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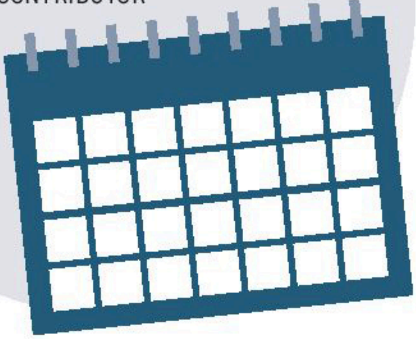

WHEN IS THE BEST MONTH *to Retire?*

BY ROCHELLE L. MOORE, CFP®, CDFA®, CPA/PFS

A client recently asked me if it mattered what month they retired in. Depending on your age and individual circumstances, the time of year you retire certainly could make a significant difference financially.

Taking the time to do some strategic planning may provide a positive impact on your financial future including retirement income, taxes and benefits such as bonuses, healthcare coverage and more.

Retiring Early in the Year

Many companies that offer benefits subject to a vesting schedule offer additional vesting as of the end of the year. Benefits may include stock options, matching retirement contributions, bonuses and profit-sharing contributions. By retiring in January, you may be able to lock in another year of vesting.

Alternatively, this schedule may revolve around your employment anniversary date.

Social Security benefits may also be increased for another year of service credit if you are able to wait and retire in January of the year in which you intend to file for benefits.

Similarly, if your pension plan provides credits for work time, retiring after earning another service credit makes good financial sense. You may also earn a cost-of-living increase. Credit may be awarded at the beginning of each year or on another work anniversary date, so make sure you understand the rules of your pension plan.

Retiring during the first few months of the year may help you stay in a lower tax bracket. This is especially important if you're already receiving Social Security benefits or making retirement account withdrawals. By retiring early in the year, you may avoid tax on your Social Security benefits.

Lower taxable income in the year of retirement may also provide an opportunity for Roth IRA conversion strategies. Since the conversion, or the transfer of funds from a traditional IRA to a Roth IRA is a taxable event, being in a lower tax bracket will allow you to convert more retirement funds with less of a tax burden. Once converted, future growth and withdrawals will be tax-free as long as you meet the 5-year rule and you are at least age 59 ½. Furthermore, Roth IRA accounts are not subject to required minimum distribution (RMD) rules during the original owner's lifetime, allowing for more planning opportunities.

Retiring Mid-Year

Deciding to retire in the middle of the year may mean less compensation and a lower tax bracket. This may still allow for a Roth conversion without pushing you into a higher tax bracket, if that is part of your overall retirement plan.

Should your employer offer quarterly bonuses or delay paying out year-end bonuses until the following year, it's best to delay retirement until those are paid out.

Retiring at Year-End

Waiting until the end of the year to retire makes sense if you need the additional savings that maxing out your pre-tax retirement contributions will give you. If your employer pays out bonuses or issues stock incentives at year-end, or on another regular schedule, don't retire until after that award date.

Maximizing your final year of earnings might bump you into a higher income tax bracket, especially if this final paycheck will include a payout for unused time off. This higher income may also increase your Medicare premiums and affect the taxation of your Social Security benefits. However, higher earning individuals over the Social Security tax wage limitation that have leave time to be paid out can save the 6.2% Social Security tax if they receive it before year-end.

Other Important Considerations

Age is an important variable for many reasons. For those retiring early, there are potential tax penalties for withdrawing funds from tax-deferred retirement accounts such as an IRA or a 401(k) prior to reaching age 59 ½. The earliest an individual can file to receive Social Security benefits is age 62, albeit at a permanent reduction of up to 30% of your full benefit amount. However, health coverage through Medicare will not be available until age 65, so you will need to look into costs and coverages available through a spouse's plan, COBRA for a limited period of time or a private medical insurance plan. Ideally individuals retiring early will have another source of funds to tap for their monthly expenses, including health care.

For those retiring later, once you turn age 73 (or age 75 if you were born in 1960 or later), you are required to take distributions from your traditional retirement accounts. The required minimum distribution (RMD) amount is based on each account balance as of December 31st of the previous year and the IRS life expectancy factor for your age. The amount of your RMD is recalculated every year, so this amount will likely change.

You may be able to delay RMDs from the retirement plan with your current employer if you are still working. However, RMDs from IRAs are always required once you reach age 73. RMDs from traditional IRAs are tied to a calendar year deadline with the first to be withdrawn by April 1st of the year after you turn 73, even if you are still employed.

Your decision to begin claiming Social Security benefits doesn't necessarily have to match your retirement date. Retiring early in the year may provide more flexibility to plan distributions and manage your tax liability, while retiring later in the year might mean that your first RMD occurs in the same tax year, which could push you into a higher tax bracket.

Finally, give some thought to what the non-financial aspects of your retirement will look like. If your personal fulfillment will come from traveling or by spending your time outdoors, retire at a time of year that will maximize those opportunities.

We are happy to answer your financial questions, to walk through the financial and non-financial decisions surrounding your stage of life and help you to achieve your goals. Give us a call at (217) 441-2200 or visit us online and check out the free resources available at www.MySoundPlan.com.