



74-760 Highway 111, Suite 202  
Indian Wells, CA 92210

9870 Research Drive  
Irvine, CA 92618

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# INVESTOR INSIGHTS

*Creating a clear path through retirement*

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### Living the Dream

The heat is ON! With even higher than normal temps for August, we're finding more indoor activities to keep busy and stay cool. Check out your local community center for activities, community events, and classes to take. Many restaurants are featuring summer specials, extended happy hours, and more reasons to relax indoors.

### AUSPICIOUS AUGUST



The Clark family had a great time making memories with family and friends last month, as Mike took some time out of the office for some R&R. Their days were filled with sand and sunshine, trips to the beach, and lounging on Big Bear Lake. Mike had a mini-reunion with best friends he's known since kindergarten - now all grown up with children of their own! Garrett and Kelcie explored the famous Rubicon Trail in his jeep, and they didn't get stuck once! Caitlyn completely surprised Greg for his birthday with a trip to Chicago, so that they could spend time with friends and family on his special day. Auntie Amber keeps her niece & nephew entertained with Snapchat, and loves watching her twin sister's babies grow up. Taylor & Amber joined Caitlyn outside the office for some weekend shenanigans including air hockey battles and mini-golfing.







## AVOIDING TAX TRAPS IN RETIREMENT

It's important to understand how taxes can affect you in retirement based on your tax bracket, your filing status and other factors, including Social Security and pension benefits.

Taxes should never be overlooked in retirement planning. Fifty years ago, most Americans would have their homes as their largest assets. But now, with millions of Americans using IRAs and other retirement accounts, their retirement savings are often their biggest assets.

Too often we assume that our taxes will go down when we retire, but that's not always the case. Even when you are doing the right things and planning ahead, you might be setting yourself up for a tax trap down the road. You might be paying into a retirement account and enjoying the immediate tax benefits, but that money could be taxable in the future. You might even end up in the same or possibly a higher tax bracket in your retirement than you were while you were working.

All of this underscores the importance of planning ahead for your retirement.

You need to figure out which tax breaks, exemptions and deductions you will be able to qualify for when you have retired. When you start receiving Social Security, you will have to calculate your provisional income to see how much of it will be taxed.

Social Security can also muddy the waters as you try to figure out what your taxes will be in retirement. One thing to keep in mind in your retirement planning is that Social Security is taxed based on your other income, meaning you have to look at the tax rates and tax brackets to know how much of your Social Security will be considered as provisional income. With Social Security in the mix, you also have to understand what your effective tax rate is when you reach retirement. Throw in non-taxable interest, capital gains, dividends and other income, and the taxes can add up. This often requires some drilling down.

Too many of us are under the wrong impression that Social Security isn't taxable. That's simply not correct as up to 85% of your Social Security benefits can be taxable. The more income you pull in, the more taxes you will pay.

Often people who decide to start taking Social Security benefits at 62, the earliest age to opt in, and continue to earn good incomes are hit the hardest when it comes to paying taxes on Social Security.

There are other factors to calculate as you plan ahead to your retirement. When you reach age 70½, you have to start taking required minimum distributions (RMDs) from your IRAs and other retirement plans. The RMDs are based on calculations from a life expectancy table. More often than not, RMDs are taxed as ordinary income, though you can choose to send the funds to charity, making it a qualified charitable distribution (QCD) instead of taking the withdrawal. That can often prove an advantageous tax strategy in retirement. As you get older, RMD rules require you to take an ever-increasing percentage out of your retirement accounts, starting at 3.6% when you're 70 and rising to 5.3% at 80 and 8.8% at age 90.

While it's unpleasant to think about, your filing status also comes into play. Surviving spouses are often confronted with higher tax burdens going into a less favorable tax bracket after the loss of their loved ones. You might have spent decades stashing your hard-earned income into retirement accounts. But you might also find that you will pay more taxes when you pull that money out of those retirement accounts than you saved when you put it in.

It's daunting to think about. Nobody wants to pay higher taxes in retirement than they did during their years in the workforce. Thankfully, there are plenty of alternative strategies to help avoid some of these taxes and reduce your tax burden in retirement. These include diversifying your retirement savings in tax-deferred accounts like traditional IRAs and 401(k)s and tax free ones including Roth IRAs. You can also look at alternatives including life insurance policies, annuities, and other investment possibilities. It's important to bring in an experienced financial adviser who specializes in helping with retirement planning to ensure your retirement isn't entangled by taxes and more of your money stays in your pocket. Need a CPA referral? We can help. Contact our office for a trusted tax resource.

Kind Regards,

Michael Clark & Garrett Yack

Article not written by Ensemble Wealth Management. Sources below.

# Ensemble Web Updates

[www.ensemblewm.com](http://www.ensemblewm.com)

## Redesigned Website & New Blog Page!

Check out the EWM website and see for yourself; we've updated our website for an even better online experience. Our homepage is now easier to navigate and now includes a BLOG tab, which will be updated weekly. Visit our resources page for whitepapers and guides you can print & share with friends and family.

On our blog, Michael and Garrett will be providing their personal insight and opinions on current events, local news, and other timely topics. Your trusted resource for no-nonsense commentary, directly from your advisors.

We love to know what our readers think, so please provide us with your feedback! Tell us about your top concerns, what you'd like to read about, and how we can improve.

Contact Taylor at 760-341-8932 ext. 105  
or email [taylor@ensemblewm.com](mailto:taylor@ensemblewm.com)  
with your thoughts and feedback!