Polaris Greystone
FINANCIAL GROUP, LLC

Polaris Greystone Educational Series

For more information or to schedule an introductory consultation contact us at: info@polarisgreystone.com | (800) 268-9046 | www.polarisgreystone.com

Income Distribution in Retirement

Polaris Greystone prides itself on guiding clients through their financial lives. For younger clients, we concentrate on the accumulation of wealth in their portfolio. As our clients age and near retirement, we focus on the best way for them to start drawing upon their portfolio to supplement their income needs. This type of retirement planning, commonly known as longevity planning, helps our clients make the correct income distribution decisions for their retirement savings. This extremely important decision, if not well planned out, could cost an investor hundreds of thousands of dollars.

Couples retiring at age 65 have an 88% probability of at least one spouse living beyond 80 years of age and a more than 50% probability of one of them celebrating their 90th birthday (source: Society of Actuaries 2015). Women are still tilting the odds of the longevity scale in comparison to their male counterparts. According to the Center for Disease Control, the average life expectancy for a person who was 65 years old in 2012 is 19.3 years; 20.5 years for women and 17.9 years for men.

The challenge for couples is to make their portfolio work for them effectively so they can plan for a long future together. Most investors enter retirement with an accumulation of savings in different forms. Among the most common are real estate, taxable accounts, IRAs, and 401(k)s. How you organize and invest these assets can have a big impact on how long they will last.

Let's look at two couples, Bob and Carol and Mike and Kathy, in the following hypothetical example:

- Both couples are age 70 ½ and need to take required minimum distributions (RMDs) from their IRAs.
- Both couples have $1,500,000 in IRA accounts and $500,000 in a taxable account.
- To meet their annual retirement income needs, both take $80,000 in after-tax income and increase this amount by 2% compounded each year to offset inflation.
- Each couple will receive a 6% compounded return on their portfolio.

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Bob and Carol

Bob and Carol take $123,077 in "gross dollars" annually from their IRAs, which will net them $80,000 after taxes are withheld from their distribution. They take no income from their taxable savings, but pay for taxes associated with the management of the account directly out of this account. Assuming an investment rate of return of 6% annually, their taxable monies will have grown to $1,091,437 after 15 years. Their IRAs have also grown by an investment rate of 6%. However, due to the withdrawals from their accounts, the balance in their IRAs is only $218,017. *Their total investable assets are worth $1,309,454.*

Mike and Kathy

Mike and Kathy take only the required minimum distribution from their IRAs each year. They make up the difference by drawing from their taxable account. Even though we've applied the same assumed investment rate of return as Bob and Carol (6% annually), the results are dramatically different. At the end of the 15 year period, Mike and Kathy have a balance of $1,808,804 in their IRA accounts and balance of $32,903 in their taxable accounts. *Their total investable assets are worth $1,841,707.*

In other words, Mike and Kathy have $532,253 more dollars to utilize for future income than Bob and Carol due only to how they chose to withdraw their money.*

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As you can see, a lack of knowledge of how to best draw funds in retirement can cost an investor hundreds of thousands of dollars. It is essential to understand and utilize proper distribution strategies to maximize your portfolio's total value. The wealth advisors at Polaris Greystone are dedicated to helping you explore the most flexible strategies that will help you maximize your assets in retirement. They will analyze your current retirement savings and suggest the best way to organize and consolidate your assets and build an investment strategy so that you can address your financial needs in retirement. Please take advantage of this free service and meet with your wealth advisor. By taking time now to map out a distribution plan, you will be working toward maximizing your retirement, helping to make your money last longer so that you can enjoy the years ahead.

I welcome your questions or comments regarding any of the information above.

Sincerely,

Meridith Hutchens
Partner

* **Assumptions:** 2% inflation rate; 6% annual rate of return, compounded annually, on all accounts; a 20% long-term capital gains tax rate; and a flat 35% combined federal and state income tax for ordinary income. Earnings in the taxable accounts were taxed each year, giving the taxable account a net 5% annual rate of return. This tax was paid by netting the tax against its respective earnings, and thus was not included in the gross distribution calculations needed to reach an after-tax income of $80,000. Distributions from the IRAs were taxed in the year they were distributed. Taxes on the IRA distributions were paid by grossing up the distribution amounts from the IRAs or taxable accounts as applicable. RMDs were calculated using the Uniform Life Table under the 2001 IRS final regulations and were taken starting in the year each investor turned 70 ½. All distributions were taken on December 1 of each year.

Hypothetical results are for illustrative purposes only and are not meant to represent future performance. There is no guarantee that the above results can be achieved.

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