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Making the Pieces Fit: The Critical Importance of Asset Coordination

Failing to account for Social Security in the overall retirement portfolio is a major fiduciary fail, putting the client's retirement and the advisor's business at significant risk

By **William Meyer**

How do you develop a tax-efficient withdrawal strategy for clients without including the single largest source of retirement income for most Americans?

If you answered, "you don't," pat yourself on the back; all others should abandon the advisor business—immediately.

It's a depressing fact that too many advisors (and their clients) view Social Security as this "other" source of retirement income, one separate and distinct from the rest of the portfolio. Leaving aside for a moment the obvious mistake of not including a major asset in the overall plan, imagine the size of the compliance issues and legal exposure that arise as a result.

Especially for those advisors who consider themselves a fiduciary, the term is meaningless without a thorough review of how best to "coordinate" Social Security into the retirement income plan.

Remember that term; you'll be hearing much more of it in the near future. After all, demand is driven by demographics; more baby boomers are looking for the maximum amount of retirement income, and therefore Social Security. Advisors could get away with ignoring it until now, but no longer. Not only will boomers expect the amount they receive in benefits to be maximized, they'll also increasingly expect (demand) it be coordinated with the rest of their portfolio. Here's why it's so important:

Conventional wisdom dictates that retirees maximize income and minimize taxes by withdrawing assets from their taxable accounts first, their tax-deferred accounts (e.g., traditional IRA, 401(k)) second and their tax-exempt accounts (such as a Roth IRA) third.

But just because it's conventional doesn't mean it's wise. A large percentage of the taxable account is its basis, or a return of principal, and therefore not taxed. Consider a retiree who has yet to reach age 70½ and therefore has no required minimum distributions. He might be in a 10% or 15% tax bracket with his taxable accounts. But once RMDs begin, he'll jump to 25%.

In early retirement years, he should withdraw funds from tax-deferred accounts to take full advantage of the 15% tax bracket. But it begs the question—why not withdraw from a taxable account since the majority of assets are tax-free anyway? Because he blows the opportunity to withdraw from the *tax-deferred* account at the 15% (or lower) rate. It's better to pay 15% before 70½ rather than taking these withdrawals after 70 ½ and paying the higher 25%.

The correct sequence would therefore be to take tax-deferred income first and withdraw any additional funds needed from his taxable accounts. After the taxable account is exhausted, he can continue to take tax-deferred income at the 15% bracket and withdraw any additional needed funds from his tax-exempt account.

Such tax-efficient withdrawal strategies can *only* be done by coordinating each account and asset in the retirement portfolio, and this includes Social Security. Is coordination complicated? Yes, but proper instruction and software are here to help.

About William Meyer
Bill Meyer is founder and managing principal of Social Security Solutions, a leading Social Security software firm with patented technology that is dedicated to educating and assisting financial advisors and their clients in optimizing their Social Security claiming strategies. More information is available at www.ssanalyzer.com.

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