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Things You Control

Retirement Income – Taxes – Investments

Broadly speaking most people are primarily in a working mode or a retired mode. During work years they (hopefully) save (“asset accumulation”) and in retirement they use their investments to create retirement income (“asset withdrawal”).

Before retiring, their main source of income was work. After retiring, their main cash flow (“income”) will come from Social Security, Pensions, RMD’s, their investment portfolio etc.

This lifecycle means:

- They have to be knowledgeable about how to take income from their investments so they don’t run out of money in later years. There are about a dozen viable approaches to doing this so they need to pick the right one for their circumstances.

- They have to be knowledgeable about how these various income streams are taxed, so they don’t overpay their taxes or miss tax saving opportunities.

- Investments impact many tax categories: Income tax, capital gains tax, Net investment tax, different tax rates for types of dividends, and even tax free investments. And then, there are IRS and State tax considerations.

- They have to make important Social Security and Medicare claiming decisions around the age of 65. And then RMD decisions (typically around 73 years). These impact cash-flow as well as Medicare premium expenses.

- So, Investors have to turn many of their current rules of thumb on their head. For example, making IRA contributions was a good strategy in the working years – not so as they near retirement. Delaying paying taxes worked better during the working years but is not always true during retirement etc.

We believe that Investments and Taxes are intertwined. For example in our work with clients we upload their tax returns into our planning system. This guides us if there are tax related opportunities we can leverage on their behalf. The beauty of this approach is that we get earlier visibility to take action on their portfolio. After all, what good is it to know in 2025 (When you file taxes) what you should have done in 2024 to manage your tax situation better?

So we will review tax returns after they are filed in April, identify opportunities for tax management due to portfolio activity, and then in consultation with clients and their CPA’s we can take these actions so they get timely tax benefits. Even if a client does not benefit, they have the peace of mind that they left no stone unturned.

Some practical actions to keep in mind:

- Review your portfolio asset allocation and your dividends and capital gains to identify if changes are needed.
- Insure you make your IRA contributions for last year (by Apr 15th) – if they make sense for your situation.

Executives: Review your deferred compensation program and evaluate if it makes sense for you. (investment choices, deferral terms, withdrawals periods etc.)

Retirees: Make your income withdrawal strategy; in our experience, it takes a few years to get comfortable with how you will generate retirement income.

Business owners: Consider implementing a retirement plan for your business, especially a "cash balance plan" which allows you to make significant before-tax contributions, hence reducing your business' tax bill and increasing your and other participants' assets for retirement.

Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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Dushyant Pandit
Founder and Investment Advisor

Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to accumulating money before you retire as you do to consuming it after you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.