warrenstreet WEALTH ADVISORS
INVESTMENTS | 401K | RETIREMENT

REDUCING TAXES, MAXIMIZING SOCIAL SECURITY

Client Description

66 year old retiree

$265,000 in an IRA

$245,000 in non-retirement account

$220,000 in equity in primary residence

$110,000 in equity in rental property with break-even cash flows

Available Social Security benefit of $2,000/month at age 66

Client Goal

Maximize retirement income. Client wants approximately $4,000 after taxes per month in income.

How we solved the problem

Some advisors might have suggested to turn on Social Security and lower the withdrawal rate from the accounts which may not be in the best interest of the client. We examined the problem holistically, and this is what we discovered.

Since the client had income from a rental property and a rental property sale in the past, we wanted to examine their tax return to see the finer details of the income generated and the impact it had.

We discovered that the client had a net operating loss of ~$85,000 from the sale of a rental which we could use to offset income for the next 4 years until they reached age 70. Since distributions from the IRA count as taxable income, we would take $21,250 out of the IRA each year (85,000 divided across 4 years) and take the remainder of the income need ($26,750) from the non-retirement account.

We can use the net operating loss to offset the taxes owed on IRA distributions each year to near zero, so they pay minimal taxes in the first 4 years of retirement. Also, by reducing the IRA balance by the time the client reaches age 70, this will reduce the dollar amount of Required Minimum Distributions (RMD) from the account, giving further control of the tax picture beyond age 70.

Delaying Social Security from full retirement age (66) gives a 32% increase to the benefit by the time the client is obligated to take it at age 70, arguably an 8% guaranteed annual return for 4 years. A maximized guaranteed income stream from the US government, that is potentially tax free, is in the client's best interest.

By sitting down and looking at the whole picture, we were able to reach the clients desired income level of approximately $4,000 per month and reduce their tax liability to near zero levels by using an existing operating loss to offset the income from their IRA for the next 4 years. Since we will be drawing from the IRA until age 70 and beyond, Required Minimum Distributions from the account will be smaller, reducing taxable liability all while maximizing the Social Security benefit by 32%.

Advising the client to draw down their portfolio assets with us ultimately reduces our fees collected over time, but this is what serving as a fiduciary is all about.