

Preparing to retire

If you're thinking of retiring, you have important decisions to make, and the best time to start thinking about them is *immediately*.

Your Social Security benefit is a good starting point. You should have a good idea of the benefit that you will receive from the annual updates that the Social Security Administration is sending out.

Beyond that, how you'll deploy your assets—your retirement plan balances, your business or real estate interests—to provide for your retirement income calls for some savvy planning. We'll address here some of the financial decisions that you may find yourself facing

Programming your pension payouts

Traditional company pensions provide a lifetime annuity—fixed annual payments as long as you live. The payments are subject to income tax. If you're married, your standard pension will be reduced in order to provide a continuing income for your spouse if she or he outlives you. But you may elect to receive higher payments for your life alone. This option may appeal to two-income couples where both husband and wife have earned good pension benefits.

If your spouse is in failing health, you may want to choose higher benefits based on your life expectancy only and obtain added life insurance to serve as an income source for your spouse if needed.

Lump sum payouts

Benefits from 401(k) or “salary reduction” plans and from profit sharing plans are commonly paid in a lump sum. Some pension plans also offer a lump sum option. Lump sum distributions are subject to income tax in the year received. Indeed, withholding tax of 20% must be subtracted before you receive such a distribution.

How to defer tax. Unless you plan to use the lump sum payout for some specific purpose in the next several years, you'll probably want to postpone tax by having your distribution paid directly to an Individual Retirement Account (a “rollover IRA”). By making a direct rollover, you avoid having 20% tax withheld from your distribution. You also may roll over a lump sum distribution within 60 days after you receive it. But with this option, you must replace the amount withheld from your distribution. Otherwise, you must list the withheld

amount as an item of income on your federal income tax return for the year in which the distribution is made.

Rollover IRAs are subject to the usual IRA rules: Taxable withdrawals can be made without penalty anytime after reaching age 59½. A regular program of withdrawals *must* begin soon after reaching age 70½.

Whether or not a lump sum is rolled over into an IRA, devising an investment strategy requires careful, personalized analysis. See our investment management specialists for guidance.

Tax-wise ways to “cash out”

When owners of successful businesses or profitable real estate investments retire, converting their holdings to cash may result in the realization of large (and taxable) capital gains. Two possible ways to avoid the tax bite:

Sale of closely held stock to an ESOP. If certain requirements are met, an owner may sell stock to the company’s employee stock ownership plan (ESOP) and reinvest the proceeds, tax free, in a diversified portfolio of marketable securities.

Sale through a charitable remainder trust. Owners of real property or other assets that have appreciated in value often wish to make charitable bequests in their wills. But there’s another way to benefit charity. They may transfer the appreciated assets to a charitable remainder trust, reserving a life annuity. The trustee of the trust then may sell the appreciated assets and reinvest the entire proceeds, undiminished by tax on the realized gain, in income-producing securities.

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