THE DEVIL IS IN THE DETAILS

You may remember the Charlie Daniels band which had a duel with the Devil on the fiddle. You could have a similar battle with yourself in deciding when you can retire, **since the Devil is in the details.**

Here's how it goes:

It's finally that moment you've been looking forward to for so long—time to retire! You have accumulated a sizable nest egg in your 401(k) plan and you're ready to go.... with a new set of golf clubs and an Alaskan cruise for two in mind.

But wait, what will you do without a paycheck? Oh, no problem, you say, you can apply for Social Security and take money out of your 401(k) plan.

Uh-huh! And when should you apply for social security? And how much will you have to take out of your 401(k) plan and how long will it last?

Well, you say, I have over $1 million in my 401(k) plan and I can apply for social security early. That should do it, right?

Well, maybe yes, and maybe no. Have you thought about taxes?

Of course, they told me I will pay less in taxes when I retire, won't that be the case?

Well, it depends.... Here are a few details you may wish to consider (although there are many more):

Your 401(k) was a great way to accumulate wealth, pre-tax and tax-deferred. But when you retire, you will transfer this asset to an IRA, and every dollar you withdraw from it will be 100% taxable when you retire. Conceivably, you could end up in the same or even a higher tax bracket in retirement. This is a tax trap of sorts.

The Devil loves traps, but fortunately there are many ways you can position your assets to minimize or, at least, reduce the negative impact of taxes when you retire. Having assets in an after-tax investment account or a ROTH IRA to go along with your IRA or qualified accounts, provides you with both the leverage and the flexibility you will need in retirement to reduce your tax obligations. Having a cushion of after-tax cash in a money market account can also be a useful tool in your retirement distribution planning since any withdrawals from this account will be tax neutral.

Planning on when to take your Social Security benefit has become a popular debate recently. Some have taken it early, fearing the rules may change or they won't live long enough to benefit from it. This is a personal decision of course, and it's a difficult one, since no one knows when they will die, and no one knows if the government may change the rules on Social Security in the future. **The Devil loves these quandaries.**

As if that decision wasn't difficult enough, the tax implications are another cause of consternation. For married couples filing jointly, none of their Social Security benefit is taxable if their personal income is less than $32,000.

However, if their personal income is more than $32,000 but less than $44,000, the taxable portion of their Social Security benefit is the lesser of (a) one half of the Social Security benefit and (b) one half of their personal income exceeding $32,000. This means that some, but no more than one half of their Social Security benefit, is taxable.

If their personal income is more than $44,000, the taxable portion of their Social Security benefit is the sum of (c) 85% of their personal income exceeding $44,000 and (d) the lesser of $6,000 or one half of the Social Security benefit – not to exceed 85% of the Social Security benefit [IRC section 86 (a) and (c)].

If you are paying tax on 85% of your Social Security benefit and you are in a 24% tax bracket, an additional $1 of income will increase taxes by 44.4 cents (24 cents tax on the actual income and 20.4 cents of tax on the additional Social Security benefits the additional income causes to be taxed). Really?

The Devil loves this stuff. Although, by planning and positioning your assets effectively as referenced previously, you may be able to significantly reduce your tax burden. Rather than withdrawing all of your income from your IRA or qualified accounts which are 100% taxable, you may draw only a portion of your income from this source with the balance coming from other, more tax favorable accounts. Your ability to maintain your personal income below some of the thresholds (referenced above) can save you a meaningful amount of tax over your years in retirement. Frankly, it could mean the difference between your financial success or failure in retirement.

These are just a couple of examples of how you can get tripped up in your retirement planning. The good news is, an effective retirement/distribution plan can help you avoid many of these pitfalls. Proper planning with a professional you can trust, prior to retirement, can help to avoid many of these problems. So, just like Charlie Daniels, **you can give the Devil his due.**

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