

RETIREMENT REPORT

County of San Mateo, CA | Deferred Compensation Plan



Winter 2024

Maximizing Your Retirement Income

Doing Some Tax Planning Now Can Pay Off Later in Retirement

For many people, retirement is not a time to slow down and stop. It's a time to explore the next great chapters of your life and build upon everything you've learned and experienced so far. Another thing that doesn't slow down or stop is taxes. Understanding how taxes could affect your future cash flow will help you create an effective retirement income strategy.

Know How Your Retirement Savings Accounts Are Taxed

Withdrawals from pre-tax retirement plan accounts, as well as traditional individual retirement accounts (IRAs), will generally be subject to federal and state ordinary income taxes upon withdrawal. On the other hand, contributions to a designated Roth retirement account or Roth IRA are federally tax-free when you withdraw those funds, as are the earnings, assuming the withdrawal is a qualified distribution, which generally means it is made after a five-year waiting period and the account owner is 59½ years or older.

As for your nonretirement accounts, bond income and some of the dividends you receive from stocks and mutual funds may be taxed at your federal ordinary income rate, but qualified dividends and long-term investment gains are generally taxed at lower long-term capital gains rates. State and local tax treatment may vary.

It's prudent to consult with an advisor or tax professional regarding retirement income and tax planning strategies.

Develop a Thoughtful Distribution Strategy

For some people, it will make sense to consider tapping taxable accounts first, then tax-deferred. But, depending on the circumstances, this order may not be right for every person. If most of your investment gains are from long-term assets held outside of a traditional pre-tax retirement plan, IRA or other similar tax-deferred accounts, you'll likely pay long-term capital gains taxes, which are generally lower than what you pay on distributions taxed as ordinary income from your tax-deferred retirement accounts.

You'll also need to consider the impact of your retirement savings on your taxes once you reach age 73 (or age 75 after 2032). That's when you must begin taking required minimum distributions (RMDs) from some of your retirement accounts, which is likely to boost your taxable income.



Avoid Moves That Could Put You in a Higher Tax Bracket

RMDs and other changes that bump up your income can result in what's called "bracket creep," which is unintentionally slipping into a higher tax bracket. For example, you might receive an inheritance or sell some real estate. You might also slip into a higher tax bracket by taking a large distribution from a taxable account to renovate your home or buy a new car. A higher income can also affect the taxability of your Social Security benefits and increase your Medicare premiums.

This is one reason you may want to consider funding different kinds of retirement accounts during your working years. For instance, you could diversify your retirement contributions and split them between a Roth and traditional (pretax) allocation. During retirement, you can manage the amount of taxable income you receive and make adjustments when necessary. You can also pay for qualified medical expenses during retirement with any health savings account savings you may have. Those qualified withdrawals are tax-free and won't affect your taxable income.

Retirement in Motion

Tips and Resources That Everyone Can Use

Knowledge Is Retirement Power

Thanks to the passage of SECURE Act 2.0 at the end of last year, the age for starting required minimum distributions from your 401(k) has been increased from age 72 to age 73 for individuals who attained age 72 after December 31, 2022. It will increase again, to age 75, for individuals who attain age 74 after December 31, 2032. In addition, the act reduced the excise tax for failure to take required minimum distributions from 50% to 25%; for RMD failures corrected in a “timely manner,” the excise tax is further reduced to 10%.

Q&A

Are there any tricks to paying down credit card debt? I'd love to put the money in my retirement plan instead!

Try the avalanche or snowball method. In each you'll focus on making extra payments to one debt — while continuing to make the minimum payment on all other debts.

- With the avalanche method, you tackle the loan with the highest interest rate first, which could save you more on interest.
- With the snowball method, you start with your lowest-balance loan, which could be emotionally satisfying as you clear away smaller, lingering debts first.

Tools & Techniques

Raising a child is expensive. From the day a baby is born until the day they turn 18, a typical family will spend about \$310,605 — or about \$17,000 a year, according to a recent Brookings Institution analysis of data from the U.S. Agriculture Department.¹ If you're planning to start a family (or already have), there are a number of smart financial moves to consider. If you haven't already created a will and thought about contingency plans for your child or children, consider doing it now. Other steps to take could include setting up power of attorney and health care directives. In addition, after any big change

in your life, it's a good idea to check the beneficiaries named on your financial accounts and insurance. That can help ensure that they are up-to-date and reflect your current wishes. And finally, it's never too early to explore 529 college savings plans — which offer flexibility, tax advantages and long-term growth potential.

Quarterly Reminder

When it comes to your retirement account, your recordkeeper likely already prompts you to change your password every quarter. But is it as strong and unique as it should be? To make creating and managing passwords easier, many people subscribe to password manager services. Check out Consumer Reports for ratings on various service providers, as well as more password tips: <https://tinyurl.com/36m7vukw>. In addition, you should use different passwords for different accounts, never write them down, and never type passwords on devices or networks that you do not control.

Corner on the Market

Basic Financial Terms To Know

Financial Wellness. According to the Consumer Financial Protection Bureau (consumerfinance.gov), the ability to meet all financial needs, today and over time; feel secure in the financial future; absorb a financial shock and have the financial freedom to make choices to enjoy life.



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Whom do I call for help?

Account Information

Balances | Investment Changes | Personal Info

Contact: Empower

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