Thank you ___ for the introduction. What you didn’t hear in my bio and what you don’t see on this screen is that I am not a CPA, a financial planner, an estate attorney, or any other type of certified financial individual. I will be selling you nothing and promoting nothing. I do not need any disclaimers. What I am certified as is a computer professional and an IRS-certified volunteer tax preparer for the AARP Tax-Aide program which all of you are entitled to use for free whether a member of AARP or even younger than AARP’s membership threshold. Who you have standing in front of you is an old guy who has lived through much of this and may be able to answer your questions before you live through it too. That is why I have targeted the class for those under age 65. However, if you are over 65, hopefully, you will glean something from this course as well. Possibly you have already made some of these irreversible decisions too and might pick up some knowledge of how to possibly steer differently going forward.

While I have taught this course for several years, I have re-structured it based on both new knowledge and feedback from prior attendees. So, this is version 3.0 that you are receiving today and next week. I would appreciate your feedback as well, at the end of the two sessions, by completing the evaluation form and letting me know what you liked and what you didn’t like. You won’t hurt my feelings. And please let me know if your own research or knowledge determines if something I’m saying is factually wrong. Maybe when I teach this at RR the first week of November, it can be version 3.1.

Also, I like my classes to be interactive. I prefer teaching in person because I can see hands being raised or people just getting my attention through some other method. I do ask that
while you may have a burning personal question about your unique situation, please try to keep your questions during class general enough to appeal to all the participants. You can call or write me later if you have highly personal questions that are unique to your situation or stay after class and see if we can get it answered. I put my email and cell number here with reservation. I prefer emails first, texts second, and phone calls last.

So, I want to start first with three questions:

1. How many of you are not yet retired?
2. How many of you are not yet receiving SS income?
3. How many of you have not yet registered for Medicare?

OK, that helps me understand my audience. I’ll probably be asking more questions as we proceed, but there will be no scoring of your answers and no grades will be given, keeping with OLLI’s promise to all of you.
I am basing this course on three major topics and multiple sub-topics. The three major topics are: Retirement Income, Healthcare in your senior years and how will you pay for it, and Taxes (basically, what will be different in your retirement years).

My goal for today is to finish all the types of retirement income, and next week discuss Healthcare and Taxes. However, I'm flexible. If your questions or comments require additional time, we'll break at another appropriate point. Or if I'm perfectly clear or you're totally bored and your questions are minimal, we might get into bullet 2 before our 90 minutes are over. I will specifically break when I'm switching talking points to ask if there are any questions or comments, to minimize some interruption.

To start off with, is there any topic that I haven't listed, that someone thought I might be covering in this class? If so, ask, and if I'm not already covering it, I'll see what I can gather before our session next week.

Is there anyone here who likes taking notes? If so, could I ask you to jot down anything that comes up that I need to follow up. I don't want to miss anything, because this course is to answer any questions you have or help with any decisions you will be making.

If you're ready, let's move onto SS and see what we can learn about that subject.
Social Security Benefits

- **Retirement (Age 62-70)**
  - FRA – Full Retirement Age
  - TRS – Teacher Retirement System / other gov. pension reduction
- **Widow/er (Age 60+, 50+disabled, w/child <16 or disabled)**
- **Dependents (Child<18, child<20 & full-time prim./sec. student, or disabled before age 22; limited to 2x FRA)**
- **Divorcee – 62+, married for 10 years, unmarried for 2**
- **Disability – Administered by SSA (Gen. Fund Expense)**

You can begin collecting social security retirement benefits anytime between age 62 and age 70 if you have 10 full years (40 quarters or credits) of SS-based income. You must apply to the SSA for benefits, nothing triggers it automatically, unless you are already on disability. In that case, you will transfer automatically at your FRA, and will basically see no change in your payment. If you start receiving retirement benefits before your Full Retirement Age (FRA), your benefit will be reduced. If you start after your FRA, you will receive an increased benefit. However, there is no advantage of starting after you are 70 as you will get no additional increase. If you apply for benefits after your FRA, you can start receiving benefits effective immediately or up to six months in arrears. On the next slide we’ll discuss FRA more fully.

If you are covered by a teacher’s pension system or other government pension system, like RR, that exempted you from paying into SS, and you also have enough SS-based quarters to qualify for SS benefits, those benefits will be reduced based upon what you are receiving from your other pension. Since you “voluntarily” opted out of SS, you can’t receive SS for those years of earnings. The formula for all of this is complicated and beyond the time I have in this course. You may get a small SS benefit or nothing. This is to prevent double-dipping caused by the SS formula used to provide higher benefits to lower income individuals. More about this in a future slide.

If your spouse dies, you can receive benefits on your deceased-spouse’s record as early as age 60; or as early as age 50 if you are disabled. Also, if you still have children that are under the age of 16, you can receive benefits before age 60 up until your youngest child turns 16. Your benefits will then stop and will resume when you turn age 60. If you have a disabled child of any age, you can receive benefits. These benefits will continue until your FRA when you will automatically be switched from disability or dependent benefits to retired benefits.

In addition to you receiving benefits, when your spouse dies, your children can also receive benefits up until the age of 18 or if they are in primary or secondary school full-time, up until the age of 20. The total benefit paid to the family cannot exceed twice the FRA benefit accrued by the deceased spouse.

If you are divorced but were married for at least 10 years (to one or more spouses) but have not been married to your spouse for at least two years, then you may qualify for divorced benefits if your ex-spouse is eligible for SS benefits (whether or not your ex-spouse is actually collecting benefits).

If you become disabled before you reach retirement age, you can collect disability payments from the federal government equal to your SS FRA benefit. These disability payments come from the general fund of the US Treasury, but are administered and paid by SS. However, they do not come out of the SS Trust Fund. When you reach FRA, your disability payments will cease and you will be automatically enrolled in SS, and your payments will continue. Because this is a seamless transaction, most people almost don’t realize they have converted from disability payments to SS payments. However, you do, and there may be tax implications as a result. Disability payments may be fully taxable, while SS benefits are not fully taxable. More explanation of that when we discussion taxation in the next session.

Because SS has been tasked with paying the Disability benefits, you will hear many seniors complaining that all these “lazy” people fooling the government that they are disabled are draining the SS trust funds. That is BS – pardon my French. Disability benefits are paid from the General Fund, not the social security trust fund, and you must be disabled enough to not be able to work at any job, not just the type of job you used to do or would have liked to have done. So just these complainers not to waste your time and go complain somewhere else. You are in the know.

In all the information I have provided above, please note that I have said spouse, not wife or husband. I’m not trying to be politically correct. I want you to know that SS is gender neutral. While we might think it is the wife who is collecting benefits on the husband’s account, it can be the husband collecting on the wife’s account. SS doesn’t care who is the...
higher income earner, or who is dependent on whom. Either one could be the stay-at-home parent to raise or home-school the children or taking care of the aging parents.
The year you were born determines your Full Retirement Age for SS purposes. The younger you are, the longer you’ll need to wait to collect full SS benefits. If you were born in 1960, your FRA won’t be until the first of the month in which you were born in 2027. However, since you can take early retirement as early as age 62, you have or will qualify in your corresponding month here in 2022.

Also, pay attention to the note at the bottom of the slide. The government always assumes you have attained any age the day before your birthday. Your birthday is the first day of your new age. Therefore, if you were born on January 1st, 1956, you turned 66 on December 31st, 2021, not January 1st, 2022. The same holds true if you were born on the first of any month. You reached the appropriate age on the last day of the preceding month. Therefore, you qualify for SS benefits one month earlier than anyone else born later that month.
I realize this slide is too small to read easily, so if you have my handout or are viewing my handout on your computer, you may be able to enlarge to see it more easily. As was stated earlier, you can begin taking your SS benefits as early as age 62 or as late as age 70. What is the best decision for you? That depends!

- Are you healthy or have you been diagnosed with a terminal disease?
- Does your family have a history of longevity or a history of early demise?

This chart shows what the SS benefit payout would be for a person whose FRA is 66.
- If the person starts SS payments at 62 and lives to age 76, they would receive less in lifetime benefits then if they waited until age 66. However, if they died before age 76, they came out ahead (but, of course, may not know it).
- Likewise, if they start their benefits at 66, and live to age 82, they would receive less in lifetime benefits then if they waited until age 70.

Actuarily, SS is set up to pay out the same benefit no matter whether you take benefits early, on time, or late. It is just that few of us will leave this earth exactly when the actuarial tables predict.
### Full Retirement, Age 62, & Age 70

**Benefit By Year Of Birth**

<table>
<thead>
<tr>
<th>Birth Year</th>
<th>FRA</th>
<th>Months from age 62 to FRA</th>
<th>At Age 62</th>
<th>Age 70</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>1000 benefit reduced to</td>
<td>Retirement benefit is reduced by</td>
</tr>
<tr>
<td>1943-54</td>
<td>66</td>
<td>48</td>
<td>$750</td>
<td>25.00%</td>
</tr>
<tr>
<td>1955</td>
<td>66</td>
<td>50</td>
<td>$741</td>
<td>25.83%</td>
</tr>
<tr>
<td>1956</td>
<td>66</td>
<td>52</td>
<td>$733</td>
<td>26.67%</td>
</tr>
<tr>
<td>1957</td>
<td>66</td>
<td>54</td>
<td>$725</td>
<td>27.50%</td>
</tr>
<tr>
<td>1958</td>
<td>66</td>
<td>56</td>
<td>$716</td>
<td>28.33%</td>
</tr>
<tr>
<td>1959</td>
<td>66</td>
<td>58</td>
<td>$708</td>
<td>29.17%</td>
</tr>
<tr>
<td>1960 +</td>
<td>67</td>
<td>60</td>
<td>$700</td>
<td>30.00%</td>
</tr>
</tbody>
</table>

This chart shows the effect on your social security benefit based upon whether you choose to begin receiving your SS benefit at full retirement age, or early at age 62, or delaying all the way until age 70. Please realize that you can begin benefits any month between age 62 and age 70, with corresponding increase or decrease. This chart is just showing those exact three ages based upon a $1000 benefit.

Don’t look at this chart and assume that if you are younger, and therefore have a later FRA, that you are getting less than an older person. Someone might jump to that conclusion. This whole chart is based upon a $1000 benefit. Because you are younger, you entered the SS system later and probably at a higher salary, just using inflation as a guide. While the 66-year-old might have a $1000 benefit, the 67-year-old might have an $1100 benefit. So, the increase of 24% on an $1100 benefit is $1364, vs. the $1320 shown for the 66-year-old.
Social Security Q&A

- Q1 – Spousal Benefits
- Q2 – Widow(er)s Benefits
- Q3 – Survivor Benefits
- Q4 – Age 70 Benefits
- Q5 – Offset Rules (WEP)
- Q6 – Increases in SS if still working
- Q7 – Returning SS Benefits upon death

Okay, here is a quicky quiz for all of you. If you think you might know the answer, raise your hand. We learn more from wrong answers than we do from correct answers, so don't be afraid to make a mistake. If no one raises their hand, you get joy of hearing me continue to talk.

Q1: I'm 62. My husband is 67 and getting SS. Can I file for spousal benefits on his record and save my own until I'm 70? A: No. You always must file for your own benefits first. Only after you do that can you look to your husband's record to see if you can get any additional spousal benefits. The same is true if the roles are reversed between husband and wife.

Q2: I am 60 and not working. My husband recently died. Can I file for widows benefits now and save my own until I am 70? A: Yes. A widow does not have the same restrictions that apply to a spouse with a living husband (as explained in Q1). You can file for widows benefits now and then switch to 100% of your own at 66 or 132% of your own at 70.

Q3: If I die, what will my wife get? A: The answer depends on several factors. But assuming you die well after your FRA, and assuming your wife is over her FRA when you die, as a general rule, she will get what you were getting at TOD. E.g.: You are getting $1800, she is getting $1200, she will get an additional $600.

Q4: I took my benefits at 70, so I get an extra 32% added to my retirement rate. When I die, will my wife's widow's benefit be based on my augmented age-70 rate or on my FRA rate? A: It will be based on your age-70 rate. Just to clarify: A benefit paid to a spouse whose husband is still alive is based on his FRA rate. But a widow's benefit is based on the age-70 rate (assuming the husband waited until 70 to claim his benefits).

Q5: I did not pay into SS. I get a teacher’s pension from TX of $3,800/mo. My husband gets SS. He gets $2,200/mo. When he dies, why won’t I get widows benefits on his record? A: If you were getting a SS retirement benefit of $3,800/mo, you would not get widows benefits because your own benefit would offset anything you would be due as a widow. The same offset rules apply to other non-SS government pensions. In SS speak this is called the Windfall Elimination Provision (WEP)

Q6: I'm already getting my SS, but I'm still working. Will my additional income and the taxes I'm paying increase my SS check? A: It depends. Your original benefit was based on your average monthly wage using your highest 35 years of inflation-adjusted earnings. If the earnings you have now are higher than the lowest i-a year used in your original computation, the SSA will drop out that lower year, add in the new higher year and adjust your benefit accordingly. But don't expect a windfall. Your benefit might go up by $10-20/mo for a year of good earnings.

Q7: When my father died, why did we have to return his last SS payment? A: Several rules come into play here. First, SS benefits have never been prorated. Second, benefits are always paid one month behind. And third, the law says you must live an entire month to be due a SS payment for that month. Quick example: John does on April 24. The payment that comes in May (for April) must be returned. This assumes notification did not get to the SSA prior to issuing that next payment. If it did, you won't receive it and won’t have to return it.

That's the downside to the lack of proration. But there are two upsides. One, when you start your benefits, your benefits are paid for the full month even if your birthday was on the last day of the month. Two, if John left a widow, she would get widows benefits for whole month of April, even though she was a widow for only six days of the month.
If you choose to start collecting SS benefits before your FRA, you will have $1 in SS benefits deducted for each $2 earned above $19,560. In the calendar year in which you reach your FRA, you’ll have $1 in SS benefits deducted for each $3 earned above $51,960 up until the month you reach your FRA. Anything earned after you reach FRA will not impact your SS benefits. If you don’t anticipate earning $51,960 by the month of your FRA, just show your monthly or annual earnings below the limit that would cause them to trigger a reduction. In that way, you’ll get your full benefit for those early months in the year. I believe an adjustment is made after the close of the year to correct underage or overage situations.
**Estimated Average Monthly SS Benefits Payable in 2022**

<table>
<thead>
<tr>
<th></th>
<th>Before 5.9% COLA</th>
<th>After 5.9% COLA</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Retired Workers</td>
<td>$1,565</td>
<td>$1,657</td>
</tr>
<tr>
<td>Aged Couple, Both Receiving Benefits</td>
<td>$2,599</td>
<td>$2,753</td>
</tr>
<tr>
<td>Widowed Mother and Two Children</td>
<td>$3,009</td>
<td>$3,187</td>
</tr>
<tr>
<td>Aged Widow(er) Alone</td>
<td>$1,467</td>
<td>$1,533</td>
</tr>
<tr>
<td>Disabled Worker, Spouse and 1+ Children</td>
<td>$2,250</td>
<td>$2,383</td>
</tr>
<tr>
<td>All Disabled Workers</td>
<td>$1,282</td>
<td>$1,358</td>
</tr>
</tbody>
</table>

This chart is simply an example of how the impact of Cost-of-Living increases potentially affect SS benefits each year. For 2022, the COLA increase was 5.9%. For 2023, it is anticipated to be between 8-10%. They have ranged anywhere from 0% to 5.9% in the last ten years. And in the early 80s COLA was as high as 14.3% due to the hyperinflation at that time. We think we have high inflation now, but we are not there yet, and hopefully won’t be.

Now, please understand that the SS system was built by Congress to give beneficiaries a larger percentage replacement of their wages for lower income workers, and a smaller percentage replacement for higher income workers. I believe low-income workers can get like a 90% replacement of their wages, while a high-income worker might only get 25%. However, high income workers will always get a higher SS benefit then a low-income worker, but the percentage replacement of their wages will just be smaller.

- January 2013 -- 1.7%
- January 2014 -- 1.5%
- January 2015 -- 1.7%
- January 2016 -- 0.0%
- January 2017 -- 0.3%
- January 2018 -- 2.0%
- January 2019 -- 2.8%
- January 2020 -- 1.6%
- January 2021 -- 1.3%
- January 2022 -- 5.9%
Earlier I said I would talk about the taxation of SS benefits, so let me do that now.

SS may or may not be taxed depending on how much other income you are receiving. For single folks, SS starts being taxed when half of your SS income plus all your non-SS income exceeds $25,000. Likewise, for married couples that is true when your combined income reaches the $32,000 mark.

Once you cross the $25,000 (single) or $32,000 (married) threshold, part of your SS will be taxed. For single folks, the next $9,000 of income will cause 50% of your SS income to be taxed, and once you cross the $34,000 mark, 85% of your SS income will be taxed as ordinary income. Likewise, for married folks, this begins at $32,000, causes 50% to be taxed for the next $12,000 of income, and finally is taxed at 85% when you cross the $44,000 threshold.

So, what does this mean? It means that if you can avoid mixing SS income with ordinary income, you will save on your taxes as you begin using your available SS benefits. It also means that if you need to draw on your SS while using other “ordinary” income sources, use those sparingly and supplement with tax free income to keep yourself in lower tax brackets. We’ll discuss this further in a couple of slides when we discuss all sources of retirement income.
I started with Social Security because I think it is the most important topic that we need to understand as we move from receiving a regular paycheck and into the uncharted waters of retirement because once you make your decision, you are somewhat locked in for life. There is a 12-month window in which to change your mind, but I have no experience with that. I would do my homework first before filing.

If you have not already done so, I encourage you to set up your own account on SSA. You don’t have to be receiving benefits to use this account. You could be using it now to help you plan when you might want to retire, or when you might want to begin collecting SS benefits whether you plan to retire or not. You have probably paid into SS sometime during your working life even if you are a teacher, first responder, or some other type of government employee.

Since you have a social-security number, you have a relationship with the SSA, therefore, set up access to their web portal so you can check on what they already know about you. This is the easiest way to get personalized information about yourself and will allow you to project what your future social security benefit will be. If you are married, please encourage your spouse to set up access also. You each need to have your own. SSA does not allow any cross-fertilization of information between two accounts.

Both you and your spouse should be able to access each other’s account. I would suggest using the same password for both of your accounts, so it is easy for both of you to access. Think about the horrible situations that arise as a result of dementia or sudden death. You can always change your password if your relationship goes south, but I hope that doesn’t happen.

You can also set up portal access for your kids, but that is a topic outside the scope of this class.

In addition to the SS portal, you can talk with a live human being, by calling their national 800 number shown in the first bullet or visit one of their local SS offices when you have time to spare. The offices reopened as of April 7th. If you visit an office, you may not get in and out quickly, so make sure you don’t have any pressing appointments, get their early, and bring some interesting reading material with you. I will guess that when you talk to someone, they will be knowledgeable and helpful. At least that is my experience visiting three different offices in three different parts of the country as my wife and I have moved around and had to deal with SS for our parents and ourselves.

Finally, every Sunday in the DMN, in the Metro section is a special sub-section for Seniors. In the center of that spread is a Q&A column written by Tom Margenau. He is a retired 32-year employee with the SSA. Some weeks he may be talking about your situation, other weeks he may not. But it is always good to read, especially if you’re speaking with others your age who have questions or complaints about SS. You just might have a knowledgeable answer to share with them. The seven questions and answers I shared earlier were from one of Tom’s earlier newspaper columns. Let me read to you this past Sunday’s column and you can the type of questions that Tom answers for his readers. He also has several books available that you can get from Amazon if you desire. I have shown one of them on this slide.
Finally, here are some helpful web addresses and major phone number for the Social Security Administration.

So, this is what I wanted to share with you about SS, are there any questions before we move on?
OK, now that we have SS under our belt, let’s look at how SS should blend in with our other retirement income. I told you earlier about the tax implications of when and how SS is taxed in relationship to other retirement income. So, let’s look at all our sources of retirement income.

When I began my working career and started budgeting with my new bride and soon to be growing family, I was encouraged to not only plan on having income from SS to live on, and pension income if I worked for an employer that provided such, but also to put aside a percentage of my income and to grow that percentage as my career progressed.

It was sound advice, but somewhat soft on specifics, and certainly unknowing of what changes Congress would be making to create savings vehicles and taxation changes that would constantly require a person to tweak their planning to make sure they felt they had adequate resources to finance their retirement. And while this was sound advice, I can’t specially recall receiving any advice as to how to use all these different types of assets once I retired. Therefore, I have made mistakes along the way, and this created the thought for creating this course to help others not fall into the same traps I did.

The six bullets I have placed on this chart are my recommended “spend-down” plan if you have several of these types of assets. You should take my recommendation with a grain of salt, as this may not work for you. But hear me out, and then tweak this list or add to it for your personal situation.

The first bullet I show is probably not for most people. It probably applies to folks who owned their own companies, or those who reached the higher echelons in corporations that allowed the deferral of income to lower their tax liability during their working years. I saw this mostly in shareholder documents touting the benefits corporations provided their board members and folks in the C-suite, but never provided to working folks other than through 401Ks, etc. However, if you were blessed with that situation, then since this money will start flowing in at some point, you would probably use this first, in lieu of the paycheck you are no longer receiving. Since I never received this type of potential income, I can offer no further advice on this matter.

I will continue to talk to the next four bullets on future slides but let me cover the last bullet now. If you have prepaid your Long-Term Care or possible even Life Insurance premiums on an annual basis, normally just to get a lower charge then paying monthly, your estate is entitled to a refund of those “future premium payments”. When your next of kin notifies these organizations of your demise, they should request a refund of unused premiums, in addition to whatever benefits the estate might be receiving upon your death. This is a small nit, that won’t be a whole lot of dollars, but no sense leaving money on the table when you’re no longer in the
poker game, as they say.

I also want to state before continuing, that this course is not trying to address how to provide for heirs or how to leave legacies for your children. This course is to share with you how to use your assets in the most tax-friendly way possible for the average person who doesn’t have a high-price tax attorney working for them to shelter their assets to pass onto future generations. If you are fortunate enough to be in that league, you may be wasting your time during the three hours of this class.

I must also state the obvious, that no two of our situations are the same. We all have different family situations and different asset situations that we are dealing with. Hopefully, you will be able to adapt what I am sharing with you for your own personal life and future.
Pension Payout Options

- If you have a pension plan with your employer or former employer, you need to determine what payout options are available to you. Choices could include:
  - Lump Sum (would need to reinvest to continue income stream)
  - 100/100 Joint Life Annuity (lowest monthly payout)
  - 100/75 Joint Life Annuity (lower payout after death)
  - 100/50 Joint Life Annuity (ditto)
  - Single Life Annuity (highest monthly payout)
  - 10-Year Guaranteed Term (even if annuitant dies)
  - 5-Year Guaranteed Term (ditto, higher monthly)

Okay, let’s look at pensions first. Is there anyone here who is entitled to receive a pension, but has not yet started receiving it?

Since I didn’t ever work for a government entity, especially one that did not participate in Social Security, I really can’t provide any knowledge as to whether government pensions work anyway like corporate pensions. However, this slide shows some pension payout options that were presented to me when I decided to retire and needed to make an irrevocable decision on how I wanted to start receiving my pension.

Normally, once a pension is started, the selection is irrevocable. Your pension basically becomes an annuity of equal payments for a stated time period with or without a possible COLA factor. Also note that if the pension was totally funded by the employer, then as you receive the payments, they will be fully taxable to you in the year you receive the income. You will receive a 1099-R after year-end from the organization that is responsible for providing you your pension. If you and your employer both made contributions to your pension, your pension contribution was most likely done with “after-tax” dollars, and therefore when you receive your pension payments, only the portion funded by the employer will be taxable to you, while the portion funded by you will not be taxable. This should be indicated on the 1099-R that you receive from the pension fund manager and your tax preparer or tax preparation software will need to calculate how much of your pension is taxable and how much is tax free. We can cover the taxation effects on Thursday if any of you have more specific questions on that topic.

While each of the choices on this slide will provide a different amount of monthly income, they are actually identical to basically provide you with the same amount of dollars if you live to the age that you are expected to live to. Do you know when that is? Good luck hitting it on the nose.

So, the choice then becomes, which option should you take. That depends on your health situation, the longevity history you have in your family, how much income you want right now, and how much income you want your spouse to continue to receive if you are married and choose a joint annuity.

Several people I know couldn’t wait for their Lump Sum. This is sort of like winning the lottery and not taking the payment stream. If you don’t have good investing experience, or don’t have a good financial planner or broker, that you trust implicitly is working for your best interest and not theirs, then I would not suggest choosing the Lump Sum option, unless that is all your employer offers.

The other six options are all annuity streams that each have advantages and disadvantages. The 100/100 has the lowest monthly payout of any of options, but will more than likely last the longest, especially if your spouse is younger than you are or healthier than you are.

The 100/75 will provide higher income while the primary annuitant is alive, but the payout will decrease by 25% once the primary annuitant dies. If the spouse predeceases the annuitant, then the 100% will...
continue until the annuitant’s death.

The 100/50 is like the 100/75 but with a higher payout during the annuitant’s lifetime and a 50% reduction upon the annuitant’s death.

The SLA is normally reserved for Single people but can be used by married folks if the spouse declines her rights. This may not be possible in TX since we are a community property state. You would need to talk with someone who knows the law in that regard. This option provides the largest monthly payout of any of these first four options.

The two GT options are also SLAs, but don’t cease upon the annuitant’s death unless the time period has elapsed. Either of these might be used to make sure that a future upcoming expense is covered even if you should pass away during this time period. This might be a good choice for a divorced parent who is trying to cover college costs or paying off a loan that might not otherwise be covered by your estate. The 10-year guaranteed stream, will have a lower monthly payout than the 5-year GT, otherwise these two options are identical in how they work.
That exhausts my knowledge about pensions, so if you have any questions, ask them now, and I’ll see if I have any knowledge hidden away.
Taxable Savings Withdrawals

- Annuities
- Dividends / Bond Interest
- Sale of Stocks & Bonds
- Withdrawal from IRAs, 401Ks, & 403Bs

Moving on to Savings Withdrawals, it is important to differentiate between Taxable savings and Non-Taxable savings. During your working life, if you put money aside that was not taxed when you received it, then those savings become taxable when you start withdrawing them. Likewise, if you save with "after-tax dollars", it isn’t taxed again when you remove it for use later in life. Now there are many rules around all of this, and you must have kept detailed records showing where each of the dollars that you stashed away came from. You all did that, right?

For example, if you put money into an IRA, chances are you took a tax deduction for your contribution if your overall income was below a certain threshold. Therefore, when you remove the money from the IRA, all that money is taxable. However, if you put those same dollars into a Roth IRA, you didn’t claim a tax deduction at the time you put the money in, and therefore, don’t have to pay any tax at the time you take the money out. Is that concept clear? I’ll go into more details on both of those saving scenarios shortly. I just want to make sure you are clear on the concept. Any questions?

Annuities are purchased by folks who want a guaranteed income stream, just like a pension. They take a lump sum of their money, purchase an annuity, and then sit back and get that investment back over a stated period or the remainder of their life. If they don’t live long, it was probably not a good investment. If they live a long life, it was probably a smart investment. However, only the heirs will know, not the person having to make the decision. This is probably a good choice for folks that may be risk averse and worried that their savings may not last their retirement years. I have not personally purchased an annuity, so I cannot share any first-hand advice. I just see the 1099-Rs crossing my desk at the tax office. The money you deposited is returned tax free. The money made off of the investment is taxable income.

You may previously have purchased stocks or bonds. If your stocks are dividend-paying stocks, then you will receive a stream of dividends, most likely quarterly. The amount of these dividends can rise, and fall based upon the whims of the company. They are not guaranteed. The nice thing about dividends is that most of them are probably “qualified” dividends, meaning the stock has been held for more than one year, and therefore receive preferential tax treatment and are taxed at a lower tax rate than your other income.

If you have purchased bonds, either coupon bonds or bearer bonds, you will receive interest on those bonds (generally paid semi-annually). This bond interest is taxable (e.g., corporate bonds) unless the bonds are tax-exempt bonds (normally bonds sold by different government entities).

When you sell stocks and bonds this is a taxable event. If you held these items longer than one year and one day you receive tax preference just like with dividends. If you did not hold these investments for one year, then you will pay “ordinary” tax rates at whatever is your marginal tax rate. Since these funds are taxed at the point they are sold, the cash received from these sales is yours to use without further taxation (unless of course they are reinvested).

When you withdraw money from IRAs, 401Ks, 403Bs, or any other tax-preferred savings vehicle, you then must pay ordinary tax rates on these withdrawals, whether held for one year or not. If when you do so, you are not already being taxed at the maximum on your SS income, making these withdrawals can cause more of your SS income to be taxed, up to 85% as we discussed earlier.

Therefore, the reason I am sharing all of this with you is I want you to realize that if you have savings that will be taxed upon withdrawal and other savings that will not be taxed upon withdrawal, we will talk about shortly, then try to use these taxable savings first, BEFORE you begin collecting SS. Then, once you begin collecting SS, start withdrawing from your non-taxable savings, since those savings withdrawals will not impact the taxation of your SS.
Now, how many questions do I have upon making that statement?
## IRAs

- **Annual IRA deferral limit for 2022** is $7,000 (> age 50)
- Withdrawals are taxed at higher **ordinary income rates** (not lower capital gains rates)
- Withdrawals before age 59 ½ are assessed a 10% penalty
- Consider withdrawing IRA funds for retirement before applying for Social Security to minimize tax impact to social security income
- **Must begin withdrawing funds by April 1\(^{st}\) of the year following the year you reach age 72** (new in 2020)
- A second withdrawal will be required by December 31\(^{st}\) of that same year
- See Publication 590-B at IRS.gov

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Let's look at IRAs more closely. IRAs were created by Congress back in 1974 for the purpose of encouraging long-term savings for retirement. The income you earned and placed into the IRA was normally not taxed before going in, providing you a tax savings the year you deposited it. During all the time these deposited funds were growing, no taxes were paid on the interest, dividends, or capital gains accumulated while in the IRA account.

However, upon withdrawal of these funds, you will pay tax at ordinary income tax rates, not at the preferable long-term capital gains rates like you would with normal stocks and bonds. Additionally, if you try to touch any of these IRA funds before you reach age 59½, you will be assessed a 10% tax penalty, unless there are exceptions granted by the government like there was during the pandemic.

Withdrawing these funds at the time you are already receiving SS benefits will potentially increase the taxation of your SS benefits if you are not already being taxed at the 85% level, as we discussed earlier. Therefore, I encourage people to hold off on starting their receipt of their SS benefits until they have spent down their taxable savings (IRAs and 401Ks) or they have reached age 70, whichever comes first.

With a tax law change effective with the 2020 tax year, IRA withdrawals are not required to be made until April 1\(^{st}\) of the year following your 72\(^{nd}\) birthday. These withdrawals are called RMDs (or Required Minimum Distributions). You must withdraw every year once you reach age 72. If you
don’t take your first withdrawal until the year following your 72nd birthday, you will need to take another withdrawal by December 31st of that same year.

Let’s look at the example RMD table on the next slide.
So how much are you required to withdraw as part of your RMD each year? That changes each year, based upon your new age, your new balance in all your IRAs combined, and which RMD table you qualify on based on several different factors (like the age of your spouse, if married). The intent of these tables is to force you to withdraw and pay taxes on all these funds (that you socked away tax free) before you leave this earth. Naturally, if you don’t exhaust your IRA funds prior to your demise, your estate or the beneficiaries of your estate will pay tax based upon the appropriate rules related to their inheritance of these funds.

Basically, the Distribution Period of the IRA declines each year as you Expected Life shortens, causing you to remove a higher percentage of your funds. At the same time, since you are removing funds each year, it is assumed your balance is declining, and therefore the amount you are being forced to remove each year should roughly be the same.

Look at my example at the bottom of this slide. If you have $100,000 in all your IRAs (each spouse needs to do this individually), at age 72 this table states that your RMD will be $3,650. However, at age 73, when you have removed the first RMD from the account, if you earned nothing on the account during that year, you would have to remove $3,636, roughly the same amount. Naturally, if you earned something, your RMD would be higher. Likewise, if your IRA can decline (e.g., invested in stocks), then your RMD would be lower.

You may remove all or more than your RMD each year, but not less. You also don’t have to remove funds from each of your IRAs, you only need to remove the required amount from any one or any combination of your IRA accounts if you have multiple. I would encourage you to remove them from your worst-performing IRA account, or if they are similar in performance, remove them from your smallest account and get it closed so you are simplifying your financial life for your spouse and or your heirs.

You can read all about IRAs in publication 590-B available on the IRS.gov website in PDF or HTML format.

Any additional questions concerning IRAs? We will talk about Roth IRAs in a couple of minutes.
401Ks

- If you are not already, increase your 401K contributions to maximize your employer match
- Annual 401K deferral limit for 2022 is $27,000 (> age 50)
- Withdrawals are taxed at higher ordinary income rates (not lower long-term capital gains rates)
- Withdrawals before age 59 ½ are assessed a 10% penalty
- May have to move 401K account to an IRA when you retire based upon company policy (no tax implication)
- Consider withdrawing 401K funds for retirement before applying for Social Security to minimize tax impact to social security income; must start removing funds by age 72

If you are still working and your employer provides a 401K benefit program, then I encourage you, if you can, to contribute at least as much as your employer is willing to match. This is free money sitting on the table for your taking. You can save as much as $27,000 per year in a 401K if you are over age 50 ($20,500 otherwise). Any funds you invest in a 401K are not taxed for income tax purposes and will accrue earnings tax free until you withdraw the funds from your 401K.

When you do begin withdrawing the funds, they will be taxed at the higher ordinary income tax rates, just like your salary would have been at the time you invested the money, not at the lower long-term capital gains rates for money invested for longer than one year. If you are below age 59½ and absolutely need to get to your money, you will be assessed a 10% early withdrawal penalty which can be withheld then or paid when you complete that year’s tax return. Another option would be to borrow the money from your 401K if your employer permits that. If you have not completed paying back the loan when you must, it will be considered a distribution and taxed based upon the age you are at that time.

Also, some employers do not allow you to keep your money in their 401K if you resign or retire from their employ, and you may be required to move it to another employer’s 401K plan or to an IRA if you are retiring and won’t be working any longer. There is no tax implication in moving the funds if you don’t touch the funds during the transfer process and preferably do a custodian-to-custodian transfer.

Since 401K withdrawals are taxed the same as IRA withdrawals, I again would encourage to use these funds first before starting to claim your SS benefits, if it makes sense for your personal financial and health situation. Note that like IRAs, 401K withdrawals must also begin at age 72.
Non-Taxable Savings are the best kind to have, because when you withdraw the money to use for whatever your heart desires, there is no tax implication to worry about.

Savings accounts have been stuffed with money by you that has already been taxed before it was placed into the account. Any interest accrued in the savings account is immediately taxed in the year it was earned and remains in the account until you withdraw it. You will receive a 1099-INT form showing your earnings each year if greater than $10. Any interest, whether above or below $10 must be claimed on your tax return in the year it was received. Any money you withdraw and use during your retirement years is available to you essentially tax free.

CDs are like savings accounts, with the exception that the funds are not as liquid, and you normally must wait until the CD matures until you can use the funds without paying a penalty. Interest on short-term CDs (1 year or less) is earned and taxed at the maturity of the CD. Interest on long-term CDs (greater than 1 year) is earned and taxed each year with the final earnings and taxes calculated at maturity. Therefore, there is no additional taxable event by using these funds anytime during your retirement years. You will receive a 1099-INT each year for you to claim the income on your tax return. If you do pay a penalty for withdrawing funds early, you may claim that penalty as an adjustment to income in the year it was paid. That will also show on the 1099-INT.

Roth IRAs and Roth 401Ks are also tax free when withdrawals are made. Let’s look at the next slide and learn more about them.
**Roth 401K and Roth IRA**

**Roth 401K**

- Like a 401K, however, distributions are not taxed if made after age 59½
- Distributions must begin no later than age 72

**Roth IRA**

- Like an IRA, however, distributions are not taxed or penalized if made after age 59½
- No requirement to start taking distributions while owner is alive

A Roth 401K is like a regular 401K, except the money was already taxed before you placed it into the Roth 401K (that is, you received no tax deduction for depositing the funds). Therefore, the money is yours and you may withdraw it from the Roth 401K at any time. However, the earnings on your invested funds may not be withdrawn until at least age 59½ to avoid paying a 10% penalty for early withdrawal. You may withdraw your deposits at any time, before or after age 59½ with no tax implications. You will just be hurting your future tax-free earning potential. But you can always touch your deposits.

Also, Roth 401Ks have the same RMD requirements as the earlier investments we discussed beginning at age 72.

Finally, Roth IRAs are like a regular IRAs, however, the distributions are not taxed or penalized if made after age 59½ or even before age 59½ if certain rules are followed. The nice feature of Roth IRAs is that there is no RMD during the account holder’s lifetime. Therefore, this is the last money that should be touched as part of your retirement spend down. If money remains upon your demise, there will be rules for your heirs as to how long they can keep the money invested before they must convert it to taxable savings. It cannot grow tax free forever.

Please note that you may receive a 1099 showing the withdrawal for some types of accounts, but this is an informational 1099 which must be filed with your tax return but will have no taxable effect (if entered correctly).

Okay, this sums up what I wanted to convey regarding the types of retirement investments you might have and what might be the best approach for drawing down those assets during your retirement years. Do you have any questions with the information I have presented so far?
Questions...

Comments...

We’ll continue class next week discussing Medicare and more.
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This concludes session 1. If you think of anything during the week, don’t hesitate to email me.