RETIREMENT
INVESTMENT ADVISORS, INC.

2925 United Founders Blvd.
Oklahoma City, OK 73112
(405) 842-3443
(800) 725-4530

9300 John Hickman Pkwy.
Suite 504
Frisco, TX 75035
(972) 377-2850

www.TheRetirementPath.com

top row, left to right: Chad A. Rudy, CFP®, Randy L. Thurman, CFP®, Andrew K. Flinton, CFP®, and Alexx V. Peralta, CFP®
bottom row, left to right: Sylvia L. Sterling, CFP®, Brenda C. Bolander, CFP®, and Carol Ringrose Alexander, CFP®

Financial Briefs

MAY 2024

Tax Planning and Retirement

There are numerous benefits to tax planning in your golden years. Taxes are often the furthest thing from people's minds when it comes to retirement, but the truth is, even when you're no longer accountable to a boss or clients, you still have to answer to the IRS.

Payroll taxes may be a thing of the past, but the money you plan to support yourself with, such as retirement and investment accounts, savings accounts, pension payouts, and potentially even Social Security benefits, could be taxed. In fact, depending on how much you've saved and how much you withdraw annually, you could be in a higher tax bracket than you may have anticipated.

Couple that with the possibility of higher future tax rates, and you could find yourself with less retirement income than you had planned. However, with sound tax planning, you can protect your golden years from becoming tarnished by unnecessary taxes, regardless of whether you're planning to retire 30 years from now or you've already done so.

If You're Thinking Ahead to Retirement…

Consider Investing in a Roth IRA/Roth 401(k)

When it comes to taxes and retirement, if you want to maximize what you've worked so hard to save throughout the years, it's critical to strategize how you invest your money. Anticipating how much you need to save is just the first step; planning on where you will allocate these savings is a critical component if you want to make the most of your retirement funds. Many people assume that contributing solely to a tax-deferred employer-sponsored plan translates to a comfortable retirement. After all, what could be better than sheltering a portion of your pre-retirement income from taxes while taking advantage of employer-matching incentives?

However, when many people retire, they're surprised to learn that their tax-deferred account withdrawals are not only taxed, but quite possibly at a higher rate than they may have anticipated. Diversifying your retirement-savings plan by contributing to a Roth IRA or Roth 401(k) could give you more flexibility when it comes to tax savings during retirement. While you can't take advantage of tax-savings benefits now, withdrawals from Roth accounts are tax free, allowing for more latitude in retirement. In addition to future tax-savings benefits, Roth IRA accounts also provide the flexibility of penalty-free withdrawals of your contributions should you need access to monies for an unexpected situation prior to

Continued on page 2

Tax-Deferred Compounding

Most people would agree that more wealth makes retirement more enjoyable. So when considering your retirement, it's good to remember there are two keys to creating more wealth from the same starting point and the same amount of resources. One, compounding, is a gift of the laws of mathematics. The other is a gift from the government: tax-deferred compounding.

You compound your investment returns when you reinvest them instead of spending them. If you earn 5% a year on $10,000, that's $500. Over 10 years, you've made $5,000. If you spend it all, you will be no better positioned for retirement. Your account balance would still be the same.

But reinvesting those earnings makes a big difference. Let's say that in the example above, you're generating income in a taxable account and your tax rate is 24%. This means that out of your earnings of $500 a year, you net $380 after taxes, and

Continued on page 3

FR2024-0112-0219

Tax Planning

Continued from page 1

retirement.

Don't Forget about Other Taxable Investments

Unless you have funds that aren't tax deferred, safeguarding your retirement money from taxes could prove challenging. Like a Roth IRA or Roth 401(k), brokerage and/or mutual fund accounts can be valuable tax-free income sources in retirement. Unless you want to pay taxes on every withdrawal you make during your retirement years, you'll likely want income sources that aren't subject to taxes down the road. A diversified plan that includes non-retirement accounts can protect you from higher tax brackets and maximize your income throughout your retirement years.

At Retirement Age… Have a Withdrawal Strategy

Just as you had a retirement savings plan, you'll now need a strategic withdrawal plan to shelter as much of your retirement income as possible from taxes. The more diversified your investments are, the more options you'll have available when it comes to tax savings. Both the timing and sequence of the accounts you draw from can significantly impact what you owe. For example, if you have taxable investments you've held for longer than a year, it may be more prudent to tap into these first, since the maximum 20% long-term capital gains tax could be less than the income tax rate you'll pay once you begin withdrawing from your tax-deferred retirement accounts.

If you're over 72 (73 if you reached age 72 after December 31, 2022), don't forget about your minimum required distributions; though there are exceptions, failure to take these distributions can invoke a penalty as high as half of the amount you neglected to withdraw.

Plan Ahead: Targeted Tax Brackets

You might also consider meeting with your financial and/or tax advisor to plan ahead. You can precalculate taxable income, living expenses, and deductions before deciding how much you'll need to withdraw from your investment accounts.

Consider Delaying Social Security Benefits

This strategy actually provides you with multiple money-saving options. By delaying your Social Security benefits, you'll avoid a higher tax bracket while beefing up your distributions. Anyone who reaches his/her full-benefit age receives an annual 8% increase for each year distributions are delayed until age 70. While not everyone can afford to postpone Social Security benefits, you may decide that delaying these benefits as long as possible is financially advantageous.

Move to an Income-Tax-Free State

Many retirees don't just move to states like Arizona for the scenery. The tax-saving incentives can be just as appealing. Willing to embrace the cold? Alaska has no state income or sales tax, and once you establish permanent residency, you'll even receive an annual dividend check from the state's oil wealth savings account. If you had plans involving temperatures of a warmer sort, consider moving to an income-tax-free state such as Nevada or Florida. You might also consider states that offer tax immunity solely to retirees, exempting Social Security benefits and even qualified retirement accounts from state income tax.

Please call if you'd like to discuss these strategies in more detail.

Learning Income Tax Basics

Very few people like to think about income taxes. But that lack of consideration often leads to a lack of understanding, even when it comes to the most basic aspects of income tax. Once you start to understand it better, the more you realize you have more control over how much you pay.

Much of your control depends on the type of strategy that you use. For instance, contributing to your company's 401(k) plan or an IRA will reduce your current year income taxes. Familiarizing yourself with federal and local deductions and credits, then planning accordingly, can save you thousands come tax season. If you discuss your tax situation with a professional, he/she can help you find any areas in which you could be missing out on potential savings.

Sometimes your tax strategy can boil down to smart timing. When it comes to major financial transactions, like selling a home or investment, your tax bill is largely affected by the circumstance. For instance, if you purchased a home and lived in it for less than two of the last five years, you will have to pay capital gains tax on your profits from the sale. This tax can be avoided if you stay in the house for a full two years. Knowing this beforehand and planning out life changes in advance (as much as possible) can help you plan out and time these transactions wisely.

Maintaining good tax records is not only essential when it comes to backing up your claims, but also reminds you of what resources you've expended over the past year. Not everything is deductible, but the more records you keep, the better prepared you are to claim and support deductions.

It is important to remember that the decisions you make in life should not be made solely for tax reasons. Of course, you want to minimize the amount you have to pay in income taxes, but any transaction has to be ultimately beneficial for you and your family. Just because one situation is better for your tax bill doesn't mean it is better for you — but understanding the true tax ramifications of your transactions will help you make more informed decisions for your circumstances.

Tax-Deferred

Continued from page 1

let's say you reinvest it all. After 10 years, your account value will have grown to nearly $14,520, which is a total return of 45.2%.

Tax deferral makes it even better. Individual retirement accounts and 401(k) plans were designed to encourage Americans to save their own money for retirement. The incentives were two-fold. The first was granting people an income tax deduction for their contributions. But the second was the most powerful by putting off taxes on investment earnings and capital gains until the money is withdrawn in retirement.

Returning to our example, let's say your money is in a tax-deferred retirement account, like a 401(k) or an IRA, still earning 5% a year. The tax-deferral feature of these accounts means you can reinvest the entire $500 your portfolio earns every year. Now, after 10 years, your account is worth $16,470, 13% more than the $14,520 that built up in the taxable account at the same pre-tax rate of return. The difference can be even more dramatic when you're making monthly contributions and achieving higher rates of return in your account.

So here are some ways to get the maximum benefit out of tax-deferred accounts:

- **Start early.** Time favors savers. Even small amounts contributed on a monthly basis can grow to substantial amounts when you start at an early age. If you're 25 and you contribute just $25 a month to an IRA or 401(k) that earns an average of 8% a year, by the time you're 65, your balance could equal more than $351,000. That's over $55,000 more than you'd build up if you contribute $500 a month — 20 times as much — but waited to start until you were 45.
- **Put away as much as you can.** Maximum contributions to IRAs are $7,000 if you're under 50 years of age, and $8,000 if you're 50 or older. For 401(k) plans, the maximum is $23,000 in 2024 and you can add another $7,500 if you're 50 or older (if permitted by your plan).
- **Maximize any employer matching contributions.** Not all 401(k) plans feature a matching employer contribution, but if yours does, do everything you can to qualify for the maximum match. It's like free money, and it's an instant boost to your effective rate of return.

You owe it to yourself to take full advantage of the opportunity for tax-deferred compounding that qualified retirement plans offer. Please call if you'd like to discuss this in more detail.

Where Should You Hold Investments?

How earnings are taxed on investments depends on whether the investments are held in a taxable or tax-deferred retirement account.

Earnings in tax-deferred retirement vehicles, such as 401(k) plans and traditional individual retirement accounts (IRAs), grow tax deferred until withdrawn. When the funds are withdrawn, all income is taxed at ordinary income tax rates, even income attributable to long-term capital gains and dividend income.

In taxable accounts, the long-term capital gains tax rate is 15% to 20% (0% for taxpayers under certain income limits), while short-term capital gains are taxed at ordinary income tax rates (10%, 12%, 22%, 24%, 32%, 35%, or 37%). Dividend income received by individual taxpayers from a domestic or qualified foreign corporation is also taxed at the same rate as long-term capital gains.

Thus, the difference between the maximum ordinary income tax rate (37%) and the rate on long-term capital gains and dividend income (15% to 20%) is 17% to 22%. This is a significant difference that could impact your decisions regarding how to invest your savings. Thus, consider the following strategies:

- Stocks that generate dividend income may best be held in taxable accounts. While you will have to pay income taxes as the dividend income is received, you will only pay tax of 15% to 20%. If the stocks are held in a tax-deferred account, you will pay ordinary income taxes on the dividend income when withdrawn.
- Consider holding growth stocks in your taxable account. Again, any long-term capital gains are taxed at 15% to 20%. If the stocks are held in a tax-deferred account, ordinary income taxes will be paid on the long-term gains when the funds are withdrawn. However, if your holding period is long enough, the deferral of taxes over many years may more than offset the higher tax rate.
- Investments generating ordinary income, such as bonds, should be considered for your tax-deferred account. Since ordinary income taxes will be paid whether the investment is held in a taxable or tax-deferred account, you delay the payment of those taxes by holding the investment in a tax-deferred account.
- The lower income tax rates for long-term capital gains and dividend income will reduce your tax bill in your taxable account, but you shouldn't quit contributing to your 401(k) plan or traditional deductible IRA. Contributions to those accounts are made from pre-tax dollars. Money invested in a taxable account is made with after-tax funds, so you'll only be investing 65 or 75 cents instead of the dollar that would be going into your 401(k) plan or IRA. That difference makes a tax-deferred account tough to beat over the long term.

Please call if you'd like to review strategies for investing.

News and Announcements

From The Thurman Household

I'm working on a new book, The Retirement Answer Book (working title). It focuses on the 50 (or so) most commonly asked questions for those about to retire. My editor is about to retire so he's very interested and asks tons of questions. Expect it out in about a year.

My younger brother, Rodney Thurman, lost his battle with lung cancer on March 26th. It hit me a little harder than I expected. He was 62.

Levi competed in the ADCC Jiu-Jitsu USA trials. Unfortunately, he separated his shoulder in the first round and was unable to continue. He will get an MRI to see how bad it is, but we expect surgery in his future.

Pati and a group of her enthusiastic friends plan to hike Grand Canyon. She will go from the top of the north rim to the top of the south rim (approximately 24 miles) in one day. They call it: rim to rim. She's been training hard. There are so many details to share; she's got this!

Take good care,

Randy L. Thurman, CFP®
CPA/PFS™, CEO

From the Alexander Household

My husband, Kerry, has been buying rose and hibiscus plants for our backyard. As we wandered in the nursery making decisions, I was drawn to the strawberry plants. I started with two and then went back later for a few more. I planted them, not expecting much. To my surprise, ripe strawberries emerged in the first couple of weeks. I find it interesting how much more I appreciate the taste of one strawberry when the supply is limited. As I savored the first strawberry, I wondered, why strawberries? Why now?

My grandfather, Dr. Ransom Francis Ringrose, was born in 1900. I was fortunate to spend a lot of time with him. Outside of his medical practice that included surgery and delivering more than 5,000 babies, he managed his farm, cattle, and a garden that seemed like it was the size of a city block. He had many vegetables, fruits, and some fruit trees. And his strawberry patch was enormous! I always enjoyed picking strawberries with him because he would let me eat some of the harvest as we worked. (Mom thought they needed to be washed first.) It was heavenly!

I am grateful for memories that connect me to loved ones and hope someday our children will plant a rose bush, hibiscus or strawberry plant and think of their parents.

Carol Ringrose Alexander, CFP®
AIF®, CEPS, RLP®, CDFA®
Executive Vice President

From the Peralta Household

Life has been good, busy, but good for the Peralta family. As many of you know, Quinn and I have been building a house and have been patiently awaiting our closing date. Months ago, as a game, we each guessed what that day would be. Quinn guessed that we would close on May 20th and my guess was May 17th.

Recently, we finally received our official closing date. Quinn, remembering our game, rushed to our wall calendar to see if either one of us had guessed correctly. She immediately suspected foul play when she noticed that my guess was right! I reassured her that it was purely luck, as neither one of us was home when we got the news. She graciously congratulated me, and we celebrated with a fancy dinner at our local Chili's.

We're thrilled to begin this new chapter in our lives and can't wait to settle into our new home.

Alexx V. Peralta, CFP®
Financial Advisor Associate

Retirement Investment Advisors, Inc.
Holiday Hours

Memorial Day
Monday, May 27, 2024 - Closed