Rochester Wealth Strategies

439 S Main St, Suite 250
Rochester, MI 48307
(248) 434-6550

Preparing for Retirement – Part 1

By Dominic Garcia

Retirement is an exciting stage of life. It is what you worked your whole life to achieve. And when the time comes, you want to have comfort in knowing you did everything possible to optimize its outcome. We hope our next few articles can help ensure that several steps are not overlooked.

These first few strategies are well-known. Try your best to max out your employer retirement plans; the limit for 2024 is $30,500 assuming you are over 50. If you plan to retire mid-year, you may want to contribute as much as you can prior to that date; some plans allow you to put 100% of your paycheck into the plan. It is better to do this and temporarily live off savings. The goal is to obtain as much of a pre-tax deduction for the years in which your income is higher. Note that $30,500 is the maximum you can contribute to a plan via pre-tax or Roth contributions; some plans offer an after-tax contribution option that may allow you to contribute up to $76,500. This strategy is called the Mega-Backdoor Roth.

If under the income limits, you can also max out your Roth IRAs ($8,000 per person for 2024 if over age 50). If over the income limit, you may be eligible to utilize a Backdoor Roth strategy. Some people may choose to focus on a spousal IRA rather than a Roth IRA if they would prefer a deduction.

If you are a business owner, it is imperative that you investigate the potential benefits of a cash balance plan while you are still working. This is a unique tool that can allow some people to stash away close to $300,000 on a deductible basis.

A Health Savings Account is one of the most beneficial ways to self-ensure against the rising costs of healthcare and long-term care in retirement. This plan not only offers a deduction for depositing money into the account, but it also allows you to take the contributions and growth out tax free later in life. If eligible, max out and invest these contributions, and try not to touch the money until after age 65.

Retirement should not necessarily trigger social security benefits. Living off savings and brokerage accounts in the first few years of retirement can open the door for many tax planning strategies that would otherwise be limited if you were collecting benefits. Work with a financial advisor to best understand when to start social security and how to take advantage of lower income years in an effort to reduce your lifetime tax bill.

Some individuals have the comfort of retiring with a pension. As interest rates adjust, so could the benefit you receive from a pension. For this reason, it is important to not only look at the survivor options, but also determine whether to take the lump sum or income stream.

Consider planning for and making big purchases before retirement. If you want to buy a car, remodel a home, or move to a new location, it is usually best to do this when you have the flexibility of higher income. Once these new changes are completed, it will be much easier to gauge your expenses going forward.

Watch for our next article, which will address charitable giving, rental properties, insurance, income planning, investments, tax, and estate opportunities.