

## Money Matters: Tips from a Pro about Taxes after Retirement

As we approach the April 15 income tax deadline, most people are focused on how to save money on their returns. But they shouldn't lose sight of how the tax decisions they make today can affect their retirement plans tomorrow. If you are within five years of retirement, tax season should serve as a reminder that it's time to fine tune your future finances. For example, have you thought of how taxes will affect you after you say goodbye to the nine to five? Securing retirement income and understanding how taxes apply to your money is crucial so you can afford to live the life you want throughout your golden years.

"When you look at retirement assets through a tax lens, it becomes clear that decisions regarding whether you have an appropriate level of guaranteed lifetime income, how to maximize Social Security, whether you should work in retirement and how you deploy your assets are very much linked," says [Robert Fishbein](#), vice president and corporate counsel for [Prudential Financial](#). "You should consider all of these elements in a holistic manner because, ultimately, the goal is to make sure your assets support your desired standard of living for the rest of your life."

Here are Fishbein's top tax considerations for those planning for retirement:

### 1 -- Personal income tax

Most people assume their personal income taxes will be lower after retirement because they won't be generating as much income and, therefore, will be in a lower tax bracket. But due to the recent economic downturn and losses in retirement assets, the dismal personal savings rate over the last decade—which has only just recently begun to rise—and the decline of traditional pension plans, and the increase in the full retirement age under Social Security for those born after 1954, many retirees are choosing to take on part-time jobs.

Regardless of the reason for working in retirement, the income earned, combined with use of retirement savings, might create a situation where you will be taxed at the same level or an even higher rate than when you were working full time. Keeping this in mind, it's important to have both taxable and non-taxable retirement assets upon which you can draw in retirement so that you can manage taxes and maximize your income in the long term. Talking with a financial advisor is the best way to create a custom plan that will help you maximize the number of years you can generate income to maintain the same standard of living you enjoy today.

### 2 -- State and local taxes

There's a reason, besides warm weather, that people retire in states like Florida and Texas. Where you retire can have a significant impact on your after-tax income because state and local taxes can affect how long your retirement savings will last. Florida and Texas have a state income tax rate of zero, so they are attractive to many retirees who want to maximize their retirement assets. California, on the other hand, has the highest state income tax; residents there are taxed at 9.3 percent.

In addition to state income taxes, there are sales and property taxes to consider. Some states derive more of their revenue from these taxes than from income taxes. You should understand how all of the taxes in the state and town in which you plan to retire will affect your income.

### 3 – Future tax rates

Another thing to consider when figuring out your post-retirement income is how federal and state taxes might change in the future. It's hard to predict whether they will remain the same, be lower or increase. A good indicator of future federal income taxes is to look at history and take an educated guess. Doing so suggests that rates are at historic lows right now, which likely means an increase in the near future. An indicator of future state taxes might be the current budget position of the state, which, at the moment, suggests that many states may be looking to increase their income, sales and/or property taxes in the short term.

What does this mean for retirement planning—especially in those critical five year periods just before and just after retirement? Basically, if federal or state taxes go up, your retirement savings and assets will be depleted sooner. You will have to save more to make your money last longer or you will have to adjust some of your spending habits.

As you finalize your taxes for this year, think ahead to how taxes will affect you down the road when you retire. Visit [www.retirementredzone.com](http://www.retirementredzone.com) to learn more about planning for retirement.

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