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FINANCIAL

Case Study | Do you want to retire on time?

Michael and Beth

Problem

Michael and Beth, ages 59 and 57, suddenly realized their "nest egg" was too small to retire in 6 years. They projected to have $1.2 million in their IRAs when Michael turned 65; however, their financial advisor told them for the first time they could only spend down their IRA assets at a rate of 3.0%/year and not run out of money before they run out of life. On top of that, their distributions will be fully taxable at ordinary income tax rates in effect in the year of the distribution.

Consequences

At a 3% distribution rate, they will have $36,000/year before taxes. If the federal plus state tax rate is 25%, that only leaves them with $27,000 to spend. They wondered when they should start Social Security benefits and learned for the first time those benefits would be taxable because they will be reporting income on their 1040.

Solution

We showed them a strategy based on the US tax code to systematically and strategically pay taxes on the money currently stored in their IRAs over the next 8 years. We helped them discover that if they pay taxes on all future earnings and redirect their retirement savings to a properly designed capitalizing account, their money will never be taxed again. By the time Michael and Beth are 67 and 65, they can comfortably retire on $63,000/year of tax-exempt spendable cash flow. They can start their Social Security benefits for an additional $38,500/year for a total of $101,500/year. They will pay no taxes the rest of their lives. They finally had the peace of mind they had been looking for.

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