Consider This Program

Episode Date:

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On This Show:

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Show Notes:

Topics include:

- Myths in the Financial World, My taxes will be less in retirement
- Myth: It makes no difference when you take social security
- Myth: It's in the Will
- Myth: Why contribute to a Roth IRA the year you retire

Myths in the Financial World: *Things that are just really not so.*

Conversation 1:

Myth 1: "My taxes will be less in retirement."

It depends on how you diversify your taxes.

Be careful with tax-deferral.

1. They withhold money from your paycheck.

a. What you pay & what your employer pays - depends on your income level.

i. This goes away when you retire.

2. When you retire, many have to pay quarterly estimates.

Some are in a lower tax bracket when you turn 70 because of RMD's.

Do I want to reduce my standard of living?

Conversation 2:

Myth 2: "It makes no difference when you take Social Security."

1. People will wait until they are 70.5 years old to take money out of IRA's & 401(k)'s

a. Either you don't need the money, have so much that you can't imagine taking it out, or don't want to run out of money.

2. Some take Social Security as soon as they can at age 62.

Full Retirement Age (FRA) - Go to https://www.ssa.gov/ to find out yours!

*Ex) Full Retirement Age of 67, $200 a month if you wait. If you take it at 62, you lose 6% of the value per year for the rest of your life, plus any cost of living allowances that would be added. If you wait until 70, you actually gain 8% each of those three years (from age 67 to 70). **As of when this radio show was aired***

Avoid Silo Thinking - don't make Social Security decisions in the form of a Silo (consider all the factors together).

Largest financial decision of your life? Buying a home? *SOCIAL SECURITY!*

Conversation 3:

Myth 3: "It's in the will."

Only the things that make it to the will are covered.

*Pour-over will: Anything forgotten goes into the will.

1. Largest asset: the amount of money that's in your 401(k) or IRA.

a. Your 401(k) or IRA has a beneficiary.

i. It doesn't matter what the will says! It doesn't matter what the trust says! The beneficiary tells the money where to go!

1. Designated Beneficiary

ii. If it is set up correctly, your will or trust can say where your 401(k) or IRA money will go.

1. A custodian has to agree.

Conversation 4:

Myth 4: "Why contribute to a Roth IRA the year you retire?"

1. You have to have earned income to contribute to a Roth.
2. At any age, you can always get a Roth contribution back.

Ex) There is a couple retiring at 60 with no debt, a reasonable budget, $1,200,000 in saved & accumulated assets, and they've built tax diversification. They have $700,000 that is tax-deferred, $300,000 in a Roth IRA, and $200,000 in cash.

1. Bracket-bump

a. You can have $104,000 income, married filing jointly, & stay inside the 12% bracket in Indiana. 10% to 12% to 22% (In 2025, 12% goes to 15% & 22% goes to 25%.)

i. With the example given, they invested correctly, but the trouble will be with taxes.

1. They want to take out every dollar from their tax-deferred account up to that 12% bracket. (Someone, either them or their heirs, will have to pay taxes & probably at a higher rate.)
2. If you want to take out $10,000 (and you didn't plan on it), you should take it out of the IRA or the accumulated cash because it

would be taxed at 22% if it were taken out of the tax-deferred account.

Build tax diversification so you can defend yourself against tax decisions that you can't control!

1. Some people have multiple accounts (with multiple advisors), which is very inefficient!
2. Some people will not touch the IRA because they don't want to pay taxes - but you should pay taxes at a lower bracket if you can!

Conversation 5:

Wrap-up!

Debunking myths:

1. "My taxes will be less in retirement."
2. "It makes no difference when you take Social Security."
3. "It's in the will."
4. "Why contribute to a Roth IRA the year you retire?"

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Disclaimer: Joseph Clark is a Certified Financial Planner™ and the Managing Partner of Financial Enhancement Group, LLC an SEC Registered Investment Advisor. He is the host of "Consider This" found on WIBC Saturday mornings from 6-7a.m. as well as three other Indiana-based radio stations. Joe has served as an Adjunct Assistant Professor at Purdue University where he taught the capstone course for a degree in Financial Counseling and Planning.

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