Episode 104: Year End Planning Considerations

00:00
Bob French
The purpose of Retire With Style is to help you discover the retirement income plan that is right for you. The first step is to discover your retirement income personality. Start by going to Risaprofile.com Style and sign up to take the industry's first financial personality tool for retirement planning. While Alex doesn't have much of a shot of hitting his New Year's resolution to lose those 20 pounds before the end of the year, there's still plenty of time to take advantage of some cool planning strategies to end the year right.

00:54
Wade Pfau
Hey, everyone. Welcome to retire with style. I'm Wade. I'm here with my co host Alex, and we're joined by a repeat guest, Rob Cordot, who impressed us so much last time that we thought we'd have him back again. Rob Cordot from McLean Asset Management to talk about year end planning issues because there's a lot of financial planning issues that come up with the deadline of the end of the year on the horizon, and that being a deadline for many different types of taxes and so forth. So we're really looking forward to having an in depth conversation with Rob in today's episode about the types of issues you'll want to be thinking about at the end of each year, but in particular, no time better than the present. So what do you want to be doing before the end of 2023?

01:37
Wade Pfau
So thank you, Rob, for joining us again on the show. You had so many great analogies and things last time, we thought, well, we need to hear from you again. Get some of that.

01:45
Rob Cordeau
Thanks. Good to be here.

01:48
Alex Murguia
Yeah. Rob, no, we had our company Friday meeting today, and were talking about year end stuff like, okay, get all client requests in by, such and such, et cetera, so we can work with our custodians accordingly. And

Paula even mentioned the podcast we did with Rob and how well received it was, so he got rewarded by being asked to another one.

02:16
Wade Pfau
Yeah, you do a good job, you get more.

02:22
Alex Murguia
So, Rob, why don't you this is kind of your episode to a large extent. You're talking to a consumer. You're at a party, and they say, hey, what should I be doing? It's end of the year stuff. What should I be thinking about? Because I do think there are certain times of the year that are sort of inflection points for planning, and they're not April 13 or April 14 or something like that. They're kind of around now, right? And so why don't you take it away?

02:53
Rob Cordeau
Well, first, good question. I would say your hypothetical, because I'm so busy with tax planning, I would never be at a party this time of year because I'm too busy.

03:05
Alex Murguia
Is that what it is? Is that what it rob?

03:07
Rob Cordeau
Really? Really?

03:08
Wade Pfau
That's what it is?

03:09
Rob Cordeau
Okay.

03:11

Alex Murguia
Remind me to have a separate conversation with Rob after this meeting about denial.

03:19
Wade Pfau
Take you down to Miami and have a.

03:24
Rob Cordeau
You know, the first thing I look at it's kind of funny. Usually we talk about tax planning and most people are in the mind of thinking, well, let's find a way to reduce taxes and let's get those things done before year end. But occasionally I come across clients who are actually in the opposite mode. They're in a unique situation where they're looking to or they should be looking to increase income. So that's sort of my first step, is find out what my objective is. I'll give you an example. If someone lost a job partway through the year or they took a sabbatical or they retired this year and their income is much lower than it's been in prior years those are all income years where their income is lower, they're likely in a lower tax bracket.

04:12
Rob Cordeau
And I might not necessarily be looking to max out a 401 or in some way push income down. I might be looking to increase income with something like a Roth conversion. So the first step is just figuring out what my objective is which I might not know without a series of other questions. But that's the first step. But for the typical working client, that's usually where they're at. They're usually in a higher bracket in their working years than they'll be in retirement. So we are usually looking for income reduction techniques or income deferral techniques something that we can do to push an income into a future year if possible so that we can put less income in that higher bracket during their working years. If it's a retiree, then there's a lot of question marks.

05:06
Rob Cordeau
I have some retirees that for a certain number of years I'm looking to produce income for them. So if we're bridging a gap between retirement and Social Security it might be serial Roth conversions for a number of years until they push themselves up into a higher bracket. So it really depends on their current bracket and expected future brackets. That's sort of what will drive what the objective is.

05:34
Wade Pfau
Okay, now may go without saying, but just to be a bit more clear about this, why is it the end of the year where this comes to the forefront? Why not do this in April when you're just paying taxes? I guess just to make sure that's clear to everybody.

05:50
Rob Cordeau
Ideally, people should be thinking about taxes throughout the year because there are techniques that could be implemented at various times and it's a little less urgent and crazy to do it earlier in the year. But there are a lot of deadlines that fall on December 31, right? So whether it's executing a sale of an asset to do some tax loss harvesting or even gain harvesting, that would happen have to happen by 1231 or Roth conversion to be counted this year has to happen charitable, 1231. So a lot of it is just so many things come to a hard stop on 1231. And I should throw in a little caveat to that. A lot of custodians have decreased or sped up their deadlines.

06:44
Rob Cordeau
So in years past we used to be able to work with custodians and we could submit paperwork to them on December 31 and execute a Roth.

06:52
Alex Murguia
And real quick, custodians are the Schwabs of the world, the fidelities of the world, where your money is held, exactly where you have your brokerage account.

06:59
Rob Cordeau
Right. Could be vanguard wherever. But in the past when they were better staffed, we could submit things right up until year end. But a lot of custodians have pushed those deadlines further up. So now some of them are the first week of December, some of them are end of November. So it's becoming more and more urgent. If you have a year end item that you need to execute, move quickly because you might have a deadline that you're not aware of.

07:29
Alex Murguia
Okay.

07:31
Wade Pfau
And that would just be something like if I wanted to do a Roth conversion in 2023, though I could technically wait up till doing that, December 31. The custodian may not allow for that sort of thing to happen after a particular date just because they don't have the employees at this point exactly.

07:50
Rob Cordeau
To handle it, which seems unfair. The IRS allows it. The IRS will let you do it right up until 1231. But you have to look at things like does 1231 fall on a weekend? And then that's not going to work. Right, but even more so, as I mentioned in recent years, most of the custodians, they need weeks to get because they're running into a crush of applications and things that are rolling in at year end. So good idea to act as soon as possible once you know the strategy.

08:22
Alex Murguia
So we should have had this episode five weeks ago?

08:25
Rob Cordeau
Yeah, probably. But there's still some things you could execute and good stuff to remember for next year too.

08:33
Alex Murguia
And so as you're having your meetings this year with clients doing like year end stuff, obviously you talked about taxes, but what does that include? And I get it, everyone is different, et cetera. Right. But if you're talking to our consumers, our audience here, what should they be thinking about offhand that you could provide? Maybe there's a checklist in your head that you have, et cetera.

08:59
Rob Cordeau
Sure, if I take that one group where the typical working person in a higher bracket and I want to reduce as much taxable income as possible, I'd be looking at things like charitable donations. So that's another one you need to get that.

09:15
Alex Murguia
Does that have a deadline too? Do those have deadlines?

09:17
Rob Cordeau
Say it again.

09:18
Alex Murguia
Do those have deadlines?

09:20
Rob Cordeau
Yeah, again, it's really the same tax deadline. So 1231, I just wanted to make it obvious. Yeah, get that in the hands of the charity by then. And that could be the form of a qualified charitable distribution, a QCD out of an IRA. So that's another deadline item, right? If you're subject to required minimum distributions, whether it's on your own account, you're in your 70s, or maybe you have an inherited IRA. In either case, you want to get those RMDs done by 1231 so you don't hit a penalty there. And if you're above 70 and a half, you can engage in qualified charitable distribution. So get those dollars out of your IRA into the hands of a charity and don't get taxed for it. So that's another one that falls under that 1231 deadline.

10:12
Wade Pfau
Keep that money out of adjusted gross income. But I think it's always worth just adding because people say 70 and a half. I thought it was 73 now. But though the RMD ages have changed, you're absolutely correct. Qualified charitable distributions are still at that 70 and a half age.

10:27
Rob Cordeau
Exactly. And if someone's self employed, a couple of thoughts come to mind. If they have a good year with their business, they could be looking to accelerate deductible expenses. So making some larger business purchases before 1231, they could drag their feet on collecting receivables until January. If they wanted to push if they're a cash basis tax filer, they could push those receivables out, not collect them until January. Another thing, if we come across small business owners sometimes who have a Sep IRA or a Simple IRA that's been set up, and they come to us, and we point out to them that a solo 401K has a lot more flexibility and allows for larger contributions. But there's an interesting deadline there.

11:20
Rob Cordeau
Although you can fund your solo 401K up until your tax filing deadline, you are supposed to have it set up by December 31 of the year that you're trying to take that first deduction. So if you're someone who has a Sep and you're a simple IRA and you know that you had a good year, you'd like to sock away more in the way of retirement plan contributions, push your income down further. Getting that 401K established now as soon as possible would be important. Let's see, looking through some other ones, pushing down things like this is a.

12:04
Alex Murguia
Theme of but you're talking now in theme of reducing reducing income, right?

12:09
Rob Cordeau
Things like if you itemize deductions or if you might be able to itemize deductions, you could take any discretionary medical expenses this year. So big expenses on dental or something on elective surgery, something that you could push into the current year, even bunching deductions. We've talked about that before, just bundling together.

12:36
Wade Pfau
Would you recommend donor advice fund?

12:39
Rob Cordeau
Yes, donor advice fund. Yeah. Another great example, right? You could, in a year where you have high income, push more than your normal budgeted charitable donation into a donor advised fund, and then over future years, you could parse that out as you distribute it out to charities. So that's another great way to accelerate.

13:00
Alex Murguia
A deduction Wade has an interesting strategy that he recommends a lot, and that's you go to your employer's office and you just ask for a lower salary.

13:09
Rob Cordeau
There you go.

13:14
Wade Pfau
That's one way to reduce taxes sometimes.

13:17
Alex Murguia
First order principles. Right.

13:23
Wade Pfau
That's letting the tax tail wag the dog. I never can get that expression right.

13:29
Rob Cordeau
Definitely. I'll give you another interesting one that we've done with clients. This is usually a retiree. So a retiree, let's say they're taking $10,000 a month from their IRA. So over the course of twelve months, we take 120,000 in taxable IRA distributions.

13:45
Alex Murguia
This is a retiree I'm sorry, I missed the very beginning retiree.

13:49
Rob Cordeau
And we get toward year end, and I chat with them and I try to find out how they're doing with spending. And if they're not spending as much as we're sending them, and their savings account is starting to balloon yeah. Then I might say, why don't we stop your December distribution? We won't distribute that 10,000. And we could even do a 60 day rollover of the last 10,000 that you just took November 1. And we could basically reduce your 120,000 taxable by 20,000 by just engaging in those two. And the 60 day rollover is basically that it's like an undo button, right. That the IRS allows you to and.

14:32
Alex Murguia
If they're at a bracket over 20%, whatever one that is, that's six grand at least that you're saving them.

14:39
Rob Cordeau
Yeah. And it's funny how a lot of our clients, they don't monitor that monthly payout that closely, so they'll let their checking account balloon someday, especially during COVID people weren't traveling as much, they weren't spending as much.

14:55
Alex Murguia
I think what happens, too, and this goes back to Time segmentation a little bit, they leave that as like their emergency fund, and they just see that, oh, it's my emergency fund. And so, whatever, they'll never say no to money. Right. Because it's almost instinctive. Right, right. Someone's cutting you a check, you take it.

15:10
Rob Cordeau
Right, right.

15:11
Alex Murguia
But they don't realize that if that money is not being used, you kind of are getting penalized in the form of taxes sure. For just letting it sit there and.

15:20
Rob Cordeau
Taking it of missing a rate of return. It's surprising.

15:23
Alex Murguia
Yeah. There's opportunity costs as well.

15:25
Rob Cordeau
Right. I've been asking that question a lot more lately because I'm finding clients with six figures sitting in a checking account that's earning a fraction of a percent.

15:36
Alex Murguia
And it's there not purposely, it's just one of those things that yes, and I get it for those listening, yes, life is good if that's you. Right. I understand models off.

15:46
Rob Cordeau
Right.

15:46
Alex Murguia
But other than that, though, it's just they don't notice. Right. And then all of a sudden it's like, what are you doing, man?

15:52

Rob Cordeau
Right.

15:53
Alex Murguia
Is that kind of the conversation?

15:55
Rob Cordeau
It is, yeah. And sometimes clients just aren't even aware that there are options like CDs at 5% these days. So they're not even aware of how much just that one mistake cost them $5,000 to have 100,000 sitting in their checking account for a year.

16:13
Alex Murguia
Yeah, but you're bringing up a thing I didn't think about. Obviously, the opportunity cost is one of those things that present value of money, you got to make it work for you, et cetera. But you're saying just the fact that you're needlessly pulling it out, not to mention cap gains, if this is a tax deferred or tax free, fine, but it's going to put you in a tax bracket that you didn't want to begin with and off you go. You end up hurting yourself. Interesting.

16:46
Rob Cordeau
So we don't come across that often, but it does come up, and it's one that I've been asking more frequently about in client meetings, is just how do you find your current withdrawal rate is working for you? Are you finding that your checking account and your savings are dwindling or are they creeping up? And just try to get a sense of whether we're on target with the amount we're distributing.

17:11
Bob French
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17:35
Rob Cordeau
Another one getting back to maybe someone who's still working is just making sure if your goal is to reduce income, that you really are maxing out your retirement plan at work. So the limits for 2023 are 22,500 for those that are under age 50 and 30,000? Yes, for those age 50 and over. So that's the salary deferral amount

that you can put in. So a great way to do that is just look at your pay stub and see what your year to date number is. See how much you're doing per paycheck, find out what your pay frequency is, just sort of do the math that way. But it's surprising. We find a lot of people who say to me, oh yeah, I'm maxing out. And they forget that these limits are indexed for inflation and they increase almost every year.

18:29

Rob Cordeau

So often we find someone who is maxing out yes, to the 2017 figure that they should have six years ago. Or people forget about the catch up. That happens once you turn age 50. And that kicks in if you turn 50 at any point in the year. So if you turn 50 on December 27, you still get to enjoy all that extra catch up. You have to wait until the day you turn 50. You could be enjoying that all through the year.

19:00

Alex Murguia

Now, what's the scenario? So you're trying to dampen your bracket. What's the other scenario where you want to go the other way? You want to increase the scenario and absent walk into your supervisor's office or your employer's office and say, I want to raise. What's another strategy?

19:20

Rob Cordeau

Yeah, things like we mentioned, Roth conversions. Roth conversions are great. We're really looking for that initially, if we can, because the end result is so nice to have tax exempt income. So if we can create a scenario where someone's in a low bracket, and if we can convert to Roth, that's great. It mostly comes up for our retirees. And we find oftentimes retirees go through phases where they're in different brackets. I mentioned, like, someone who retires in their 50s or 60s. They might have the first few years where they're pulling mostly from a non retirement account. So their income, their taxable income is very low. They don't have Social Security, they don't have RMDs, they're not taking IRA distributions if they have a pension that hasn't started yet.

20:12

Rob Cordeau

So in a lot of cases, all they're looking at for income is dividends, interest, and some cap gains. So they can be in a very low bracket. And that's a great opportunity to engage in some serial Roth conversions. And usually what we do there oh, go ahead.

20:32

Alex Murguia

Well, you said something that Wade just published an article on distribution strategies to keep in mind and tax efficiencies around that we'll have an episode on this in the future. But as were just discussing it right before this podcast, were discussing it, and one of the things we realized in terms of addressing this article is there's some baseline assumptions first that we need to discuss and we'll do so. And that's the whole sort know distributions come from you should think about them as coming from taxable, then tax deferred, then tax exempt, in that order. There are exceptions, et cetera. And that's what Wade's article really goes into. But even before then, because you were talking about accumulation, and you're talking about, oh, there'll probably be some taxable accounts and everything tax diversification.

21:21
Alex Murguia
This is something that I've seen, talked about on Twitter, of all things advisors, this or that. And sometimes some people are just malpracticed. Some of the things they say, like, you shouldn't contribute to a 401K because you're not going to have access to that money until you retire. It's just asinine things like that. What is your take on just as you're building up capital, as you're accumulating having a healthy dose of assets across taxable tax deferred and tax exempt accounts, as opposed to maybe going ordinary by it, by I'm maxing out this group. Once I max out this bucket, then I do the other bucket. Once I max out that bucket, then I do the other bucket. Where do you stand on that kind of thinking?

22:07
Rob Cordeau
Yeah, I love it when a client has tax diversification, especially our retirees who come in, and they have all three of those buckets funded because from a tax planning standpoint, it gives me so much more flexibility. Right. If I see they're pushing up against an irma bracket, I can pull more from you're going to have to say.

22:28
Alex Murguia
What Irma is on the benefit of she's not a woman and it's not Wade's grandma.

22:34
Rob Cordeau
Yeah. I'm testing my memory. I think it's income related Medicare care adjustment amount monthly, like that.

22:43
Wade Pfau
Yeah, income related monthly adjustment amounts for the Medicare premiums. A real shock to people. So what it is, one dollars too much income for a couple could lead to $1,800 of additional Medicare premiums two years later.

22:57
Rob Cordeau

Yeah, so we're planning for that. While we're also planning for regular tax brackets. We kind of consider that a bracket as well. So I might have someone whose income might push them up into a higher bracket, taxes, Irma, whatever else. And I might be looking to take from another bucket, whereas I have other clients who the only bucket I have is a large IRA that was 401K accounts that have been and I don't have the tax flexibility. Right. If they need the money, I have to give them the money out of the IRA. And if that pushes them over the next bracket, so be it. I can't control that.

23:38

Alex Murguia

No, I think you're right. I think listen, on an Excel sheet, I get it optimized, tax exempt, then tax deferred, then taxable. But I find myself and this is know obviously all I've known is McLean. Right. And I have stories of clients and clients. So learning vicariously through that, I've almost realized, put the spreadsheet aside. For me personally, I always like having a healthy dose of everything because it just gives me so much flexibility. I mean, if I need a house repair, if I need, like, spending shocks and things like that, I always like to just have accessible taxable amounts just because life comes at you fast kind of thing. And if I have to take from other buckets, the tax penalty on that will effectively undermine all the potential savings that I would have had along the way.

24:28

Alex Murguia

I'm not saying front load one more than the other. Obviously you can tax exempt deferred and taxable, but I still like to have accessible assets. That's just me personally.

24:40

Rob Cordeau

Yeah. And I think that's important, right. Making sure there's an emergency fund, those sort of things, assuming those are in place, I do try to turn it more into a math equation and just say, what is my bracket now? Which I can usually tell fairly quickly what someone's bracket is currently, and then compare it to a future bracket in retirement. That's where it gets a little bit more art than science. What I've found with our clients who retire, some clients go through four different phases of levels of income. There's that first phase between retirement and age 70 when they might have lower income in a lower bracket. Then there might be a second phase between 70 and 73 before RMDs start, or 75 for younger clients.

25:30

Rob Cordeau

And then there might be a third phase once they're after RMD age, and they're getting RMD, Social Security plus whatever else. And then I find a fourth phase often kicks in, which is clients get up to late 70s, early eighty s, and their spending slows right down. And this happens with every client I come across where I don't remember any client the past 27 years who spent the same amount in their eighty s and ninety s that they spent in their 60s. It just doesn't happen. So I think a lot of advisors forget that's going to occur. So they often bring this question down to compare your bracket today versus your bracket in retirement. And my question is, it's not comparing your bracket today.

26:20
Rob Cordeau
It's compare your bracket today versus what you think your bracket is going to be when you pull these dollars out in retirement.

26:28
Alex Murguia
Good point.

26:28
Rob Cordeau
And that's a very different comparison. And when I'm trying to guide someone as to whether they should contribute pretax to a 401 or after tax to say, a Roth 401K, that's the comparison I'm trying to make, which is an interesting one. It's a little bit more nuanced. It's a little more complex to do.

26:52
Alex Murguia
The no, it's a smarter way of doing it. You're kind of getting at it like worry about the contributions into these assets absent the spending shock needs. Right. Because who knows, right. But let's just say you've got those covered. And that was my sensitivity, the spending shock issue. But if you have that covered, then it becomes an issue of contribute to them having some sort of at least working expectation, knowing that it'll change, but at least you have a working expectation with all the information you have available to you at the moment of how you're going to distribute them later on, because that will help guide the efficiency around. That what you're saying. Am I correct or incorrect?

27:35
Rob Cordeau
Correct. Yeah. Well, getting back to my example of a bridge there between retirement and age 70, if I was fairly confident that someone was going to retire at 60, and I'm talking to someone who's fit about it, and I knew that were going to have a good ten years where we could engage in these Roth conversions. That's going to play into my decision as to whether I think they should contribute to Roth or to IRA. If they're in a higher bracket at age 50, I'm not worried about them putting pretax money in. They're going to save money on their bracket now, and we'll get to converting that later between ages 60 and 70. You know what I mean? So it's a big picture kind of thing. It's not just looking at the current year. You got to look a little deeper than that.

28:25
Wade Pfau
Yeah. And then if you are in the peak earnings years, there's likely going to be an opportunity to pay taxes in the future at a lower rate. And so you get the tax deduction today and vice versa. But keeping in mind that having that diversification is important. You want to have some of every type of account.

28:45
Rob Cordeau
True. Yeah. And a lot of people think, well, I'm always going to be in a pretty high bracket, but it takes a lot to get up to the higher brackets. When you think about in retirement, only 85% of your Social Security is taxed, so 15% of it comes out tax free. If you have non qualified investments, then your cost basis comes out tax free. And the capital gains, if you do it right, come out at 15% or 18.8, depending on whether you're exposed to the net investment income tax. So it kind of takes a lot more income than what you normally think of. When we're in our working years, we're thinking our gross income, and that's pretty close to our bracket. Right. Minus whatever we contribute to plans and so forth.

29:35
Rob Cordeau
So I think that's important to remember that it's very likely you're going to be in a lower bracket. Even clients who've accumulated several million, it's pretty common for us to keep them in the 22% bracket in retirement.

29:48
Alex Murguia
I don't know, rob, have you seen Wade's book sales? They're going off the charts. Yeah, this guy. You're right. I mean, the reality is you're right as much as people think, no, it's just going to be this tree is going to grow to the sky in terms of their income, not so fast.

30:08
Rob Cordeau
And even if it grows according to plan, and we have a lot of clients that have four, five, 6 million, and we can keep them in the 22% bracket. Getting a sense for what you think you will be spending in retirement is important, and you could be spending 200, 250,000 a year and still fall within the 22% bracket as a married couple.

30:33
Alex Murguia
But this takes some engineering. So going back to even the original piece, it's year end. One of these clients comes in obviously, taxes, then let's say from one to ten. One is like, minimum. Hey, how are you doing?

Market looks good. You look good. Great. See you next year. Ten being the most comprehensive year end thing you could do. Taxes take up about how many quantum units of that for that client.

31:06
Rob Cordeau
Yeah, taxes are I think taxes are critical to just about everything we do. Right. I mean, if you're making estate planning decisions, taxes are usually involved.

31:17
Alex Murguia
That's true. Taxes touches every single one of those units. If you're doing year end, tax is going to hit everything.

31:26
Rob Cordeau
Yeah. So getting back to this shouldn't just be a year end discussion. It should be something that pops up with each review. But I think we're talking about it now because we're getting close to year end.

31:39
Alex Murguia
Yeah. So year end is really predicated on deadlines because the deadlines make it, and nothing spurs action like a deadline ultimately. Right.

31:49
Bob French
Curious if you should be looking at a Roth conversion. Or what a Roth conversion even is. Head over to Mcleanam.com/Roth to get McLean's free ebook. Is a Roth conversion right for you.

32:02
Wade Pfau
And learn about when you might want.

32:04
Bob French
To do a Roth conversion and when you might not. Just head over to Mcleanam.com/Roth to download your free ebook today.

32:13

Wade Pfau
Well, maybe talk a little bit too about the deadlines is a big part of it. But also if you really are trying to engineer a specific income to, say, avoid Medicare irma surcharges and whatnot, and you're doing Roth conversions, you kind of have to wait until you know what all your other income is going to be for the year. And part of that is you have to wait for those end of the year, what are the distributions going to be from your taxable brokerage accounts? And only when you have all that in place can you then finally decide, what should my Roth conversion for the year be? So that's an important consideration as well.

32:50
Rob Cordeau
Yeah, and we probably do, I don't know, 75 to 100 tax projections per year. And I would say a third of those we can do early in the year, and that's usually for a client who only has qualified accounts. So it's a retiree. All they have is IRAs, and we know what they spend. For the most part, we can get a pretty good sense of what their income and their deductions are going to look like early in the year. But for at least two thirds of our clients, we try to wait. And this is a balancing act, we try to wait as long as we can in the year because the projection is most accurate the later we wait. Right. But not so late that we miss deadlines. So October, November, and December is a little crazy for us, doing projections.

33:35
Rob Cordeau
That's why I don't show up to those parties. I'm just too busy.

33:39
Alex Murguia
It's not me. It's not me.

33:41
Rob Cordeau
It's not you. Contrary to what Wade might have told you, it's not you at all.

33:44
Alex Murguia
Exactly. No, it's true.

33:49
Wade Pfau
You kind of are like, take Thanksgiving off. Are you going to be working on Thanksgiving?

33:56

Rob Cordeau
Probably, yeah. It gets a little crazy for us as we get to year end. And as you mentioned, there are estimates that come out from mutual fund companies. So if you have a non qualified account, mutual fund companies might come out with estimates for their funds. Here's what we're going to pay for a dividend or long term capital gain distributions. Some of those pay them out mostly or entirely at year end, like mid December. So some of those estimates don't show up until November. So it's a little tough to, if you have a sizable non qualified account, to be able to estimate large amounts of dividends. So it does compress the planning work into this very short period.

34:41
Alex Murguia
So Rob, as Wade and I were talking about his article and how we would present that in an episode. One of the realization was that there's all these things you could do and analyze but the backbone of much of that analysis comes from financial planning software. Specifically though, the one we're talking about is covisom and that's not something that's available to retail audiences because there's no business. There's not enough of a demand to put something that high level to individuals.

35:13
Wade Pfau
And too much need for handholding with the software that's just not they wouldn't.

35:18
Alex Murguia
Be able to do it. It wouldn't be cost effective for any company to do that. But advisors, they can do it et cetera, et every obviously we have a lot of consumers here and a lot of advisors that listen in. But for the consumers that are listening in absent of saying, well, that's why you should call McLean SMS. Don't mean to sound like a commercial by any means, but what a consumer who's left to his or her own devices is listening in and is thinking all of a sudden, you know what? I got to kind of, like, assess this and see where I'm at. What kind of quick and dirty thing can you tell them up until you say and pick up the phone and call an advisor and go from there? What's left to them to do?

36:00
Rob Cordeau
One kind of quick and easy way to do it if you're someone who does your own tax return so you use TurboTax or one of those pieces of software is to go back and just plug in your income. Now it's not going to have the current year yet but you could kind of put it in and that gives you a sense it's not going to be perfectly accurate because it's not indexed for inflation, all the brackets and that's a quick way. Another way is to literally pull up the tax brackets and really do the math right. Look at your gross income. Subtract out your things that aren't taxable like what you pay into your Section 125 plan at work and subtract out what you've contributed to your pretax. Four hundred and one K at work, come up with what your taxable income will be.

36:53
Rob Cordeau
Kind of work it through basically on a 1040 lacking a full blown piece of software to do it for you. Those would be kind of some of the things I would look at. We use a piece of software that's really designed for advisors and tax preparers. We don't prepare taxes at McLean but the software is great because we can project out, we can plug in all the assumptions and it can tell us exactly how far we are away from the next bracket. It's just useful to be able to tell us, okay, optimizing it. We could fill the next bracket with a $17,000 Roth conversion. That's the amount we'll take. And if went to 24,000 we'd start bumping up against the armor breakpoint and if went to this other point, we'd exceed this $250,000 level and they'd be subject to the 3.8% NIIT.

37:49
Rob Cordeau
So there are so many competing objectives in terms of breakpoints and brackets that it can be challenging. I'll give you a couple of others that don't show up in a piece of software. We have some clients who get subsidies from pharmaceutical companies, so they take a particular medication. It's extremely expensive. Some of these medications are over six figures. And the pharmaceutical companies will sometimes provide a subsidy, but only if your income is below a certain level. We had one that was $100,000, so we had to plan. It was worth about $45,000 a year to this client for us to not exceed $100,000 by even one dollars, because if he exceeded by one dollars, he would lose his $45,000 subsidy. So for each client, we have those sort of targets that we're looking at.

38:44
Rob Cordeau
Or somebody might be under 65 and they're receiving the Affordable Care Act subsidy, and we can keep their income a little lower, get them a larger subsidy, and that's important for us to keep an eye on. So there's sort of all those other things that might not even show up in a piece of software. You just need to know them for each particular investor.

39:09
Alex Murguia
So if I'm kind of trying to think about this big picture again as a listener, what I'm hearing is, look, year end planning is important. And sure, you can do the obvious of maximize the accounts you need to be saving into, et cetera. But there's different levels to this where you really begin to move the needle. Besides, the obvious of just maximizing is just the tax planning component of it. Because as you retire, there are a lot of little gotchas, if you will, as Wade would call them, nonlinear, linearities. Right. But there's a lot of little gotchas that you have to be aware of that you can inadvertently run into that will undermine a lot of work that you've done during the year. And that's what you have to watch out for, because if not, you're leaving money on the table.

40:05
Alex Murguia
Is that a correct sort of most common denominator explanation?

40:10
Rob Cordeau
It is, yeah. And it's surprising to me how many prospects new clients come to us, and no one's ever explained something related to taxes to them, and even if they've come from another advisor. We had a client come on board who had access to a 457 plan through his employer and access to a 403 B plan, and he didn't realize that you could maximize both of those. And that's one of those rare lucky individuals who access to that. And we explained it. He's like, how come nobody ever told me? And from that point forward, he was stuffing an extra, whatever it was at the time, 20 something thousand dollars into that plan just because he didn't know. Or we do a lot with backdoor. Roth IRAs for clients whose income is too high to contribute to a traditional regular Roth IRA.

41:04
Rob Cordeau
And that's a strategy that takes a little work to get it right. It's a little more complex, and we find a lot of accountants don't even know how to fill out the form 86 to account for that correctly because it's so complicated. So we've become sort of experts in backdoor Roth IRAs. And another subtle year end issue with that is it's important not to have a large IRA existing somewhere in the year that you convert your backdoor roth because of the IRA aggregation rules, the IRS will have you sweep in all those other IRAs when you're calculating the percentage. And we've run into cases where clients engaged in a rollover. So they did the backdoor Roth early in the year, and then later in the year, they did some sort of they left a job and they rolled their 401K out to an IRA.

41:59
Rob Cordeau
It's important to fix that before year end because the IRS is going to look at your balance on 1231 of the year of the conversion. So that's a mistake that you could fix. If you were in December, you could do a roll in to another 401K plan, get that IRA empty so that you don't mess up the Backdoor Roth aggregation rule. So there's a lot of subtleties like that. It takes working with an advisor who's very tax centric, who's going to look for those sort of things.

42:32
Alex Murguia
That's fantastic. This is like a masterclass in of itself. Oh, Wade, see this guy flexing on form whatever. And for the record, he's not reading anything. He's just like top of his head. We need you and him together on a Jeopardy and see who comes out here.

42:48
Rob Cordeau
Jeopardy.

42:50
Wade Pfau
Kind of struggle on the tax side. Yeah, this episode didn't have a script where just let Rob go. Rob riff.

43:02
Rob Cordeau
Just a couple of other last minute things that I had Jotted down.

43:05
Alex Murguia
Here we go. Here we go.

43:07
Rob Cordeau
Two more quick ones. FSA.

43:09
Alex Murguia
Have at it, man.

43:10
Rob Cordeau
This is flexible spending accounts, right? So a lot of those have a year end of 1231. And I think it's like $610 that can roll over or something. If your plan elected it, they can roll over some of it, but it's best to look at that as a use it or lose it kind of account and get those expenditures in before the deadline. Dependent care, flexible spending accounts, those don't even carry any sort of rollover provision, so you need to use those up by whatever the deadline is. And a lot of those deadlines are 1231. So gifting, if you're into a state planning, you're trying to get money out of your state, that $17,000. Annual gift tax exclusion, use that up. If you're doing that, get those gifts done by 1231.

44:01
Rob Cordeau
Another strategy we've used with clients with a 529 plan, you can front load five years worth of gifts into a 529 plan. So if you wanted to do that, get that done now, and that would start that clock rolling and you

could literally make another contribution just a little more than four years later. Right, because we're so deep into 2023. Or alternatively, if you wanted to do six years work of contribution, you do one year now, and then in January, you could do the five year front loading and within a month, you can get six years worth of gifts all in without running a file of a gift tax.

44:41
Alex Murguia
Yeah, I'm just hearing this and thinking, wow. Obviously we take it for granted because of the position we have at McLean, and we just see this every day. But there really is a lot to be done beyond just I think people think to some extent planning is just not or, it's just Monte Carlo projections about your portfolio and some sustainable withdrawal rate that doesn't even scratch the surface. As you saw, every bullet point that Rob mentioned here is an episode in and of mean, you can really unpack know to a large extent, but like said, it's end of the year things you want to be talking about. This is where it really is about tightening up loose ends or making sure that things are being taken care of, but in this manner, and it's huge.

45:29
Alex Murguia
It's not just a pat in the back, hey, see you next year. It really is. This is when a lot of the work is done. Frankly, in my estimation, between October and March, those are the heavy lifting months by far when it comes to planning. So I'll thank you for this little master class on year end planning ideas to be thinking about. Obviously, taxes play a big role because, look, at the end of the day, they touch everything. That's fine. So thank you for that, Rob.

46:03
Rob Cordeau
Wade all right, welcome.

46:06
Wade Pfau
Yeah. Thank you, Rob. And thanks, everyone, for listening. And we do wish you all a happy Thanksgiving. I think this is going to come out the week of Thanksgiving with the way we're planning things, so enjoy Turkey Day and thanks.

46:25
Bob French
Wade and Alex are both principals of McLean Asset Management and retirement researcher. Both are SEC registered investment advisors located in Tysons, Virginia. The opinions expressed in this program are for general informational and educational purposes only and are not intended to provide specific advice or recommendations for any individual or on any specific securities. To determine which investments may be

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