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LYNN'S TOP FIVE Timely Planning Tips for Retirees

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It's so great to live and work in a community that embraces citizens of all ages. Those of you who have made Lamorinda your home during your retirement years give a lot of time, value and support us all. As we begin this new year with much hope for an improved economy, I'd like to focus on some financial planning strategies for our community's retirees.

1) NO RMD IS REQUIRED FOR 2009: This may be "old" news to some of you, and it's not quite the holiday present we had asked for, but just last month, legislation was passed that put into law the complete suspension for 2009 of any formerly REQUIRED MINIMUM DISTRIBUTION (RMD) from your IRA. We had hoped for this relief in 2008, when it would have been its most helpful. As you may know, RMD's are based on the prior year's ending balancing in your IRA account(s). 2008's required distributions were enormous compared to the actual value in the accounts late in 2008, because account values were still comparatively very high at the end of 2007. However, we'll take what we can get!

2) TAKE SOCIAL SECURITY AT AGE 62, THEN GIVE IT BACK AT AGE 65!: In a way, I hesitate to bring this up here, because the discussion on this point could take an entire pamphlet --- but, did you know that you can take your social security at age 62 and then give it back at a later age, say age 65, for a reset at the higher amount? Currently you are not required to give the government any interest, just the principal when you participate in this program. And since many of us pay tax on 85% of our Social Security Income, your return of all of it could result in a big deduction in the year you return the funds and reset - another interesting planning opportunity if you need a deduction in a certain year. You can tackle this issue with the help of the government using their Form 521, available online at socialsecurity.gov. Be sure to enlist the assistance of your tax and financial advisors when planning for this --- there is a lot to think about before going down this road --- but a great planning idea for many!

3) TAX LOSS HARVESTING: I bet I included this in about half of my columns last year! But now, retirees especially, you need to think strategy: if you did as suggested, and booked as many sensible losses as you could last year, this year it will be important to begin offsetting those carry forward losses in excess of gains taken in 2008 with gains you may still have on your investment books. Many of you have been very patient long-term investors and have, despite the recent markets, some decent gains --- maybe particularly so in some concentrated positions. So, this is the year to thinkg about beginning to unwind some of those positions while using your harvested tax losses as shelter. I strongly recommend working with your tax and investment advisors on this before commencing! Ugly issues such as alternative minimum tax (AMT) need to be thought through before you start.

4) TO RMD OR NOT TO RMD: Most of the financial planning software that's out there uses the assumption that you will spend all your after tax assets first, and then move on to your tax deferred or pre-tax assets next. Is that a good assumption? Not always! Wasting the -0- or even 15% (and in some cases the 25 or 28%) brackets can often bite you later on when RMD's or your simple income needs cause you to pull so much out of your IRAs later in life that you lose much more to taxes than you had planned on, thus lowering your retirement assets and potential estate to heirs significantly. So, even though as we saw in #1 above you

CAN suspend your RMD for the year, it may not be a good idea to do so --- at least not completely.

5) WHICH ASSETS DO I SPEND WHEN AND IN WHAT ORDER? With or without the new legislation suspending RMD's for 2009, this is the question that should be forefront on your mind as you plan for retirement, and all the years you are in retirement. Sometimes it's a simple solution --- especially if all your assets and income are going to be coming from tax deferred plans. But many retirees have multiple sources of net worth: income from real estate, the potential of net worth freed up from selling their home and buying one that is less expensive, an investment portfolio that was either saved on their own or perhaps inherited from family, as well as increasingly what we are seeing in our own practice: the desire to work part-time as retirees phase into complete retirement. There is both math and art to determining which assets should be tapped into and in what order. The answers may surprise you! Frequently, multiple assets should be used simultaneously through several periods to provide you with your retirement income. Your goal is to maximize the their life expectancy of all assets by minimizing the tax impact and maximizing each asset's potential --all this while evaluating which assets make you happy to own, which might be too big a burden, and which need to be reconfigured to provide you with retirement income and the preservation of the lifestyle you are creating for yourselves.

So, what have we learned here --- ah --- if you thought that retirement was going to be entirely carefree and easy, HAH! You have simply segued to a whole new set of issues and responsibilities! That said, this is the perfect time of year to take stock of your situation and the many opportunities you have. As you are getting ready to prepare your 2008 tax return, I recommend that you focus not just on what happened last year, but most importantly on great strategies to put in place for a rewarding 2009.

HAPPY NEW YEAR AND HAPPY PLANNING!

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