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403b CONSULTANTS
AN AFFILIATE OF RETIREMENT PLAN CONSULTANTS LLC

403b NEWS

A quarterly newsletter for Retirement Plan Participants

Management of Multiple Retirement Assets

The retiree with only a single-employer pension has become a rare species. With career changes and the availability of different types of tax-favored retirement plans, most successful individuals have built an assortment of assets to use for their retirement income. Each type of asset may have different payout options, distribution rules, and tax situations. So, it's not simple to decide what strategy will be best for generating retirement income with the least tax impact. When you retire, you'll need to carefully manage how you will draw on your assets. Any decisions should be based on carefully examining all of your choices.

The Tax Status of Your Assets

The law places restrictions on your freedom to use your assets. Access to your tax-deferred assets will be subject to distribution requirements and possible tax penalties. (Tax-deferred assets include rollover and ordinary IRA money, annuities, and deferred compensation from an employer.) Capital gains tax consequences may limit how you can make use of your personal investments and other assets. You will have only one opportunity to make choices affecting the amount of income you receive from Social Security and a company pension plan. A similar mix of assets and constraints may affect your spouse's assets.

Because you won't get a second chance on many of your retirement asset decisions, it's smart to get a professional to help you. The suggestions that follow can help start your thinking.

Look at the Total Picture

You can begin by listing everything you have to work with -- each of your assets and how much income each is likely to produce. Maybe, you won't have to use all your assets for income right away, or ever. But when you do draw income, you may be better off using some sources completely and holding others for later use. You should also make a list of the dates when you must start taking your distributions. With each asset you own, you should find out both the tax consequences and distribution options.

Use Taxable Assets First

If you draw down your ordinary investments and savings before your tax-deferred assets, you will be able to keep the tax-deferred assets growing longer without being affected by annual taxes. Take care, however. This strategy may be difficult to follow because the minimum distribution rules for tax-deferred assets prevent long delays in using tax-sheltered assets. You generally must start taking minimum amount distributions by April 1 of the year after you turn age 70½ (or after retirement, if later). You can't afford to start late because of the heavy tax penalties that apply (for example, 50% on 401(k) plan amounts that should have been withdrawn but weren't).

Consider Annuity, Installment, or Lump-sum Distributions

As for your tax-deferred plans (company pension, 401(k), or profit sharing), you may be able to choose among annuity, installment, and lump-sum payments. With annuity payments, your alternatives are income that will last for your life, or for both your life and your spouse's life. With installment payments, you receive amounts over a number of years based on your life expectancy according to an IRS table. With a lump-sum payment, you receive a distribution of your entire retirement plan benefit right away. Your payout decision should follow a careful analysis of your individual financial situation and needs.

Many retirees don't carefully consider the lump-sum choice. They know it can cost a large income-tax payment. But (provided you have no need to use your distribution) you can roll your distribution over directly into a tax-deferred IRA and therefore, easily put off the tax. But if you are receiving a lump sum from a non-qualified pension plan, you can't roll it over into an IRA.

Pause and Carefully Consider All Options

Paying minimum taxes on multiple retirement assets will most likely require you to use both your personal investments and some distributions of tax-deferred money. You need to step back and carefully consider all your alternatives and the associated taxes before you act and -- if you need to -- do it with an expert's help.

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You and Your Savings -- Is Something Holding You Back?

It's one thing to know you should be making a real effort to save enough money for retirement, and it's another to actually do it. In a recent study,* researchers looked at the relationship between how much people save and two personal biases that could be holding them back.

Today's Thinking
Called "present bias," this is the tendency to procrastinate on decisions that could benefit you in the long run but require you to give up something in the short term. Saving for your future involves a short-term cost in that you have less money to spend now. The researchers found that individuals who do not have this bias had 19% more in savings than those who do.

Not Perceiving the Power of Compounding
This bias can also wreak havoc on people's savings. Compounding is what happens when the money you save is invested and earns a return. That money is then reinvested, giving you a chance to earn a return on your earnings as well as on the initial amount you invested. Over time, compounded earnings can really boost your savings. According to the study, people who appreciate the power of compounding have about 20% more saved than those who do not.
The researchers found that most people have one or both of these biases. Working to overcome them could help you be more proactive when it comes to retirement saving.

* Gopi Shah Goda, Matthew Levy, Colleen Flaherty Manchester, Aaron Sojourner, Joshua Tasoff, "The Role of Time Preferences and Exponential-Growth Bias in Retirement Savings," NBER Working Paper No. 21482, 2015

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Alternatives for Distribution of Tax-deferred Assets

	Usual Retirement Distribution Options	Special Taxes and Requirements
Employer Pension	Annuity or lump sum	Payments must generally start by age 70½. Payments may be mandatory at retirement.
401(k) or Profit-sharing Plan	Lump sum, installment, or rollover to IRA	Withdrawals must generally start by age 70½.[1] 10% penalty on withdrawals before age 59½. 50% penalty for not taking any required minimum distribution.
Traditional IRA	Various withdrawal options	Withdrawals must generally start by age 70½.[2] 10% penalty on withdrawals before age 59½. 50% penalty for not taking any required minimum distribution.
Annuity	Annuity or installment	10% penalty on withdrawals before age 59½
Deferred Compensation	Annuity or lump sum	Payments usually required to start at retirement

1Deadline is April 1 of the year following the year the participant turns age 70½ or retires, whichever is later. Certain owners must begin distributions after reaching age 70½.
2Deadline is April 1 of the year following the year the IRA owner reaches age 70½ (only applies to traditional IRAs).