk of it goes to the government in the form of taxes.

Even if you don't want to spend the money in your IRA, the IRS rules for tax-deferred accounts stipulate that you must start withdrawing this money once you reach a certain age. When you do, if you already have enough income coming in from other assets, you may trigger some negative side effects. Some drawbacks to withdrawing from a traditional IRA include:

- An increase to the taxes owed if the income puts you into a higher tax bracket.
- An increase on the taxes owed on your Social Security benefit.
- An increase to the premiums you'll pay for Medicare Parts B & D if your IRA distribution triggers IRMAA.
- RMD withdrawals are one of the most common triggers of IRMAA.
- Tax-deferred money in an IRA is also vulnerable to future tax increases, which means you'll have to give away a larger percentage of this money to Uncle Sam.

IRMAA DEFINED: The income-related monthly adjustment amount (IRMAA) is a surcharge added to Medicare Parts B and D premiums if a recipient earns more than $103,000 per year.[12]

[12] Oh, Jae W., What is the income-related monthly adjustment amount (IRMAA), Medicareresources.org, 2024. https://www.medicareresources.org/medicare-eligibility-and-enrollment/what-is-the-income-related-monthly-adjusted-amount-irmaa/ Accessed 5/6/2024.

GOOD TO KNOW: IRMAA affects less than five percent of people with Medicare, so most people do not pay a higher premium.[13]

Required Minimum Distributions (RMDs)

There comes a time in every retiree's life when they need to read that right—when you reach a certain age, the government requires you withdraw money from your IRA. Doing so triggers regular income tax that you will need to be prepared to pay.

The Facts About RMDs

- You are required to withdraw RMDs at age 73.
- You are allowed to withdraw more than your RMD, but not less.
- A key part of an effective tax plan is accurately forecasting your RMDs.
- Some people don't need their RMDs to meet their income need. In this instance, RMDs create a tax-efficiency dilemma that needs to be solved.
- Unspent RMDs are fully taxable.
- If you fail to take an RMD it can cost you a 50 percent tax penalty which, combined with your current tax rate, could result in a massive tax bill.[14]

RMDs apply to qualified accounts only. Qualified accounts are subject to special tax treatment (tax-advantaged treatment).

- Traditional IRAs, 401(k)s
- This means Roth accounts and non-qualified retirement accounts are not subject to RMDs

The IRS calculates your life expectancy by looking at the Uniform Lifetime Table, which was recently updated to conform to our new, higher life expectancies. (It hadn't been updated since 2002.) This table calculates the number of years that you have left to pay the taxes you owe on this amount of money. Withdrawal rates increase as you get older.

[13] How income affects your Medicare prescription drug coverage premiums, Medicare.gov, January 2023, https://www.medicare.gov/publications/11469-income-and-drug-premiums.pdf Accessed 5/6/2024.
[14] Retirement Plan and IRA Required Minimum Distributions FAQs, IRS.gov, March 2023, https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs#:~:text=the%20required%20deadline%3F-,(updated%20March%2014%2C%202023),timely%20corrected%20within%20two%20years Accessed 5/6/2024.

NEW UNIFORM LIFETIME TABLE						
AGE	UNIFORM TABLE RMD FACTOR	RMD AS A % OF ACCOUNT BALANCE		AGE	UNIFORM TABLE RMD FACTOR	RMD AS A % OF ACCOUNT BALANCE
70	29.1	3.44%		96	8.4	11.91%
71	28.2	3.55%		97	7.8	12.83%
72	27.4	3.65%		98	7.3	13.70%
73	26.5	3.78%		99	6.8	14.71%
74	24.6	3.93%		100	6.4	15.63%
75	24.6	4.07%		101	6	16.67%
76	23.7	4.22%		102	5.6	17.86%
77	22.9	4.37%		103	5.2	19.24%
78	22	4.55%		104	4.9	20.41%
79	21.1	4.74%		105	4.6	21.74%
80	20.2	4.96%		106	4.3	23.26%
81	19.4	5.16%		107	4.1	24.40%
82	18.5	5.41%		108	3.9	25.65%
83	17.7	5.65%		109	3.7	27.03%
84	16.8	5.96%		110	3.5	28.58%
85	16	6.25%		111	3.4	29.42%
86	15.2	6.58%		112	3.3	30.31%
87	14.4	6.95%		113	3.1	32.26%
88	13.7	7.30%		114	3	33.34%
89	12.9	7.76%		115	2.9	34.49%
90	12.2	8.20%		116	2.8	35.72%
91	11.5	8.70%		117	2.7	37.04%
92	10.8	9.26%		118	2.5	40.00%
93	10.1	9.91%		119	2.3	43.48%
94	9.5	10.53%		120+	2	50.00%
95	8.9	11.24%				

Source: Updated Life Expectancy and Distribution Period Tables Used for Purposes of Determining Minimum Required Distributions, A Proposed Rule by the Internal Revenue Service on 11/08/2019

$728,000 is the Magic Number

Most people tend to avoid spending the money in their IRA accounts for as long as possible because they want to put off paying the taxes for as long as possible. That's understandable, but if you have too much money in your IRA, it might trigger those unintended side effects.

To prepare for your RMD, there is a mathematically optimum amount to have in your IRA so that your deductions will offset the withdrawal, making those side-effects disappear. Of course, this magic number doesn't take into consideration any pension or Social Security income, but it's a tool that you can use to conceptualize where you should become age 73.

At RMD age, the optimal amount of money to have in a traditional IRA is $728,000.

IRA BALANCE AGE 70.5	$728,000	$24,400 Standard
RMD FACTOR	27.4 (3.65%)	$2,600 Over 65
TAXABLE INCOME	$26,569	$27,000 total

In the table above, the total deductions completely offset the RMD, resulting in no taxes on the RMD withdrawal.

The 4 Big RMD Mistakes

#1 Making cumulative RMD withdrawals from multiple types of accounts.

#2 Having too many and/or forgetting about retirement accounts.

#3 Aggregating RMDs between spouses.

#4 Forgetting about an RMD, or not making one, and not remedying the situation.

#3 Tax-free (Tax-advantaged) Money

While many assets, investments, and policies may call themselves tax-advantaged, not all of them are fully tax-free. Truly tax-free or tax-advantaged investments pass three important tests:

1) They are free from ALL taxes (federal, state, and capital gains).

2) Distributions from a tax-advantaged account will not cause any amount of your Social Security benefit to be taxed.

3) No Medicare charges will occur as a result of distribution from the account.

GOOD TO KNOW: Tax-advantaged investments include: Roth IRAs, Roth 401(k)s, Roth conversions, and Life insurance policies with properly structured cash value accounts.

Roth IRAs

A Roth IRA is one of the simplest and most powerful ways to create tax-free income for retirement. By contributing after-tax money into a Roth IRA, not only can you withdraw that money tax-free at a later date, you can also withdraw the growth (or interest that money gains) tax-free.

Fast Facts about the Roth IRA:

- Individuals can contribute up to $6,500 per year.
- If you are 50 years old or older, the catch-up provision allows you to contribute $7,500 per year.
- Contributions are not tax-deductible like contributions to traditional IRAs and 401(k)s are.
- You can make contributions for a non-working spouse.
- Unlike traditional IRAs, your principal is liquid from the day you start the account.
- The growth of your money is tax-free!
- Distributions are also tax-free.
- The five-year rule applies to Roth IRAs.
- Distributions also do not cause your Social Security benefit to be taxed.
- There are no RMDs on a Roth IRA during your lifetime.
- The decision of how and when to take distributions is up to you.
- Your Roth IRA account can grow tax-free for your entire lifetime.
- Additionally, a Roth IRA can be inherited or passed to a beneficiary tax-free!

Is a Roth Conversion Right for You?

Converting a traditional IRA to a Roth IRA is one way to plan for taxes, allocating more of your dollars for a tax-free income later in retirement when tax rates are likely to be higher. But converting some or all of a traditional IRA to a Roth IRA is a big decision. There are pros and cons to both sides. In the final assessment, the numbers have to make sense and you need to be confident that the decision will benefit your overall retirement plan.

Here are the rules for converting to a Roth IRA:

- There are no income limits or phase outs. Some higher-income earners may not be able to contribute to a Roth account, but they can still qualify for a Roth conversion.
- You must pay income taxes on the converted amount in the year it was converted. For large conversion amounts, partial conversions each year may make sense to keep you in the lowest tax bracket possible.
- A conversion may increase your effective tax rate.

- There is no age limit to convert.

The advantages of converting are primarily twofold:

- You owe no income tax on any future earnings within the account or withdrawals from the account.
- Withdrawals or distributions from the Roth account do not cause any taxation on your Social Security benefit.

AFTER-TAX MONEY DEFINED: The amount of money you have after income taxes (federal and state) have been withheld, to invest, save, or spend.

GOOD TO KNOW: The five-year rule means you cannot withdraw earnings from your Roth IRA for the first five years after the account is created. Your principal is always available, however.[15]

Pension Settlement Options

Pensions are largely a thing of the past. For people who have them, however, there are several things to consider in order to maximize the efficiency of your pension.

Most pensions have several options regarding how and when they are paid out. You should make the most efficient decision for you, depending on your marital status, your life expectancy, and your need for income.

Pension options include:

- Single Lifetime Payout
- Joint Lifetime Payout
- Partial Lump Sum with Lifetime Payout. The lump sum is rolled over into an IRA.
- Take a payout and use it to buy a life insurance policy to replace the lump sum with a death benefit.
- Lump Sum

Pensions can provide a reliable stream of income that helps alleviate the stress on your other assets. If used incorrectly, however, pensions can create a tax burden that could damage the efficiency of your income plan.

- Pension income is taxed as normal income. Receiving income from a pension may put you above the provisional income threshold, causing you to pay taxes on more of your Social Security benefits or other sources of income.
- Taking a lump sum payout from a pension and rolling it into an IRA can give you more control over how and when you receive the money.

[15] Publication 590-B, IRS.gov, 2023, https://www.irs.gov/publications/p590b#en_US_2020_publink100035552 Accessed 5/6/2024.

- A lump sum payout from a pension in an IRA can be converted to a Roth IRA, positioning it for tax-free growth and distribution. Converted funds taken as income will also not cause your Social Security benefits to be taxed.
- Converting a pension to an IRA can also mean your pension money will be inherited instead of disappearing with you when you pass.

PROVISIONAL INCOME THRESHOLD DEFINED: Provisional income, as defined by the IRS, is the sum of your wages, taxable and nontaxable interest, dividends, pensions, self-employment income, and other taxable income plus 50 percent of your annual Social Security benefits.

GOOD TO KNOW: On a federal level, all pension payments are taxed as ordinary income in the year they are received.
On a state level, 15 states do not tax pension income: Alabama, Alaska, Florida, Hawaii, Illinois, Iowa, Mississippi, Nevada, New Hampshire, Pennsylvania, South Dakota, Tennessee, Texas, Washington, Wyoming.[16]

Can Life Insurance Help Me Retire?

Life insurance policies are more versatile now than for generations past. There are several types of policies, all with different goals, benefits, and options. Some policies can be leveraged to generate tax-free retirement income while also providing a death benefit.

Life Insurance Retirement Plans (LIRPs)

- Policies used for generating retirement income use a minimum death benefit (the smallest allowed by the IRS to qualify), while maximizing the amount of money contributed into the cash accumulation account (the most allowed by the IRS).
- Many LIRPs can also set up to pay advanced death benefit payments for long-term care costs, such as nursing home stays.[17]
- A LIRP may be structured to pay taxes on distributions from IRAs and RMDs while also creating tax-free income.
- Anyone who qualifies can create a LIRP.

How Do LIRPs Work?

IRS Code 7702 allows tax-free accumulation and tax-free distribution within specific life insurance programs. This allows insurance companies to design policies that minimize life insurance costs and fees and at the same time maximize cash accrual and growth. These policies also pay out a tax-free death benefit to your family.

[16] Washington, Katelyn, 15 States That Don't Tax Pension Income, Kiplinger Personal Finance, 2024, https://www.kiplinger.com/retirement/601819/states-that-wont-tax-your-pension Accessed 5/6/2024.
[17] Hughes, Rick, Are You Planning For Long-term Care?, Forbes.com, March 2018 https://www.forbes.com/sites/impactpartners/2018/03/27/are-you-planning-for-long-term-care/?sh=3738aeb50006 Accessed 9/30/2021.

LIFE INSURANCE DEFINED: Life insurance is a contract between an insurance company and a policy owner in which the insurer guarantees to pay a sum of money to one or more named beneficiaries when the insured person dies in exchange for premiums the policyholder pays during their lifetime.[18]

GOOD TO KNOW: One of the easiest and most efficient ways to access the accumulated cash from a life insurance policy's cash value account is through a loan. The insurance company allows you to borrow against the value of your policy. The loan amount accrues interest until it is paid back in full. (usually from the death benefit amount). This allows you to access your accrued cash and any growth it experienced tax-free.

Summary

- The 3 types of money are taxable, tax-deferred, and tax-free (tax-advantaged).
- If taxes are higher in the future (which they are likely to be), balancing the types of accounts you have can help you reduce your tax bill.
- Keeping a low enough balance in your tax-deferred accounts will help you offset RMDs with standard deductions and personal exemptions.
- The rest of your investments should be placed in tax-free accounts for maximum income efficiency.
- To be a truly tax-free investment, it must be exempt from all three types of taxation.

COURSE LAB: SESSION 2I

Calculate the year you will be required to take your RMD. You generally must start taking withdrawals when you reach age 72 (73 if you reach age 72 after Dec. 31, 2022).[19] If your spouse will also have an IRA, please list that year, too. If you are already taking your RMD, please list the year you started making withdrawals.

Year I will be required to take withdrawals from my IRA:_____

Year spouse will be required to take withdrawals:_____

Year I started taking out withdrawals from my IRA:_____

Year spouse started taking out withdrawals:_____

[18] Fontinelle, Amy, Life Insurance: What It Is, How It Works, and How To Buy a Policy, Investopedia, 2024, https://www.investopedia.com/terms/l/lifeinsurance.asp Accessed 5/6/2024.
[19] IRS, Retirement plan and IRA Required Minimum Distributions FAQs, March 2024. https://www.irs.gov/retirement-plans/retirement-plan-and-ira-required-minimum-distributions-faqs Accessed 5/6/2024.

SOCIAL SECURITY

Social Security is a major source of most people's retirement income.[20] Even though many people rely on Social Security benefits, not everyone knows how to (or takes the time) to maximize their benefit so they can get the most out of it.

When Should I Apply for Benefits?

The decision to apply for your Social Security benefits should be a well-informed one. There is a lot of misinformation and myths out there about when and how you can apply. Part of the reason for this is because the Social Security Administration cannot give advice about how and when to apply for benefits.

- The decision to apply for benefits should be a personal one based on your particular circumstances, goals, and information. You should take the time and find the resources to properly evaluate when and how to apply for your benefits.
- Social Security benefits are guaranteed for life. They also include cost of living adjustments that increase over time to keep up with inflation.
- Delaying your benefit increases the amount of your monthly check. Part of maximizing your benefits is determining what the right age to file for you is.
- Many retirees claim their benefits at an earlier than optimal time.

SOCIAL SECURITY BENEFITS DEFINED: Benefits in the form of payment made to retirees, disabled people, and to their spouses, children, and survivors who qualify.[21]

GOOD TO KNOW: If you wait past your FRA to file, your Social Security benefit no longer increases past age 70.

AGE	BENEFIT %	BENEFIT $
62	70%	$1,400
63	75%	$1,500
64	80%	$1,600
65	86.7%	$1,734
66	93.3%	$1,866
67	100%	$2,000
68	108%	$2,160
69	116%	$2,320
70	124%	$2,480

*** BASED ON $2,000/MONTH BENEFITS**

FULL RETIREMENT AGE

Benefit $2,000/mo.
$24,000/yr.

MINIMUM AGE - 62

Benefit $1,400/mo.
$16,800/yr.

MAXIMUM AGE - 70

Benefit $2,480/mo.
$29,760/yr.

[20] Social Security Fact Sheet, 2017 https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf Accessed 9/27/2021
[21] Kagan, Julia, Social Security Benefits, 2021, Investopedia.com, https://www.investopedia.com/terms/s/social-security-benefits.asp Accessed 9/27/2021

Why is Social Security so Important?

Social Security is a guaranteed lifetime benefit that increases to keep up with inflation. There is no other investment like it. Using it wisely and maximizing the amount of your benefit will help take stress off of your other investments to provide income. As a result, you can take on lower risk and protect more of your savings from market volatility.

Nearly nine out of ten people age 65 and older were receiving a Social Security benefit as of December 31, 2023.[22]

PRIMARY INSURANCE AMOUNT (PIA) DEFINED: According to SSA.gov, the PIA is the benefit amount a person receives if they choose to file for their benefits at their FRA.

GOOD TO KNOW:

In 2024, an average of almost 68 million American per month will receive a Social Security benefit, totaling about $1.5 trillion in benefits paid during the year.[23]

When Can I File for Benefits?

The window for applying for Social Security benefits is from age 62 to age 70. If you file between the age of 62 and your full retirement age (FRA), then you will receive a permanent reduction in your benefit amount.[24] After your FRA until age 70, your benefit amount will increase by up to 8 percent each year.

- If you were born after 1937, the minimum age you can file for benefits is age 62 and the maximum is age 70.[25]
- If you were born between 1943 and 1954, the current FRA is age 66.
- If you were born in 1957 or earlier, you're already eligible for your Social Security Benefit.

GOOD TO KNOW:

The number of Americans ages 65 and older is projected to increase from 58 million in 2022 to 82 million by 2050 (a 47% increase).[26]

What is the Cost-of-Living Adjustment (COLA)?

Social Security benefits come with a built-in cost of living adjustment. This guaranteed increase in income helps your benefit amount keep up with inflation and the rising cost of living over time.

[22] Social Security Fact Sheet, December 2023, https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf Accessed 5/6/2024.
[23] Ibid.

[24] Starting Your Retirement Credits Early, 2021 SSA.gov, https://www.ssa.gov/benefits/retirement/planner/agereduction.html Accessed 9/27/2021

[25] Retirement Benefits, 2024, SSA.gov, https://www.ssa.gov/pubs/EN-05-10035.pdf Accessed 5/6/2024

[26] Fact Sheet: Aging in the United States, PRB, 2024, https://www.prb.org/resources/fact-sheet-aging-in-the-united-states/ Accessed 5/6/2024.

- Between 1975 and 2023, the COLA averaged 3.8%.[27]
- COLA increased over the last 20 years has been about 2.6%.[28]

COST-OF-LIVING-ADJUSTMENT DEFINED: Adjustments that give claimants of Social Security a way to keep pace with inflation and the rising price of goods and services.

GOOD TO KNOW: According to the SSA, "[COLA] is based on the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the third quarter of the last year a COLA was determined to the third quarter of the current year. If there is no increase, there can be no COLA."[29]

Can I Work and Collect Social Security Benefits?

You can keep working and receive Social Security benefits, but there are some rules and limitations you should be aware of.

- If you are younger than your FRA, there is an earnings limit of $22,320. The Social Security Administration deducts $1 from your benefit payments for every $2 you earn above the annual limit.[30]
- The year you reach your full retirement age, you can earn $59,520 before the Social Security Administration deducts $1 in benefits for every $3 you earn above the limit.[31]
- When you reach your FRA, you can earn an unlimited amount and it will not affect your Social Security benefit. In fact, it may increase your benefit over time as you continue to contribute to the program.

Will My Social Security Be Taxable?

Some retirees will need to pay income taxes on their Social Security benefits if they receive taxable income from other sources. The income thresholds for 2024 are as follows.

If you:

- file a federal tax return as an "individual" and your combined income is
  - between $25,000 and $34,000, you may have to pay income tax on up to 50 percent of your benefits.
  - more than $34,000, up to 85 percent of your benefits may be taxable.

[27] Here's the Average Social Security COLA From 1975 to 2023, Nasdaq, Selena Maranjian, May 2024, https://www.nasdaq.com/articles/heres-the-average-social-security-cola-from-1975-to-2023.

[28] Social Security's COLA could be 3.2% in 2025, Dow Jones, 2024, https://www.morningstar.com/news/marketwatch/20240518260/social-securitys-cola-could-be-32-in-2025.

[29] Latest Cost-Of-Living Adjustment, 2021, https://www.ssa.gov/oact/cola/latestCOLA.html#:~:text=According%20to%20the%20formula%2C%20COLAs,the%20Bureau%20of%20Labor%20Statistics 5/6/2024.

[30] What happens if I work and get Social Security retirement benefits?, Social Security, 2024, https://faq.ssa.gov/en-us/Topic/article/KA-01921#:~:text=You%20can%20get%20Social%20Security,matter%20how%20much%20you%20earn

[31] Ibid.

- file a joint return, and you and your spouse have a combined income that is

  - between $32,000 and $44,000, you may have to pay income tax on up to 50 percent of your benefits.

  - more than $44,000, up to 85 percent of your benefits may be taxable.[32]

EXAMPLE CASE STUDY

Tom and Alice receive $40,000 per year in pension income and have annual RMDs of $30,000 from their IRAs. Half of their Social Security benefits are $20,000 annually. All told, their provisional income is $90,000 per year.

This amount exceeds the married filing jointly threshold by $46,000. That means that 85 percent of their Social Security benefits are taxed at their highest marginal tax rate. The couple is in the 22 percent tax rate, which makes their Social Security tax bill $7,480 per year.

To make up for the $7,480 deficit, Tom and Alice drew that money from their IRAs each year. To get the net amount after taxes, they needed to withdraw $9,589.

The annual cost of their Social Security taxation was $9,589.

Over the long-term, however, if that $9,589 remained in their IRAs, it could have continued to grow tax deferred. Since this amount needs to be withdrawn each year, the loss is compounded over time.

Additionally, as the cost-of-living adjustment on their Social Security benefits increases, so does the taxation. In turn, they will need to take more money from their IRAs to compensate. This could easily add up to hundreds of thousands of dollars of lost assets.

MAGI DEFINED: Your Modified Adjusted Gross Income (MAGI) is your adjusted gross income with deductions and tax-exempt interest added. Your MAGI is important because the IRS uses it to determine your eligibility for tax credits and deductions.

GOOD TO KNOW: While going directly to your Social Security office to get filing advice might seem like a good idea, employees are trained to maintain a neutral stance on claiming decisions.
To help you decide when to file, various entities from government agencies to for-profit companies have developed free, online benefit calculators and tools, but research finds that only 30% of the online tools succeeded in providing adequate advice while 70% provided inaccurate, ambiguous, or unclear advice.[33]

When Electing Social Security Benefits

There is no perfect equation for determining how to maximize your Social Security benefit—primarily because no one knows when they will die. If you knew your lifespan, you could easily make the most efficient choice. Without that information, you need to consider the following variables:

[32] Income Taxes And Your Social Security Benefit, SSA.gov, 2021, https://www.ssa.gov/benefits/retirement/planner/taxes.html Accessed 9/27/2021.

[33] Ibid.

- All of your retirement assets and how they affect your overall income and tax situations.
- Pension income.
- Your full retirement age.
- Your life expectancy and your personal health.
- The rate of inflation and COLA.
- Your marital status.

Remember, when considering your Social Security benefits as part of your income plan, it is the net amount you keep after taxes that matters, not the number on your statement.

GOOD TO KNOW:

The earliest you can receive Social Security benefits is age 62, but you can apply as early as age 61 and 9 months. You will receive your first payment four months later in the month after your 62nd birthday.[34]

Reminder: Social Security taxation thresholds stay unchanged, but permanent TCJA brackets affect how much benefits are taxed. Survivors may face higher effective rates under the fixed long-term brackets.

What is My FRA?

If you were born in 1954 or earlier, you're already eligible for your full Social Security benefit. The full retirement age is 66 if you were born from 1943 to 1954. The full retirement age increases gradually if you were born from 1955 to 1960. For anyone born 1960 or later, full retirement benefits are payable at age 67. The following chart lists the full retirement age by year of birth.

AGE TO RECEIVE FULL SOCIAL SECURITY BENEFITS	
YEAR OF BIRTH	FULL RETIREMENT AGE
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 AND LATER	67
Note: people born on Jan. 1st refer to the previous year	

Source: Starting Your Retirement Benefits Early, Social Security, https://www.ssa.gov/benefits/retirement/planner/agereduction.html

[34] When To Start Benefits, SSA.gov, 2022, https://www.ssa.gov/help/iClaim_startBenefits.html Accessed 5/6/2024.

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