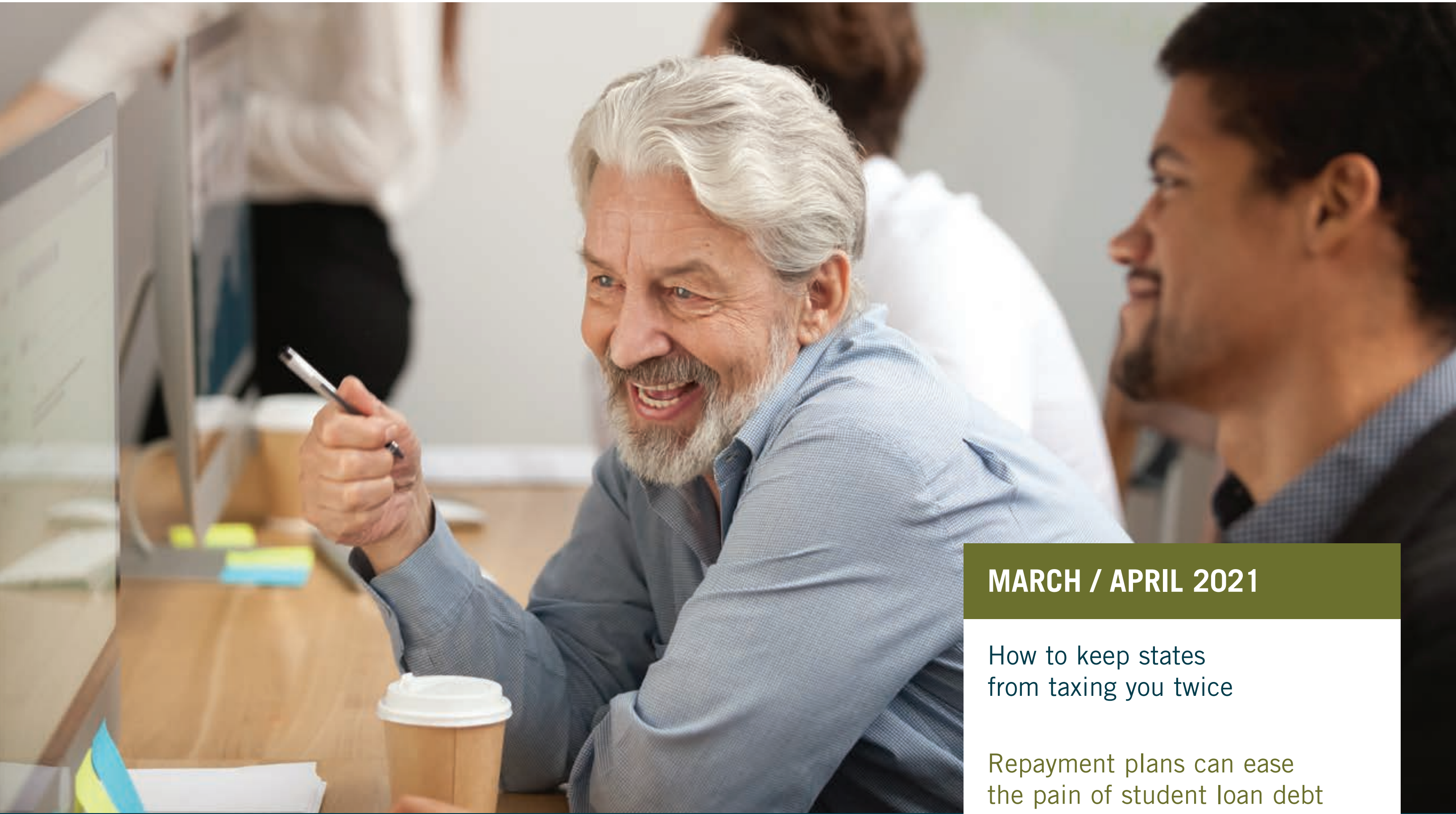
WEALTH MANAGEMENT **ADVISOR**



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TO MAKE YOUR SAVINGS LAST, CONSIDER PHASED RETIREMENT

To make your savings last, consider phased retirement

Many people approaching retirement age are justifiably concerned about how long their savings will last. One strategy that can help extend the life of your savings, while easing some of the emotional strain associated with leaving the workforce, is phased retirement. This is a gradual shift from full-time work to part-time or freelance work — and ultimately to full retirement.

Phased retirement allows you to enjoy additional leisure time while gaining significant financial benefits. But it's important to plan carefully to make the most of those benefits and avoid potential pitfalls, such as losing health insurance coverage or retirement plan matching funds.

Financial advantages

Working longer via phased retirement may offer the following financial benefits:

Continued retirement plan contributions. Delaying retirement allows you to continue building tax-deferred savings in IRAs and employer-sponsored retirement plans, such as 401(k)s, provided you continue to be eligible. The SECURE Act, passed in late 2019, eliminated the age limit for contributions to traditional IRAs (for 2020 and later). So if you've earned income from a job or from self-employment and otherwise qualify, you can continue making pre-tax contributions to an IRA, even if you're over 70½.

Deferral of RMDs. You're generally required to begin taking required minimum distributions (RMDs) from traditional IRAs and 401(k)s by April 1 of the year following the year you turn 72 (70½ if you reached 70½ before January 1, 2020). However, you can defer RMDs from your current employer's 401(k) plan and allow the funds to continue growing until you retire if:

- You continue working past age 72,
- Your plan permits such deferral, and
- You don't own 5% or more of the company.

This benefit isn't available for non-Roth IRAs or for a former employer's 401(k) plan. But it may be possible to defer RMDs by rolling those funds into your current employer's plan.

Enhanced Social Security benefits. If the income from your job and other sources is sufficient to cover your living expenses, you might want to delay Social Security benefits to age 70. This allows those benefits to grow by around 8% per year, maximizing your monthly payments once you start receiving them.

Working longer also gives you more time to pay down mortgages and other debts while preserving your retirement savings and taking advantage of employer-provided health care and other employee benefits as long as possible.

SHOULD YOU ENROLL IN MEDICARE?

Some Americans aged 65 and older who continue to work and have work-based health insurance aren't sure about whether they need to enroll in Medicare. Medicare rules are complex, but here's a basic overview.

Once you reach age 65, you're eligible for Medicare and you may have a limited amount of time to enroll to avoid costly penalties. If your employer has fewer than 20 employees, you generally must enroll in Medicare Parts A and B as your primary insurance — and pay premiums on Part B coverage. However, if your employer has 20 or more employees, you can delay Medicare until you leave your job or lose your employer coverage. Most people in this situation enroll immediately in Part A, which typically is free and can help reduce certain health expenses.

Unless your employer's plan is fully subsidized, crunch the numbers. Calculating expenses can help you determine whether you're better off paying for group coverage or switching to Medicare as your primary insurance.

Steps to stepping down

If you're contemplating phased retirement, take a personal inventory by gathering information about your assets, liabilities and income sources (now and in the future). Are they sufficient to last through your expected retirement years? If you cut back your work hours, will you be able to cover your living expenses without tapping your retirement savings or Social Security? If not, one option to consider is ceasing contributions to IRAs and employer retirement plans. But if that means giving up matching contributions, don't miss a valuable opportunity to grow your retirement savings.

Also learn about your employer's policies. Is phased retirement even an option? Some employers have formal phased retirement programs, while others are willing to negotiate these arrangements on a case-by-case basis.

But despite the benefits to the employer — including retention of experienced workers, mentoring of younger employees and preservation of institutional knowledge — phased retirement hasn't received wide attention. If your employer doesn't offer phased retirement (and you can live without the benefits), you might explore other options, such as a part-time job with another employer or freelance or contract work.

Finally, assess the impact of going part time. How might reducing your hours affect your eligibility for retirement plans and other benefits? For example, it may reduce pension benefits that are based on your most recent earnings. And many employers limit certain benefits — such as health insurance, 401(k) plans and matching employer contributions — to employees who work a minimum number of hours. Of course, losing health coverage is less of an issue if you're eligible for Medicare or if you're covered under your spouse's plan.

Going through a phase

Phased retirement can help your retirement dollars go further by increasing the size of your nest egg and delaying the time you need to start using it. Your financial advisors can help you assess your unique situation, determine the financial impact of reducing work hours and help you position yourself for a comfortable retirement. ■

How to keep states from taxing you twice

It's no secret that many states are strapped for cash these days. Naturally, they want to collect as much income tax as they legally can. And, in fact, neither the Constitution nor federal law explicitly prohibit multiple states from attempting to collect tax on the same income. So if you live and work in more than one state and want to prevent double taxation, you may need to take action.

Home sweet homes

One issue is the distinction between domicile and residence. Generally, if you're domiciled in a state, you're subject to that state's income tax on your *worldwide* income. Your domicile isn't necessarily where you spend most of your time. Rather, it's the location of your fixed, permanent home or the place to which you intend to return when you travel elsewhere. Your domicile doesn't change — even if you spend little or no time there — until you establish domicile elsewhere.

Residence, on the other hand, is based on the amount of time you spend in a state. You're a resident if you have a permanent place of abode in a state and spend a minimum amount of time there (for example, at least 183 days per year). Many states impose their income taxes on residents' worldwide income even if they're domiciled in another state.

Source of trouble

Let's look at an example (for informational purposes only). Suppose you live in State A and work in State B. Given the length of your commute, you keep an apartment in State B near your office and return to your home in State A only on weekends. State A taxes you as a domiciliary, while State B taxes you as a resident. Neither state offers a credit for taxes paid to another state (although some states do provide credits), so your income is taxed twice.

One possible solution to such double taxation is to avoid maintaining a permanent place of abode in State B. However, State B may still have the power to tax your income from the job in State B because it's derived from a *source* within the state. Yet State B wouldn't be able to tax your income from other sources, such as investments in another state.

Abandoning a domicile

As previously suggested, domicile is a state of mind. It's the place you intend to return, regardless of how much time you spend elsewhere. Suppose you're moving

from State C to State D. You buy a house in State D, but because of your continued ties to State C you decide to keep an apartment there.

State C's revenue department determines that your domicile hasn't changed. Meanwhile, State D's revenue department taxes you as a domiciliary. Both states impose their income taxes on all of your income, and while each state offers credits for taxes paid to other states, they're not available in this situation. Why not? Under the law of each state, credits are available only with respect to taxes that are properly due to another state. But because each state claims you as a domiciliary, neither believes that taxes are properly due to the other.

To avoid double taxation in this situation, you need to demonstrate your intent to abandon your domicile in one state and establish it in the other. For example, you might obtain a driver's license and register your car in the new state, as well as open bank accounts and register to vote there. Also consider using your new address for important documents, such as insurance policies, tax returns, passports and wills. And, to truly be "at home," subscribe to local publications, attend a nearby place of worship, join a neighborhood gym and find a primary care doctor in your new community.

State laws vary

The law regarding domicile varies from state to state. So, to ensure you're doing everything possible to minimize unnecessary taxes, work with a tax professional familiar with multistate residency and the tax rules that apply in your situation. ■

Repayment plans can ease the pain of student loan debt

The Federal Reserve says that student loan debt in the United States totals more than $1.67 trillion. While young adults carry most of it, Americans of all ages are repaying these loans — roughly one-third of those between 18 and 29, 22% between 30 and 44 and 7% between 45 and 59, according to Pew Research.

The CARES Act suspended principal and interest payments on federally-held student loans through September 30, 2020 — later extended through September 30, 2021. Yet many debtors are finding it difficult to resume monthly payments. If you or a family member is struggling to keep up with payments, explore the various repayment solutions.

Federal government options

The federal government offers a variety of student loan repayment options. The terms of these repayment plans depend on several factors. These include:

- The type of loan,
- Whether the loan was for undergraduate or graduate education, and
- The loan's origination date.

For most federal student loans, the Standard Repayment Plan calls for fixed payments over 10 years (10 to 30 years for consolidation loans). Graduated payments (starting low and increasing over the repayment period) and extended payment terms may be available. Keep in mind that graduated or extended payments increase the total amount borrowers pay over time.

Reducing monthly payments

There are also programs to help reduce monthly payments. Income-driven plans generally are the most favorable — for example, the federal government's Revised Pay As You Earn (REPAYE) plan. Under a REPAYE plan, an eligible debtor's monthly payment is generally 10% of his or her discretionary monthly income. Discretionary income is the amount by which actual annual income exceeds 150% of the poverty guideline for the debtor's state and family size. Generally, the repayment period is 20 years (25 years for graduate education) after which any outstanding loan amount is forgiven.

Income-driven plans generally are the most favorable — for example, the federal government's REPAYE plan.

One disadvantage of a REPAYE plan is that if the debtor's income increases substantially during the repayment period, monthly payments may grow higher than the payments that would have been made under the Standard Repayment Plan. A Pay As You Earn (PAYE) plan solves this problem by capping monthly payments at the Standard Repayment Plan amount. PAYE plans are similar to REPAYE plans, but they're available only to "new

borrowers" as of October 1, 2007, (that is, borrowers with no loans disbursed before that date). Also, PAYE-eligible borrowers must have at least one eligible federal student loan disbursed after October 1, 2011, and may need to meet other requirements.

Best plan for you

Other income-driven options to consider include Income-Based Repayment Plans and Income-Contingent Repayment Plans. And don't overlook student loan relief for graduates who take certain public service jobs or volunteer for organizations such as the Peace Corps, AmeriCorps or the military.

Not all of these options are accessible to or appropriate for every borrower. Your financial advisor can help you determine which ones are available and structure a repayment plan that makes sense for your or your loved one's financial situation. ■

Stress testing

Does your portfolio pass the “what if” test?

Many banks conduct regular “stress” tests to predict the impact of adverse external events on their earnings, capital and loan portfolios. Banks use the results to shore up any revealed weaknesses. Investors should periodically perform the same kind of stress test on their investment portfolios.

Accentuate the negative

Stress testing is the ultimate “what if” analysis. It uses modeling techniques to predict the impact of an economic downturn, financial crisis or any number of other “worst case” scenarios on your wealth. By analyzing this information, you can identify vulnerabilities in your financial plan and make changes to enhance its probability of success.

There’s virtually no limit to the scenarios you can test. Examples include:

- Extreme market volatility,
- A severe or prolonged bear market,
- Rising inflation or interest rates,
- An oil price crash, or
- A financial crisis such as the “tech bubble” bust that started in 1999 or the subprime mortgage crisis of 2007-10.

A useful exercise is to take the contents of your actual portfolio and calculate the outcome had you owned the identical investments on the eve of a historical financial crisis. Such testing can reveal potential weaknesses in your portfolio and help you pinpoint strategies to mitigate them.

For example, you might change the assumptions in your scenario analysis to see how your portfolio would respond if it were more heavily allocated to bonds rather than equities, or if it were more diversified by region, sector or other factors. While there are no guarantees, this type of stress testing can help you identify asset allocations that increase your probability of weathering various storms and ultimately meeting your financial goals.

Don’t eliminate the positive

Stress testing tends to focus on negative scenarios, but don’t ignore the positive. Incorporating positive market developments in your scenario analysis — such as the resurgence of a struggling sector or improved stability in a volatile market — can help you ensure that you’re invested in the right vehicles to maximize upside potential.

Of course, stress testing can tell investors only so much. During the recent pandemic, many stocks soared despite economic conditions that would suggest they’d be under greater downward pressure. So talk to your advisor about the potential benefits — and limitations — of stress testing. Your advisor can help you develop a resilient financial plan that’s customized to your specific circumstances and goals. ■

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