The Hanover Advisor

HANOVER ADVISORS

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Maximizing Your Retirement Savings

Saving for your retirement was supposed to be the hard part. When the day comes, however, when you feel confident that you have enough of a nest egg accumulated and decide to retire, you will be confronted by a series of complicated choices. The decisions that you make about how you spend and access your money during your retirement can have a big impact on how you fund your golden years and what type of lifestyle you will be able to afford. Simple mistakes can be costly ones, and the wrong move can result in large tax penalties or loss of potential income, leaving you in a less comfortable position. Because there are so many factors that go into retirement planning, it is important that you meet with an expert to ensure that you can afford the life you want, but here are a few important factors to consider.

The most important decision you will have to make is how and when to make withdrawals from your retirement accounts. It is likely that your nest egg will consist of several different types of accounts, such as taxable investment accounts, tax-sheltered accounts like IRA's or 401(k)'s, and tax-free accounts like Roth IRA's or Roth 401(k)'s. Different retirement accounts are taxed differently, and your goal should be to withdraw your funds in such a way to maximize each account's tax benefits. Most financial planners would probably tell you to take withdrawals from your taxable accounts first, then take them from your tax-sheltered accounts, and to leave your tax-free accounts for last.

While this is generally true, it oversimplifies the issue. Making smart choices early in your retirement could result in a lot more money down the road. The flipside is also true. Simple mistakes can be costly, and could have negative ramifications for how you spend your retirement years. Developing a tax efficient strategy for withdrawing retirement accounts means having a plan that is uniquely tailored to you. There are a number of variables specific to your retirement goals that must be accounted for. These can include factors such as your retirement age, retirement income needs, social security benefits, the types of retirement accounts you have, required minimum distributions, and additional considerations such as estate planning. While taking your withdrawals in a sequential order—taxable accounts first, then tax-sheltered, and finally tax-free—may make the most sense, even within this plan there are a number of complications and hitches that need to be considered.

There are two main benefits to taking withdrawals from your taxable investment accounts first. One, by making these withdrawals first, you will be making them at a time when your income is lower, meaning you will be in a lower income-tax bracket. If you make these taxable withdrawals after taking withdrawals from other sources, it could push you into a higher tax bracket, meaning you will have to pay more. Secondly, by utilizing these funds first, it allows your other accounts that have tax benefits to grow as long as possible, max-

- **Having a concrete plan on how you will access your retirement funds could save you thousands of dollars in tax penalties and allow you to maximize the earning potential of your retirement accounts.**
- **It is important that you meet with an advisor and develop a plan that is specifically tailored to your needs and goals.**

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imizing their benefits. Also, depending on the nature of these investments, you may be selling assets rather than taking withdrawals. This could have the added benefit of offsetting capital gains taxes with losses to help keep your total tax bill lower.

However, this does not necessarily mean that you should wait until your taxable accounts are depleted before you begin to take withdrawals from your tax-deferred accounts, like your traditional IRA or 401(k). There are a number of factors to consider when timing your withdrawals from these accounts. By letting these accounts accumulate as long as possible, you will be getting the maximum tax benefit from them. Also, accounts like these typically have early withdrawal penalties for accessing them before you are 59 ½ years old. If you are an early retiree, you will definitely want to wait to access these accounts until you have reached that age.

On the other hand, waiting too long to begin accessing these funds can be extremely costly. Retirement vehicles like traditional IRA's and 401(k)'s require that you begin making withdrawals when you reach the age of 70½. Failure to take one can result in steep penalties from the IRS, which can reach as high as 50 percent of your distribution. Because these penalties can be so severe, it is important to have a plan in place to ensure that your RMD's are being met. Simple mistakes, such a miscalculating your RMD or taking a withdrawal from the wrong account could end up costing quite a lot. However, even if penalties are avoided, taking RMD's can have tax implications.

Depending on the size that your IRA or 401(k) eventually grows to, your RMD could be large enough to push you into a higher tax bracket. If your taxable income is low in the early years of your retirement—before you have reached the age of 70½—you may want to consider taking withdrawals from your tax-deferred accounts before your taxable ones. This will allow you to reduce the value of these accounts, resulting in a lower RMD later. You may also want to consider converting part or all of your traditional IRA to a Roth IRA, which have no RMD's for the original account holder. Such an endeavor should be carefully considered with the guidance of a financial advisor, as there could be large implications in doing so, but could lessen or completely remove the tricky aspect from RMD's from your retirement planning.

The final type of accounts you should access will likely be your tax-free accounts like Roth IRA's or Roth 401(k)'s. To maximize the tax benefits of these accounts, they should be left to grow as long as possible. Additionally, they may be more useful not as a retirement account, but as an estate planning vehicle. These accounts keep their tax-free status after they are inherited. This means that you can use them to alleviate the estate tax burden that your loved ones may face after you are gone. Conversely, there are situations where accessing your tax-free accounts early may be wiser. There may be times when you want to keep your income-tax bill lower and so opt to take these tax-free funds instead, or perhaps opting to rely on these funds and delaying social security benefits will save you more in the long run.

These are just a few of the important concerns you should have when you begin to access your retirement savings, and hopefully highlight just how complex it can be. Smart financial planning in retirement must be tailored to your unique needs, and it must be holistic, focusing on how all of your accounts can work together to minimize your lifetime tax liability and protect the money you worked so hard to save.

Consider How Your Retirement Savings and Estate Planning Can Work Together

Your tax-free accounts like Roth IRAs and Roth 401(k)s can be an important part of both your retirement savings and estate planning, and waiting to access these funds can have two important benefits. First, because of their tax-free status, they can continue to grow without adding to your tax burden. Secondly, these accounts keep their tax-free status even after they are passed on to your heirs. Keeping these funds untouched means you have access to money that will not increase your tax burden in case of an unexpected expense later in your retirement, and affords you the opportunity to ease the estate tax burden that your loved ones will face after your passing.

Preparing for the Great Wealth Transfer

We've all heard the adage "shirtsleeves to shirtsleeves in three generations." It speaks to the anxiety we all have that the next generation may not take proper care of the wealth we have accumulated after we pass it on to them. This anxiety will only intensify as we begin the Great Wealth Transfer. The next 25 years will see the largest wealth transfer in history as $68 trillion is expected to be passed down, according to research from Cerulli Associates. With so much money changing hands, it is important that you ensure your heirs are aware of your plans and include them in your estate planning as much as possible.

The unfortunate reality is that few of us are willing to broach the topic. A recent survey found that just 36 percent of high-wealth individuals have discussed how their assets will be passed on to their heirs. There are myriad reasons to avoid the topic, ranging from potential demotivation of your heirs to preferring not to think about your own passing. However, it is important that you ensure that your heirs are aware of your wishes and your values and prepared to best handle the money you leave them. Even if you do not want to let each heir know exactly how much they stand to inherit, it is important that they understand the motivation behind your decisions. When you make your estate plan, you do so based on what you think is best for your heirs, but unless you discuss it with them, you can't truly know what they need.

The most important reason to include your heirs in your estate planning is that you want to ensure that they are properly prepared to maximize the money that you leave to them. It is likely that your estate will be comprised of many different accounts, some of which have tax benefits, such as an IRA. When you leave an IRA or other tax-deferred account to your heir, they have to be careful about how they access that money. Incorrect handling of an IRA can have massive tax implications, resulting in a much smaller benefit for your heirs. Taking money out too soon can cause your heir to incur a large income tax hit. Your heir not being aware of your required minimum distributions could result in large IRS penalties. If you split an IRA among several heirs, depending on their ages, what applies to one may not apply to another. It is important that both you and your heirs meet with your financial advisor so that they can understand the rules of how and when they can access the money you leave to them in such a way that they can avoid costly taxes and penalties.

It may be more beneficial to convert your existing retirement accounts to Roth accounts, which have tax-free distributions, even for your heirs. Since such conversions can have tax implications for you, it is important that they are carefully considered and planned out. Knowing more about your heirs' tax situation and financial needs will help you coordinate your accounts in such a way that you minimize the tax burden for both you and your heirs.

If you have specific wishes about how your estate will be used, or you have concerns that your heirs will not spend your money wisely, you may want to consider setting up a trust. This will allow you to set stipulations on how the inheritance is to be spent, and money can be distributed even while you are still alive. There are different types of trusts, and each have unique tax implications, so it is important that you meet with a financial advisor to discuss what the best option to meet your needs would be. Another factor to consider is that you can begin gifting money while you are alive. The IRS allows up to $15,000 per person per year in gifts. The money is also tax-free for the recipient. This may be a way to

- **One smart way to help ease your heirs' tax burden is through gifts. The IRS allows gifts of up to $15,000 per person each year.**
- **This means you can begin to help your loved ones while you are still around, and lessen the estate tax they will pay upon your passing.**

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reduce the size of your estate and make the eventual estate tax more manageable.

A conversation about estate planning may be uncomfortable, but it is important to have nonetheless. You worked hard so that your loved ones would be cared for after you are gone. A potentially uncomfortable or awkward conversation is just a little more hard work, and it can ensure that your heirs know and understand how you went about making such important decisions. Including your heirs in your financial planning will allow them to reap the most benefit from the wealth you pass on to them.

Introducing Hanover's Newest Team Member

Hanover advisors is pleased to welcome Travis Hightower as our new Assistant Portfolio Manager. Travis's primary responsibility will be to aid clients in understanding risk, identifying their personal comfort level regarding volatility, and quantifying their portfolio's expected return.

Travis comes to us after graduating from Clemson University, where he earned a B.A. in economics. Travis has always been drawn to the field of investment management because of his interest in economics, markets, geopolitical affairs and history.

Hanover Advisor Bulletins

Special Reminders to all Hanover Clients

- The Hanover Advisors website can be accessed at hanoveradvisorsinc.com. There you will find our latest newsletter and investment commentary, articles, our blog, and videos. You can also learn more about our services, access both the Black Diamond performance reporting system and your Pershing brokerage account(s).

- **New enhancements to our portfolio reporting system**. All Hanover clients have free access to our internet-based reporting system known as Black Diamond. This robust system provides comprehensive performance reporting, asset allocation and risk assessment on clients' portfolios. Our office is available to assist in accessing and utilizing the Black Diamond system.

- As a reminder to our clients that Hanover Advisors, Inc. now has an office in Greenville, SC. Meetings can be scheduled at either the Greenville office or our conference facilities at Concourse Parkway in Atlanta. Please see our website, HanoverAdvisorsInc.com, for detailed contact information.

- We want to invite all clients to contact our office to schedule a portfolio review. We would be happy to coordinate a sit down meeting, a conference call, or an online meeting at your convenience. Please call our office to schedule an appointment.