Retired and Resilient: Strategies for the 2020s

By Rodney Van Belle, CFP®

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Rodney works closely with LNWM experts in investing, taxes and trust and estate planning to create, implement and monitor investing and financial plans that enable clients to lead the lives they want.

Retirement is no longer that short period after a lifetime of work. It is a major life stage that is often as long – or longer – than middle age (40 to 60) or youth (20 to 40). What this means is that retirement planning does not – and should not – end when you retire. If anything, there is just as much planning required during retirement as leading up to it.

Joseph Coughlin, founder and director of the MIT AgeLab and a featured speaker at one of our Thought Forums, sees retirement as yet another opportunity to redefine yourself. And we agree. There are likely to be many transitions, not just one, as well as unplanned events that punctuate life.

So take a deep breath. You do not need to have it all figured out by the time you retire. And you probably shouldn't because some key things are out of your control – health and longevity, the economy and the markets. What we do for clients is put a plan in place that allows for flexibility and resilience, and which we monitor and update regularly. That way, you can be prepared as best you can be for life's new opportunities and challenges.

Three Ways to be Retired & Resilient

To allow for maximum flexibility, your assets and financial accounts should be managed to provide a tax-efficient income stream that will last well into your 90s. How we go about this has changed and is likely to change again in the 2020s. What retirees are facing at the start of the 2020s are historically low interest rates and low tax rates, at least for the time being. These two things, combined with new laws and regulations, are what inform the retirement plans we develop for clients.

#1. Invest for Total Return. It used to be that you could fund most (if not all) lifestyle expenses using the income – interest and dividends – from relatively safe investments such as municipal and Treasury bonds, corporate debt and dividend-paying stocks. Investing for income has become harder and harder, given the falling level of interest rates since 2009. Most portfolio income these days is generated from stock dividends.

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Strategies for Generating Retirement Paychecks

	Income Focused	Capital Gains Top-Up	Fully-Invested Total Return
Dividends & Interest	Spent as Received	Spent as Received	Strategically Reinvested
Assets with Capital Gains	Held Long Term	Sold Periodically to Replenish (Top-Up) Cash	Sold As Needed
Cash	Emergency Fund	Accumulated in Money Market Accounts	Accumulated in Money Market Accounts
Typical Investments	Bonds, Dividend-Paying Stocks, REITs	Balanced Portfolio of Stocks and Bonds	Globally Diversified Portfolio

There are three major ways to invest for retirement income (see chart above), and here at LNWM we tend to use the Total Return approach. Generally, this means staying fully invested in a diversified portfolio with client-specific targets for price volatility (risk) and return. We access funds from the portfolio primarily by rebalancing and selling as needed, while continuing to reinvest all dividends.

A Total Return portfolio makes sense now for many reasons. Reinvesting dividends allows you to buy in at different price levels over time, helping to lower risk. It is also tax-efficient. Dividends and capital gains on sales are taxed at significantly lower rates – ranging from 0% to 20% — than regular income and interest, which are taxed as income at your highest marginal rate.

#2. Optimize when and how you access funds. Historically, common wisdom was to deplete taxable accounts first and wait to use your retirement accounts when you were"really" old and had less income coming in. This advice can be faulty now, especially for higher-income Americans faced with the prospect of rising tax rates. We find that sourcing withdrawals from a variety of accounts – both taxable and tax-deferred – usually works best.

You have great control over when, how, and from where to source withdrawals. Why not make the most of that? Often, it is beneficial to "roll over" an existing IRA or 401(k) account incrementally into a Roth IRA, distributions from which will be tax-free after five years. This is called a Roth IRA conversion.

Unlike traditional retirement accounts, Roth IRAs have no Required Minimum Distributions (RMDs) starting in your 70s. You will owe regular income taxes on the rollover amount, so some strategizing is required to keep you from getting bumped up to a higher tax bracket. The idea is to mix and match your sources of income to take advantage of the different ways it will be taxed, and to create a bigger stream of tax-free income for the future.

#3. Beware of new laws and regulations. One of the things we do is to make sure client retirement plans are updated and prepared for new laws and regulations. The latest change affecting retirees is the SECURE Act, signed into law by Congress in December 2019.

Key Provisions of the SECURE Act

- **No more "stretch" IRAs.** If you inherit an IRA from someone other than your spouse (say from a parent who passed away), you now have up to 10 years to withdraw ALL the money. In the past, withdrawals could be made over your life expectancy. This new rule applies not only to IRAs but also to inherited 401(k) accounts, and to Roth IRAs (although withdrawals from Roth IRAs are not taxed). This new rule took effect on Jan. 1, 2020, so if you are already taking required minimum distributions from inherited retirement accounts this will not affect you.

Taxes on Retirement Accounts

Type of Account	Tax-Deductible Contributions	Tax-Deferred Account Growth	Tax-Free Withdrawals
Pre-tax 401(k) Traditional IRA	✓	✓	All withdrawals taxed as ordinary income
Roth 401(k) Roth IRA		✓	✓
After-tax 401(k) Non-deductible traditional IRA		✓	All withdrawals taxed as ordinary income
Health Savings Account (HSA) For qualified health care expenses	✓	✓	✓

If you are planning to leave an IRA, Roth IRA or 401(k) account balance to your heirs, it is worth considering how it will affect their tax situation. This also applies to IRAs that are transferred to trusts for the benefit of family members or others.

- **RMDs begin at age 72.** The government specifies Required Minimum Distributions (RMDs) from IRAs and other retirement accounts. While RMDs used to start at age 70 ½, that is now 72. Note that the SECURE Act did not change the age at which you can make a charitable donation from your IRA to get the tax benefit. That age remains at 70 ½ and now creates a unique one or two-year window when IRA distributions may qualify as charitable contributions, but not as RMDs (that haven't yet begun).

- **No age limit for IRA contributions.** If you have income from any type of work, you can continue contributing to an IRA, including Roth IRAs, at any age. Previously, the cut-off for making contributions to IRAs was age 70 ½.

- **Tax deduction for medical expenses.** If your medical expenses are 7.5% or more of your gross income in any one year, you can claim them as a deduction (assuming these and all your other deductions total more than the standard deduction). The 7.5% cutoff will not rise to 10%.

Making the Most of Retirement

Retirement is not a static time of life, even though the media and many financial planners often make it appear that way. This is why resilience – both financial and personal – is just as important during retirement as any other stage in life. We are here to help you stay nimble by making the most of your assets and finances so you can live the life you want.

About the Author

Rodney Van Belle, CFP® is a Client Advisor at Laird Norton Wealth Management, with more than 25 years experience in financial and investment management. Rodney provides clients with a big-picture perspective on their finances while also making sure that all the moving parts of their wealth plan are working together as intended. He consults regularly with LNWM experts in investing, taxes and trust and estate planning to create and implement financial strategies that enable clients to lead the lives they want.

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