

MAXIFI®

Using Retirement Accounts to Raise Your Lifetime Spending



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September 10, 2020

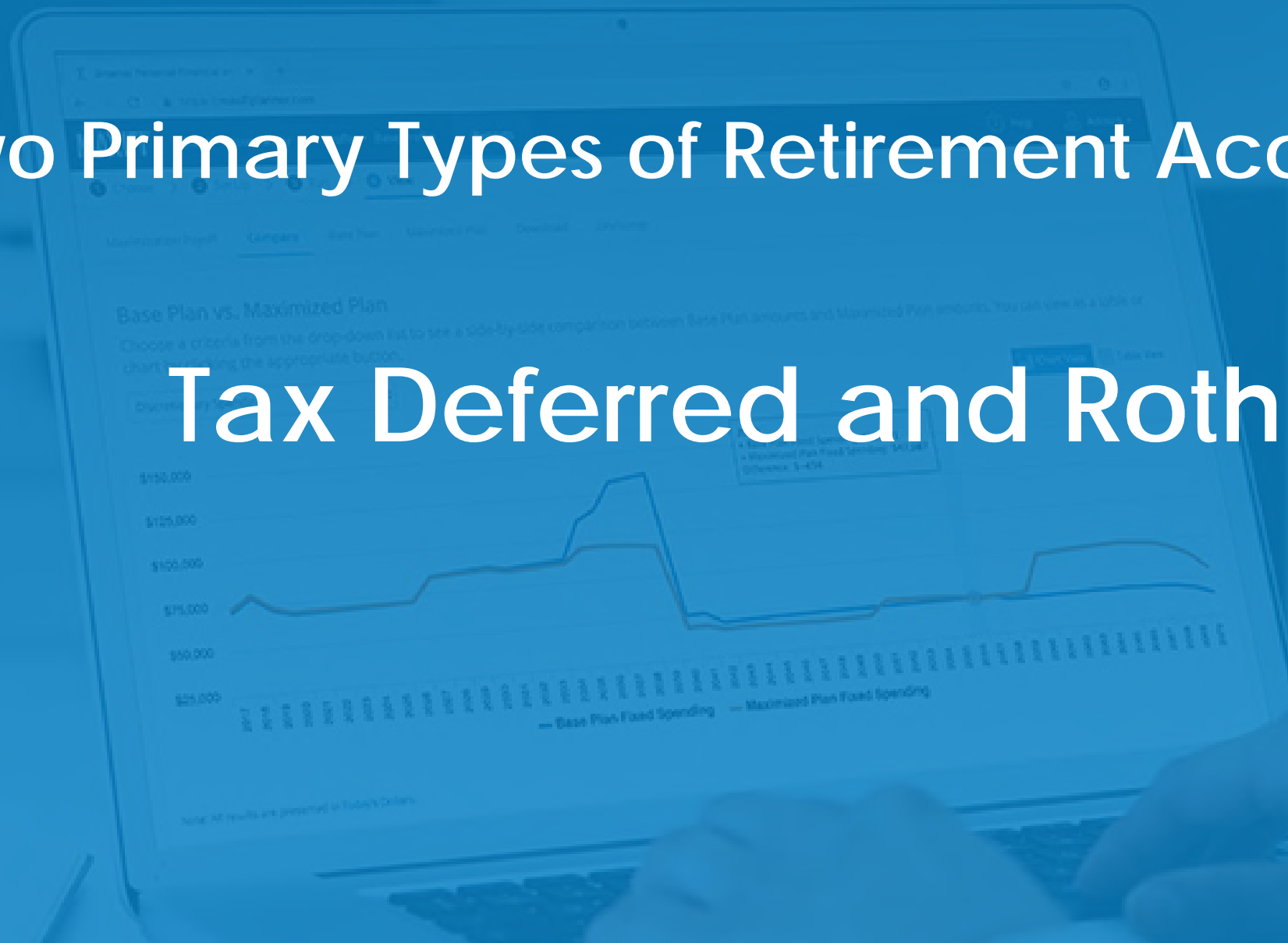
Retirement Accounts Can Lower Your Lifetime Taxes and Raise Your Lifetime Spending



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Two Primary Types of Retirement Accounts:

Tax Deferred and Roth



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Tax Deferred Accounts

401(k)s

IRAs

Keogh Accounts

SEPs

403(b)s

Profit Sharing Plans

Defined Benefit Plans

ESOPs

457s

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Tax Deferred Accounts

Participant's Contributions are Income-Tax Deductible

Assets accumulate Tax Free

Withdrawals are Taxable

Required Minimum Distributions Starting at 72

Employer Contributions are Income and FICA-Tax Deductible

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Roth Accounts

Roth IRAs

Roth 401(k)s

Roth 403(b)s

Roth 457s

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Roth Accounts

Contributions are Not Deductible

Assets accumulate Tax Free

Withdrawals are Not Taxable

No Required Minimum Distributions

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Move Money From Tax-Deferred to Roth Accounts and Vice Versa

Roth Conversion
Withdraw from 401(k) and Contribute to a Roth

Tax-Deferred Conversion
Withdraw from Roth and Contribute to an IRA

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2020 401(k) and IRA Contribution Limits

- 401(k): \$19.5K if Below 50, \$26K if 50 and Above
- Regular and Roth IRA: Combined \$6K if Below 50, \$7K Otherwise
- Income Limits on Roth IRA Contributions
- No income Limits on Contributions to Employer-Sponsored Roth Plans
- Can't Contribute to Regular IRA after 70.5
- Can Contribute to Roth Plans at Any Age
- IRA Contributions Over Limit Can Be Made to Non-Deductible IRAs

2020 Roth IRA Income-Eligibility Limits

- Married – MAGI Below \$196K, Phaseout Between \$196K-\$206K
- Single – MAGI Below \$124K, Phaseout Between \$124K-\$139K

Tax Advantages of Retirement Accounts

- Have Today's Income Taxed at Tomorrow's Lower Rates
E.g., Contribute to a 401(k) while Working. Withdraw when Retired.
- Have Tomorrow's Income Taxed at Today's Lower Rates
E.g., Do a Roth Conversion
- Tax-Free Asset Accumulation

Nature of Tax Advantage from Retirement Accounts

- Smoothing Tax Brackets

E.g., Worker in High Bracket at 50, Low Bracket at 75

E.g., Worker in Low Tax Bracket at 64, High Bracket at 72

- Tax-Free Accumulation

E.g., \$10K Contribution, 30% Tax, 3% Interest Rate, 25 Yrs Accumulation

$\$10K \times (1 + .03 \times (1-.3))^25$ versus $\$10K \times (1.03)^25$

\$16,813 versus \$20,094

Gains from Retirement Accounts – Meet Jerry Jordan

Age 25

Earns \$50,000

Base Case: No Contribution

IRA Contribution Case: 6 Percent Contribution

Roth IRA Contribution Case: 6 Percent Contribution

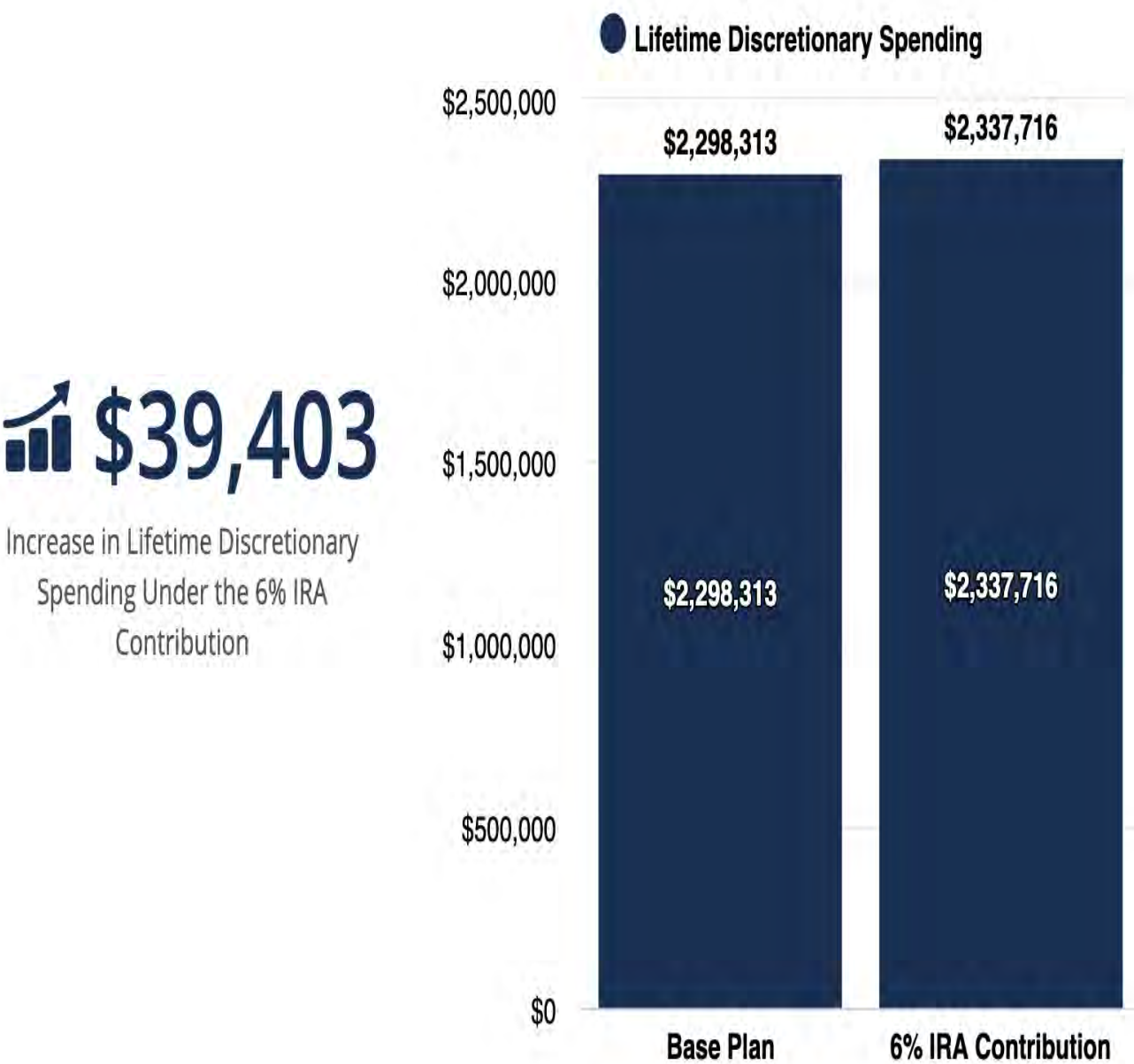
401(k) Contribution Case: 6 Percent Employee, 6 Percent Employer

1.5% Nominal Return and 1.5% Inflation

Jerry's Gains from Contributing to a Traditional IRA

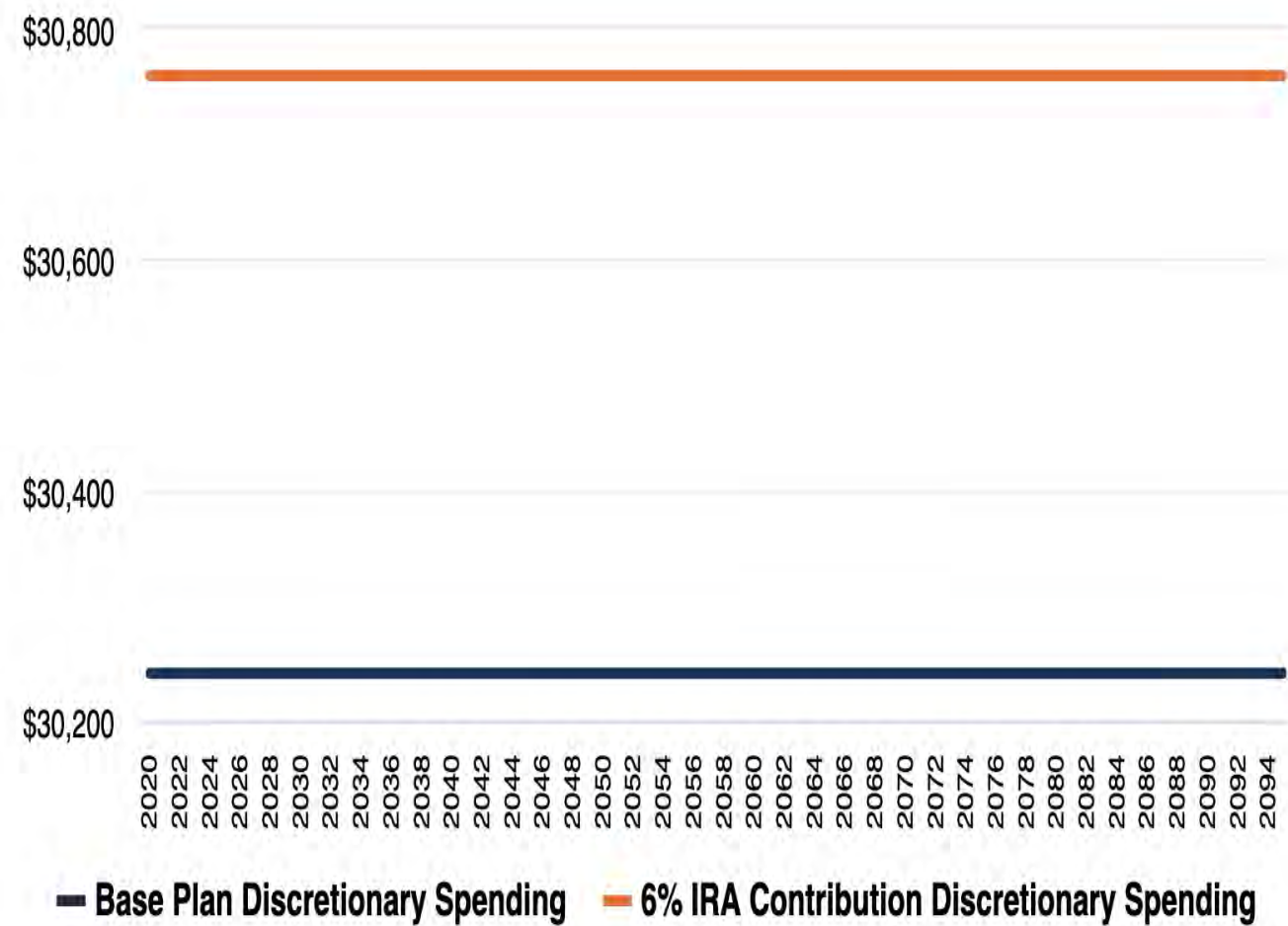
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% IRA Contribution.



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



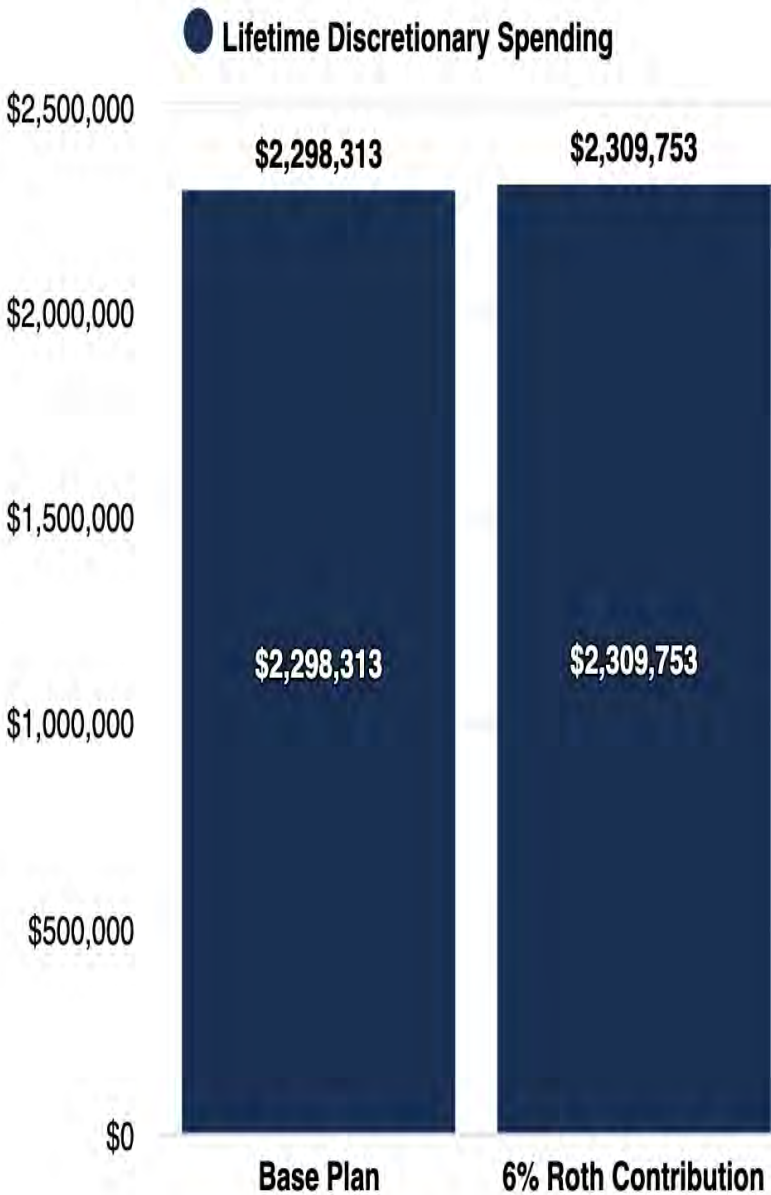
Jerry's Gains from Contributing to a Roth IRA

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% Roth Contribution.

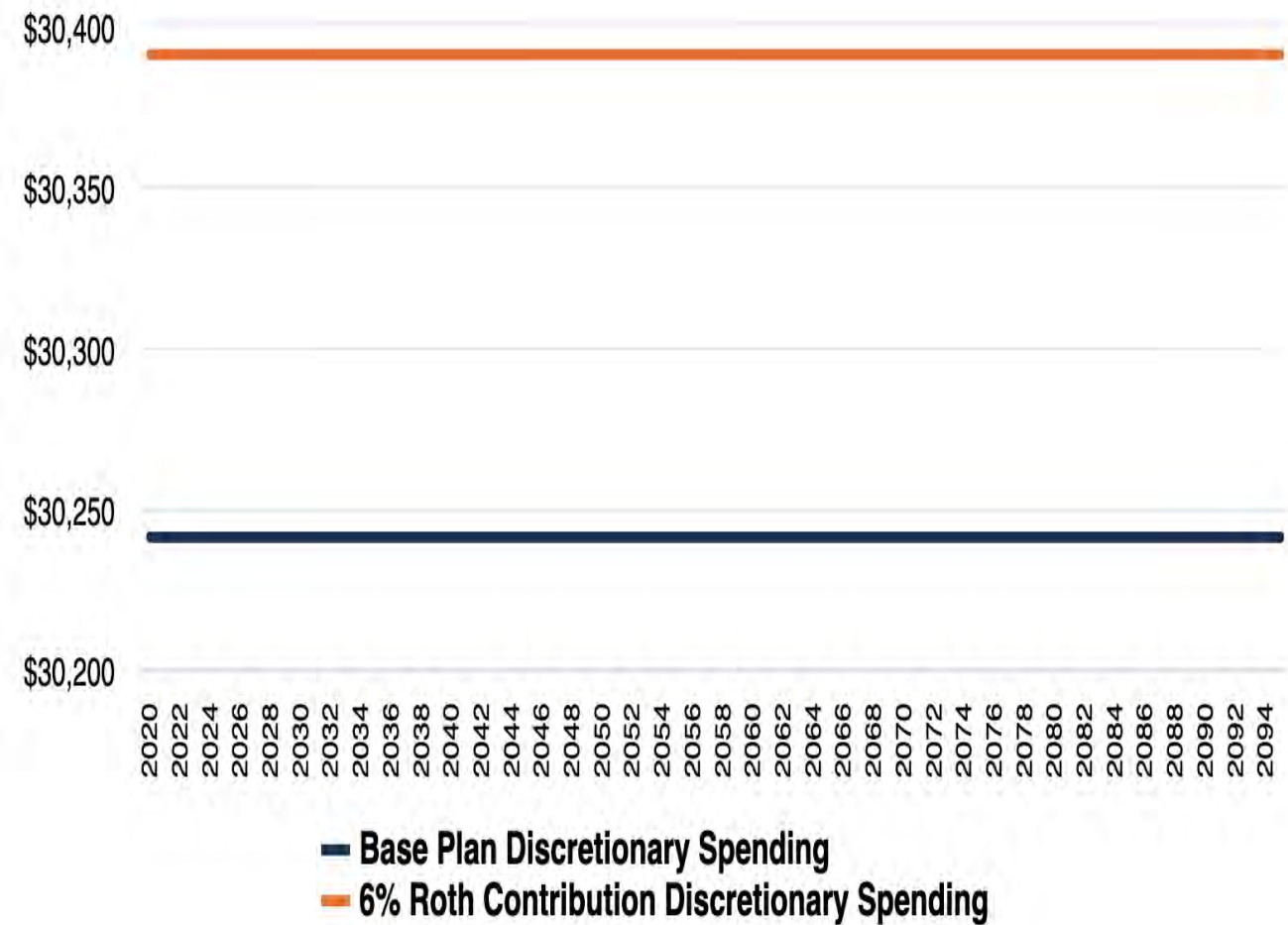
 **\$11,440**

Increase in Lifetime Discretionary Spending Under the 6% Roth Contribution



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



Jerry's Gains from Contributing to a 401(k) with Employer Match

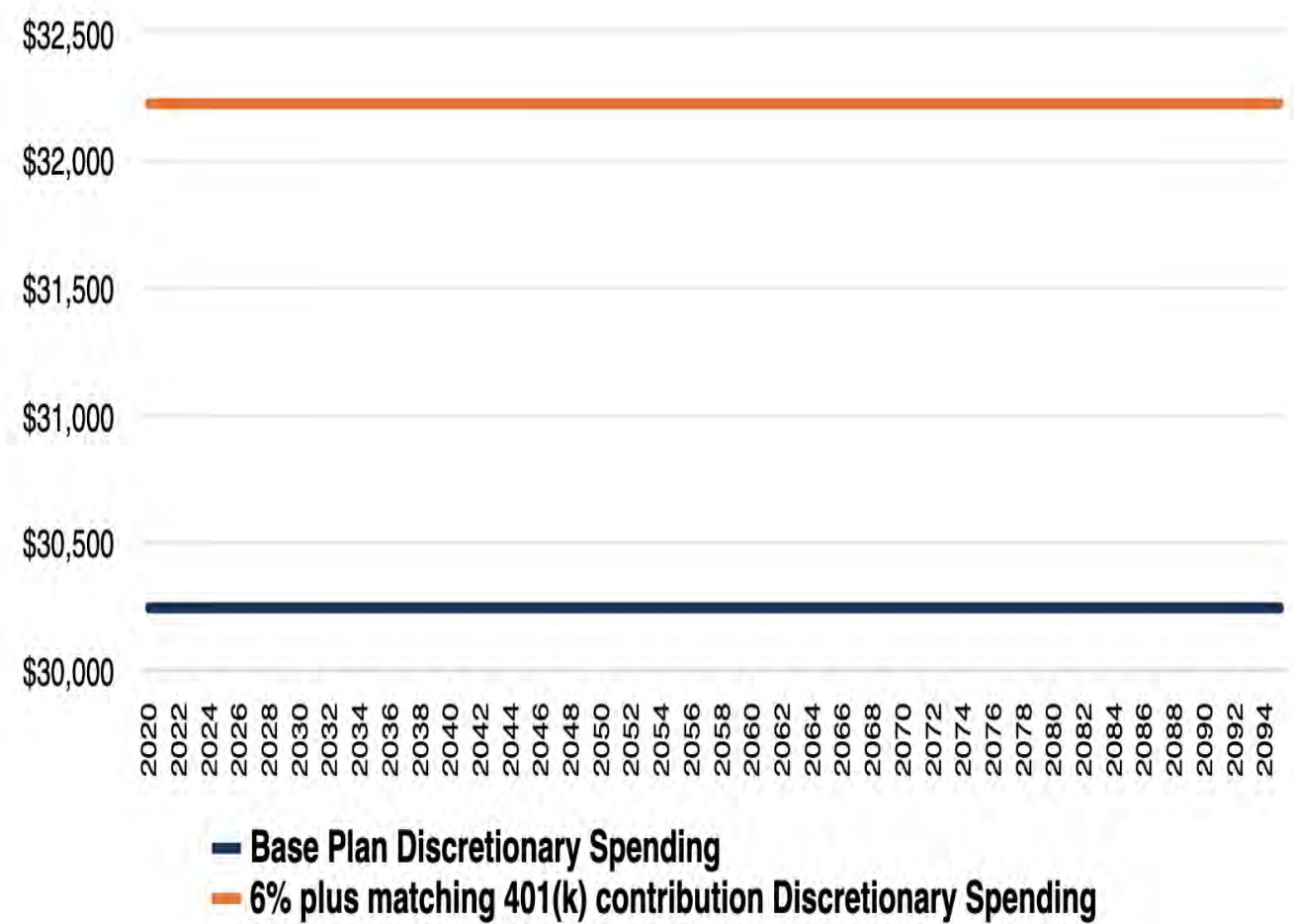
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% plus matching 401(k) contribution.



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



Gains from Retirement Accounts – Meet 3X Jerry Jordan

Age 25

Earns \$150,000

Base Case – No Contribution

IRA Contribution Case – 6 Percent Contribution

Roth IRA Contribution Case – 6 Percent Contribution

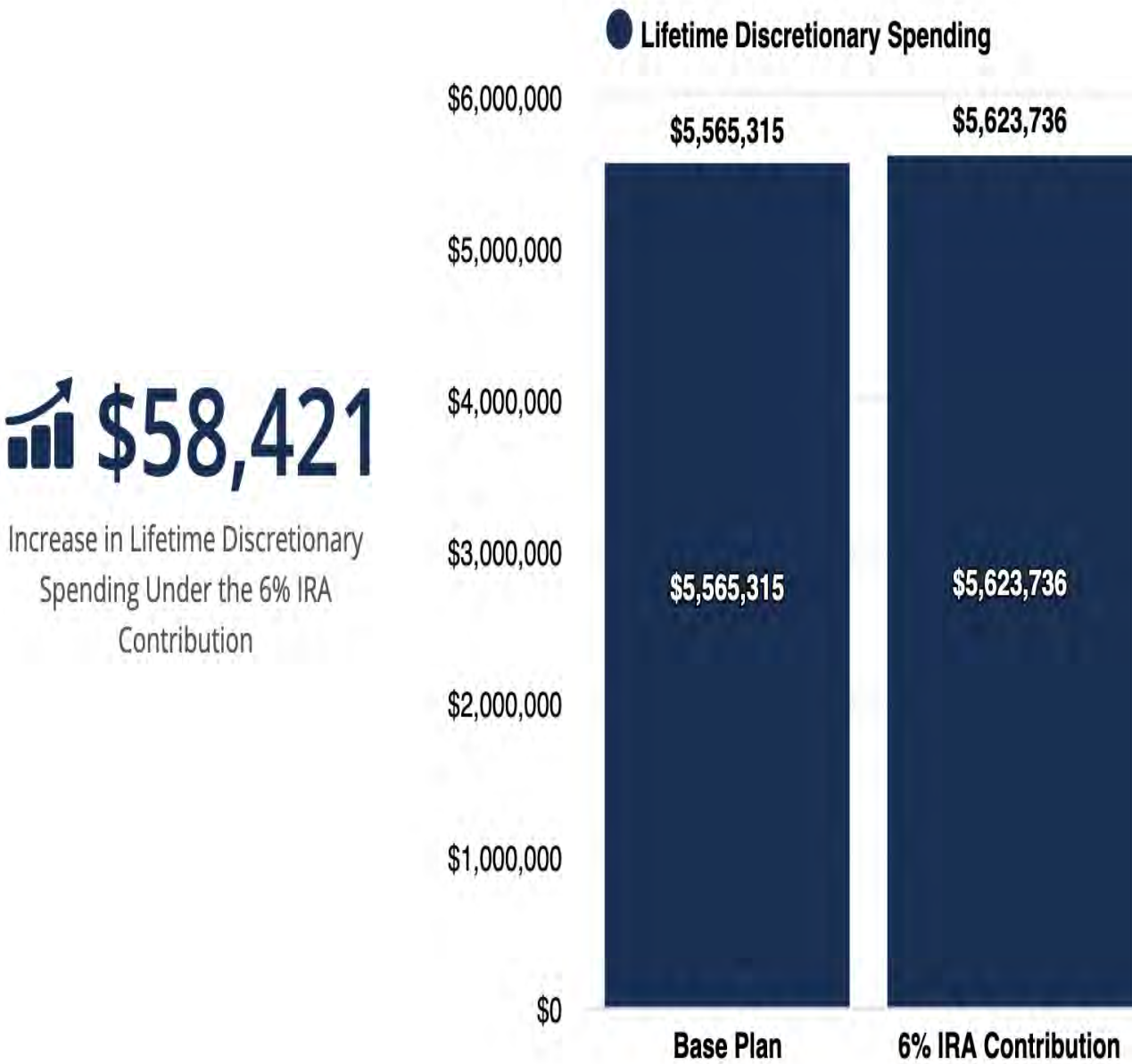
401(k) Contribution Case – 6 Percent Employee, 6 Percent Employer

1.5% Nominal Return and 1.5% Inflation

3X Jerry's Gains from Contributing to a Traditional IRA

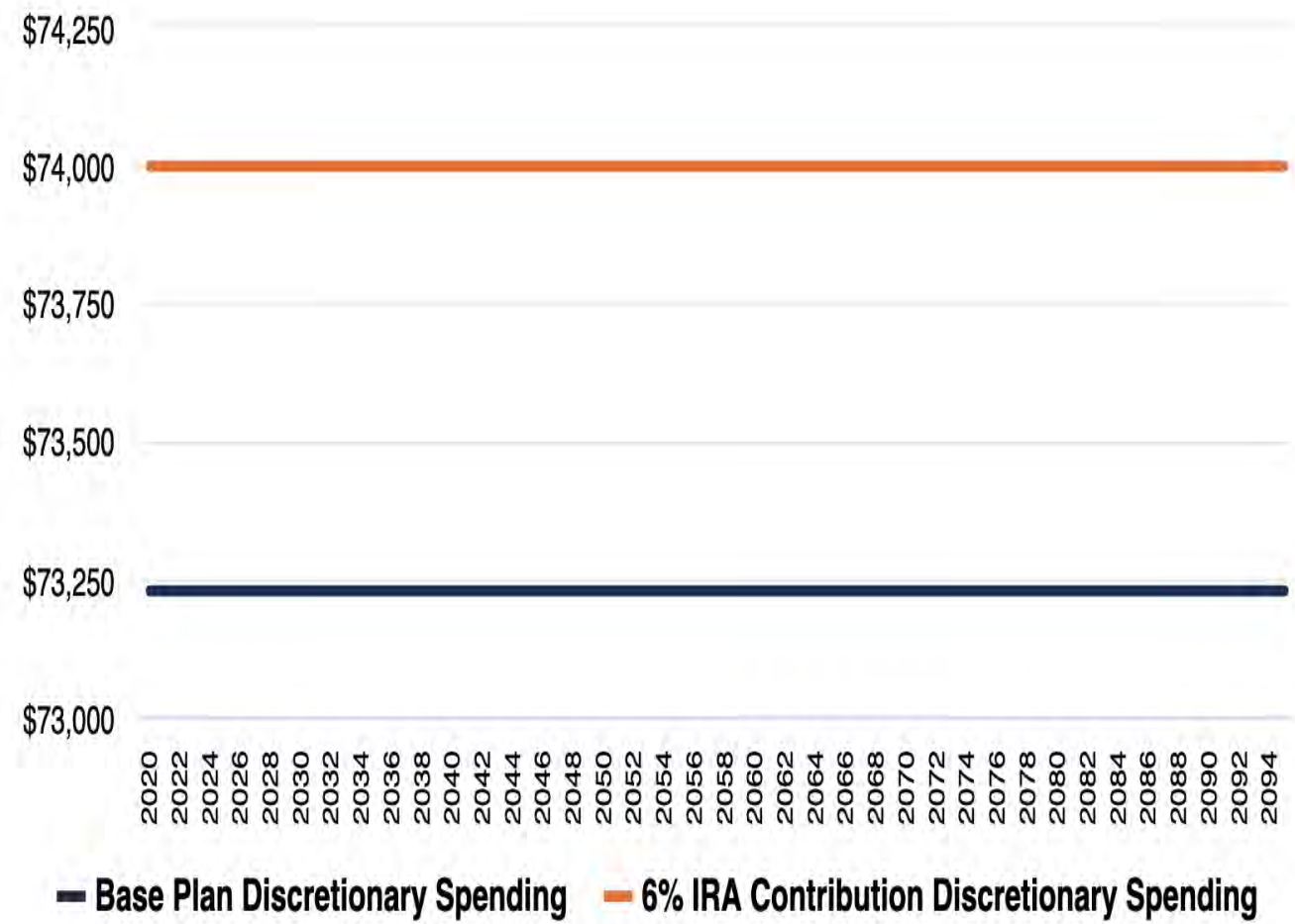
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Annual Discretionary Spending

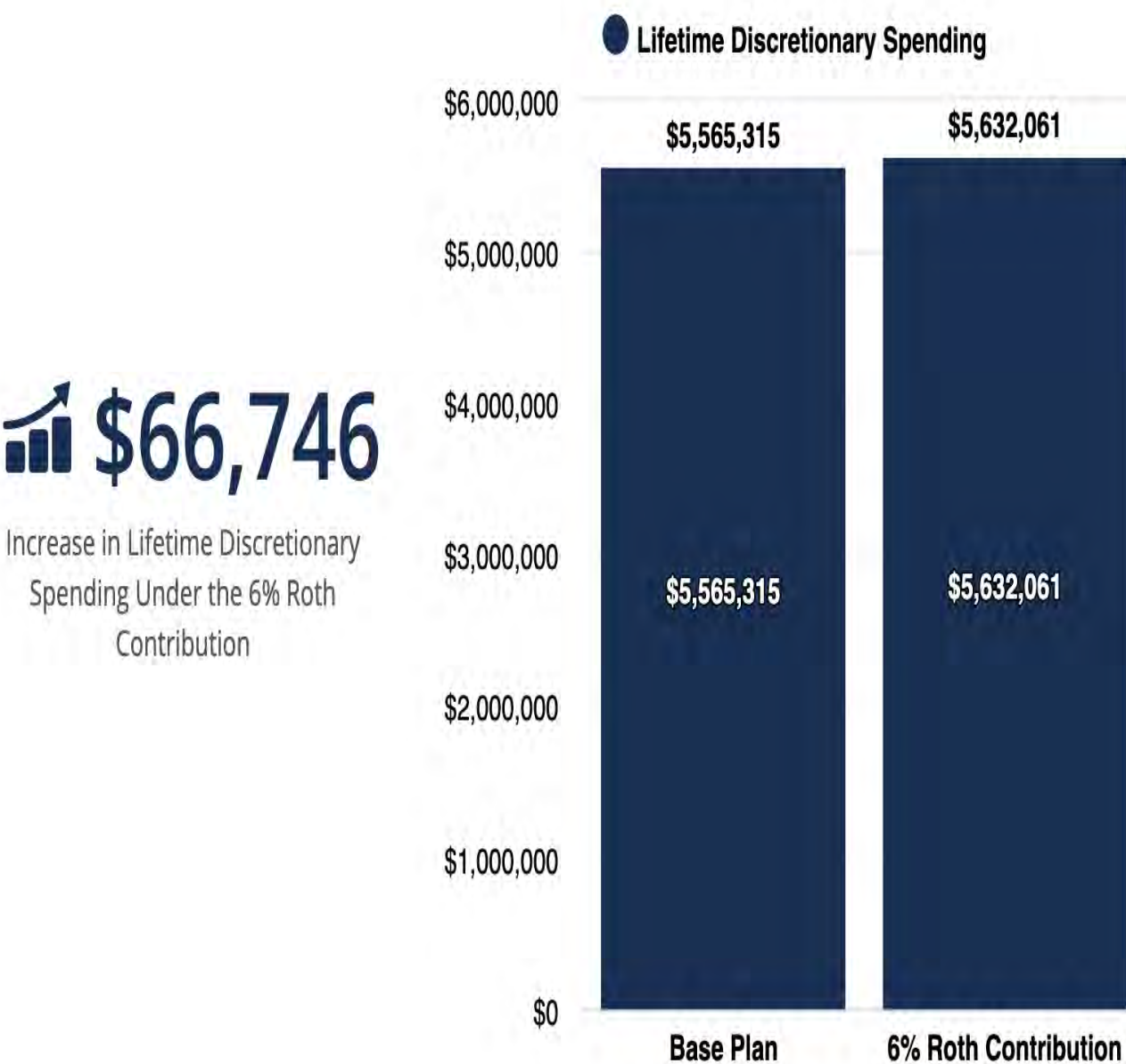
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3X Jerry's Gains from Contributing to a Roth IRA

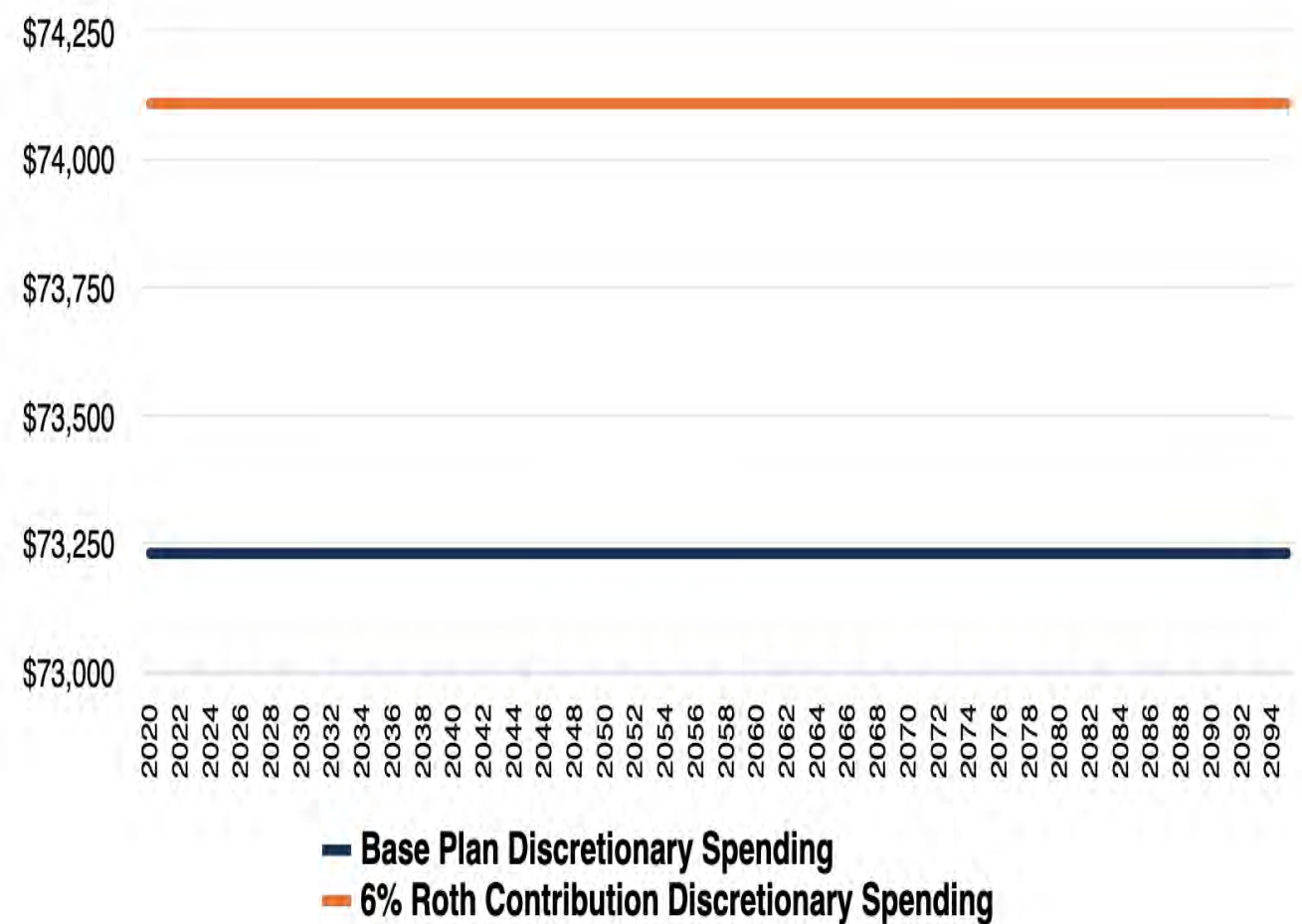
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% Roth Contribution.



Annual Discretionary Spending

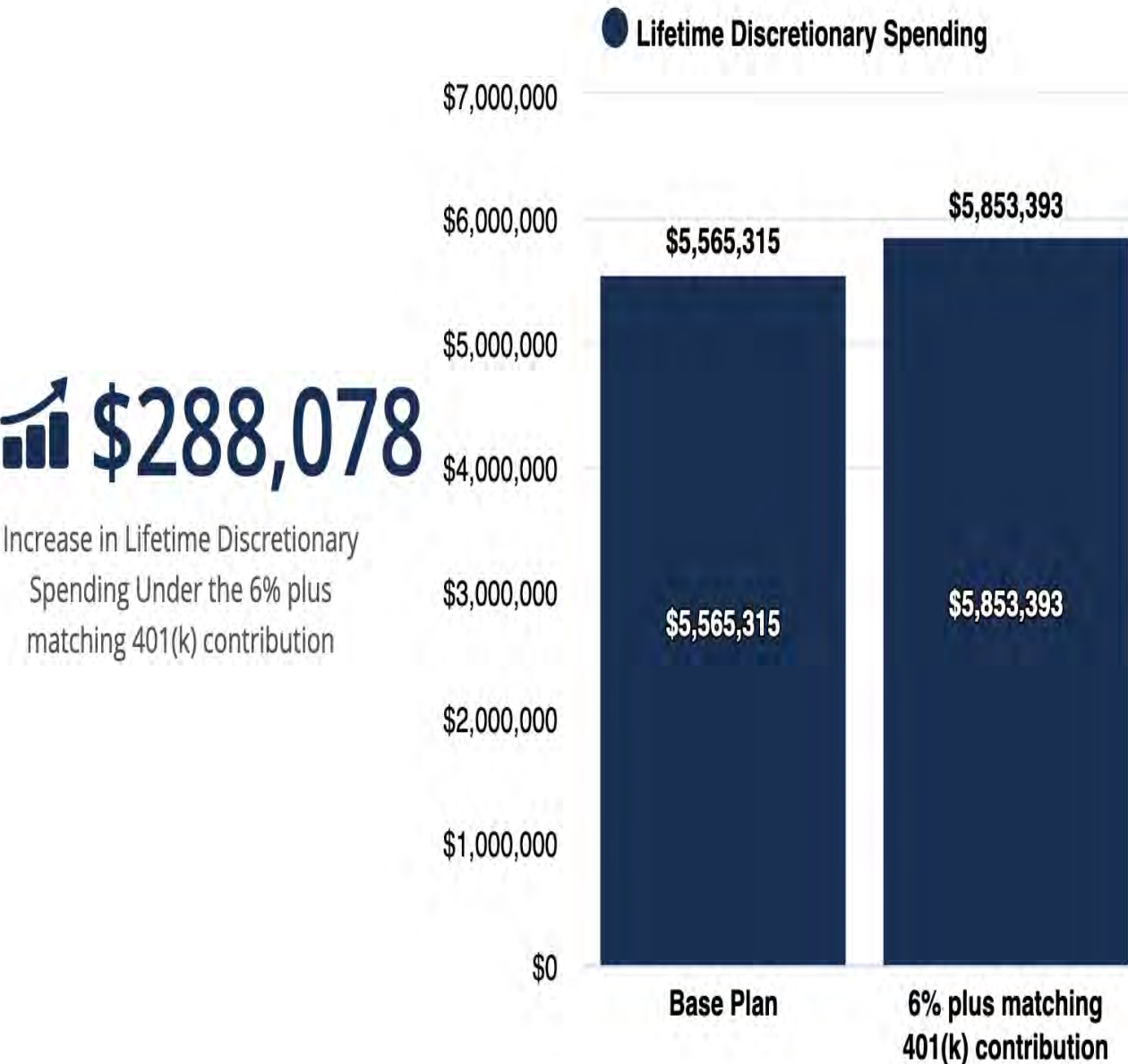
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3X Jerry's Gains from Contributing to a 401(k) with Employer Match

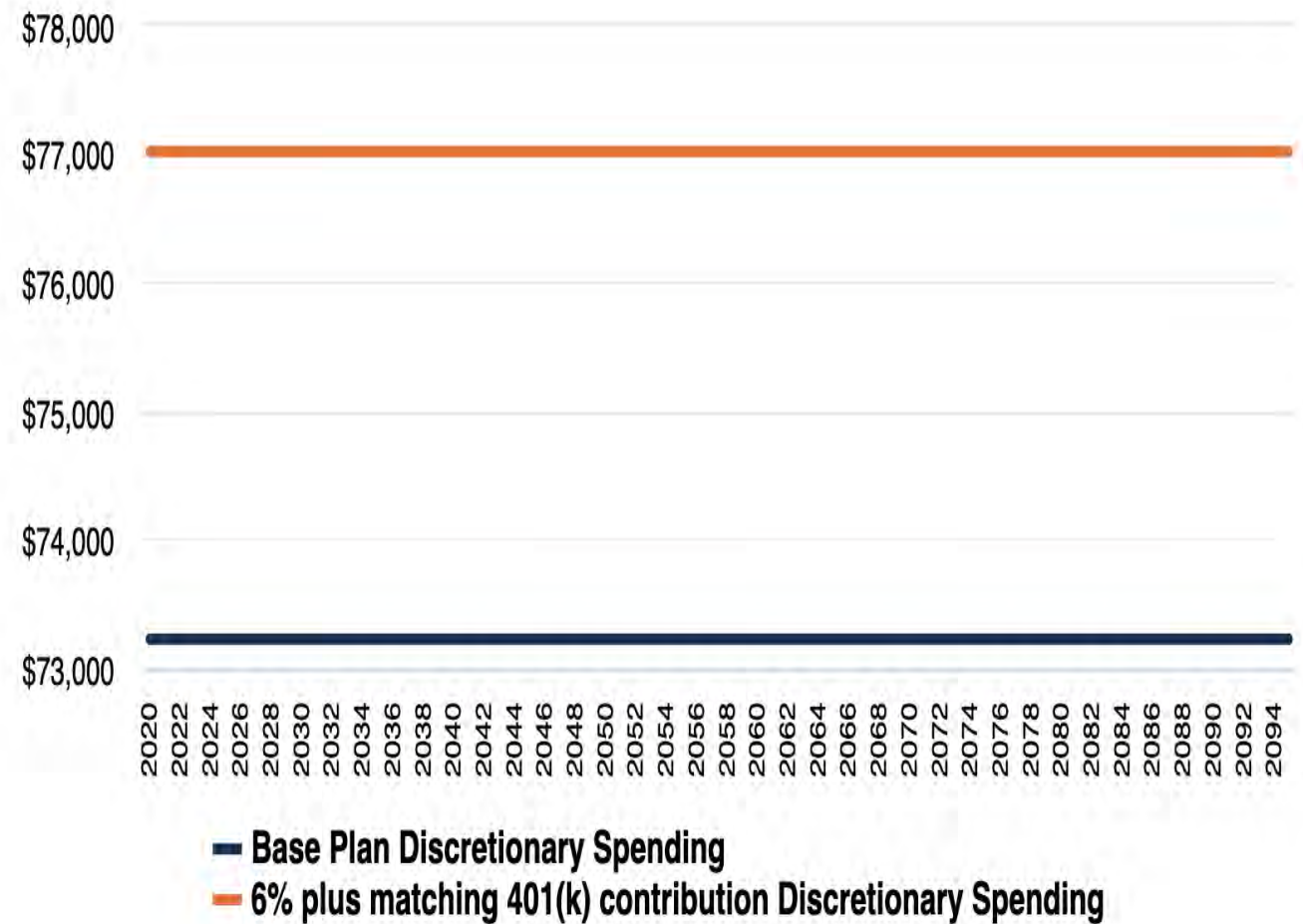
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% plus matching 401(k) contribution.



Annual Discretionary Spending

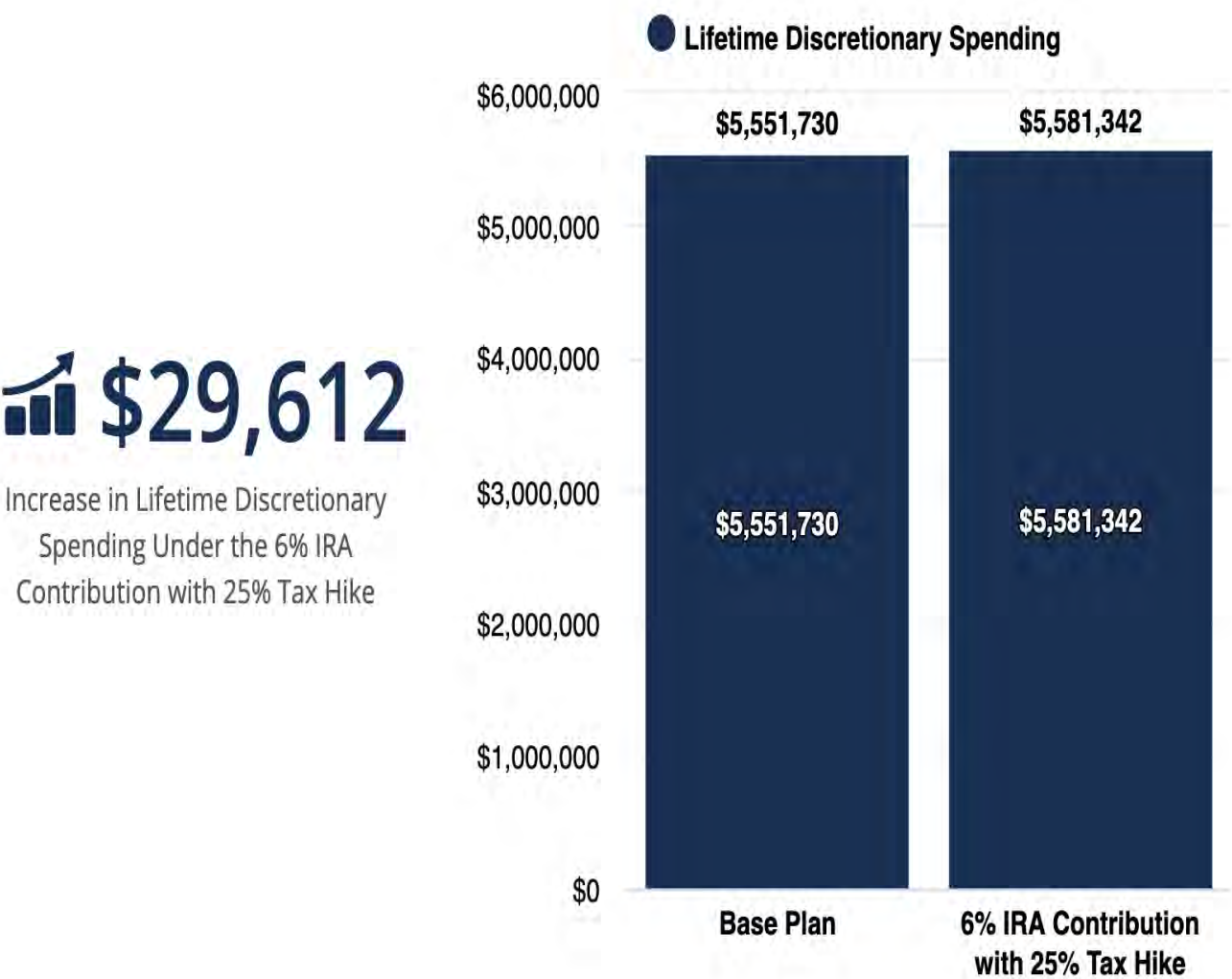
The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



3X Jerry's Huge Loss from IRA if Taxes Rise 25% when He Starts Withdrawing

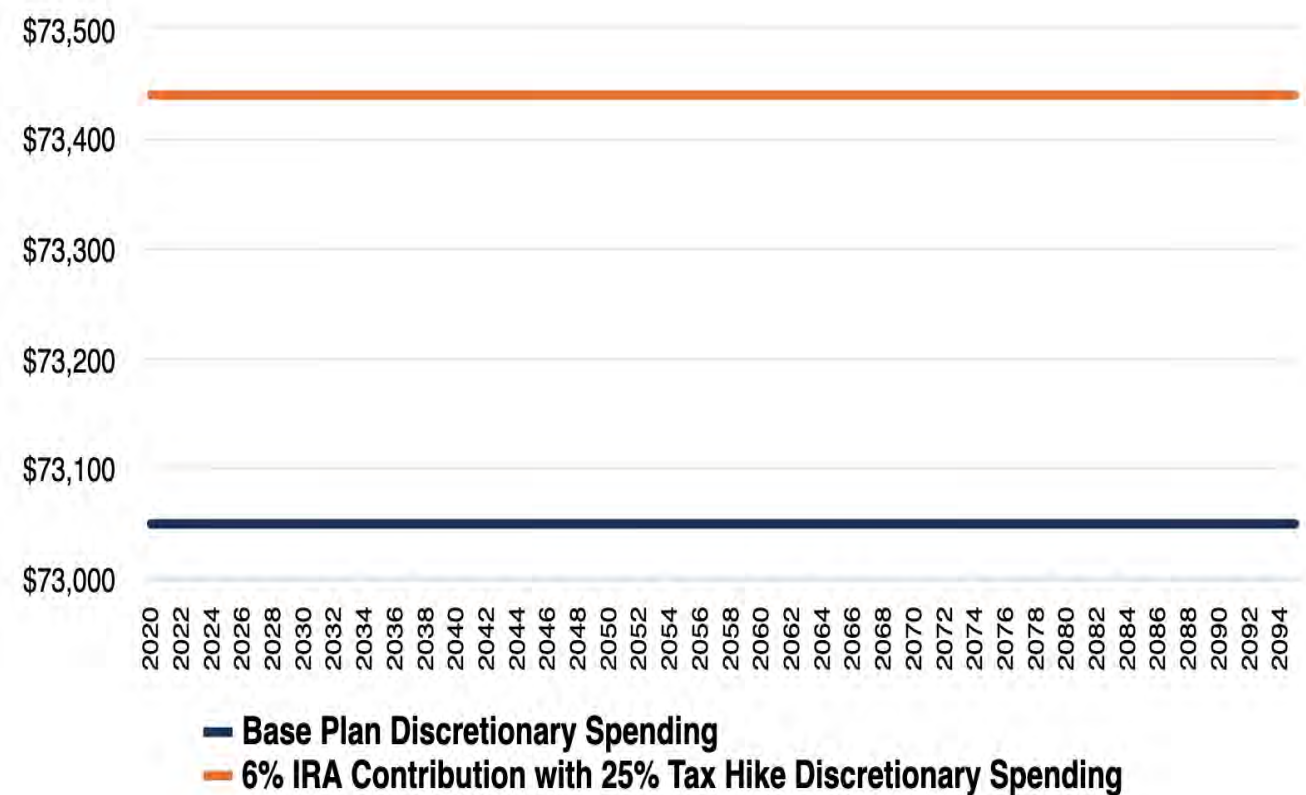
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% IRA Contribution with 25% Tax Hike.



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.

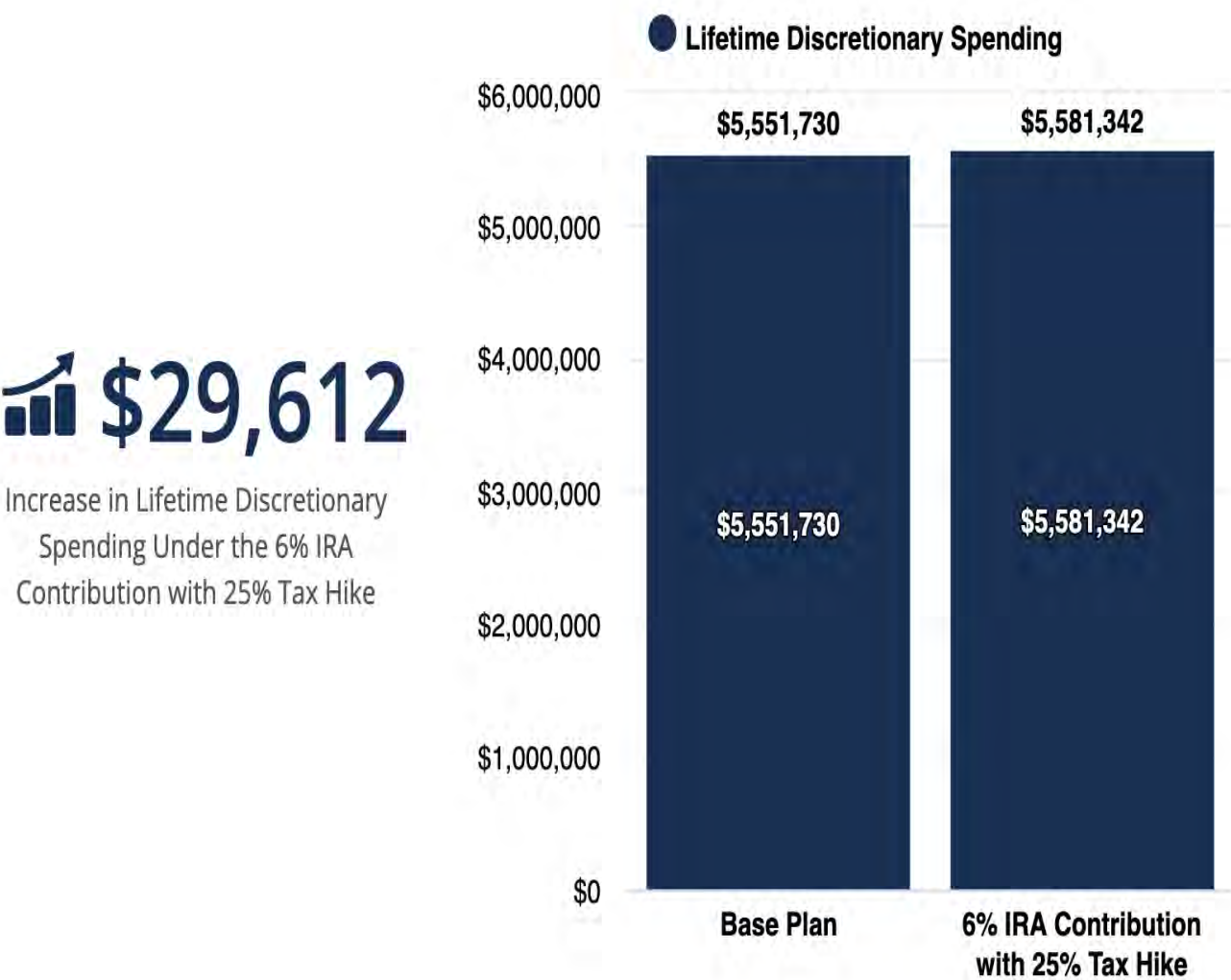


Note: Base plan also includes 25 percent permanent federal income tax hike starting when withdrawals begin.

3X Jerry's Reduced Gain from IRA if Taxes Rise 25% when Withdrawals Start

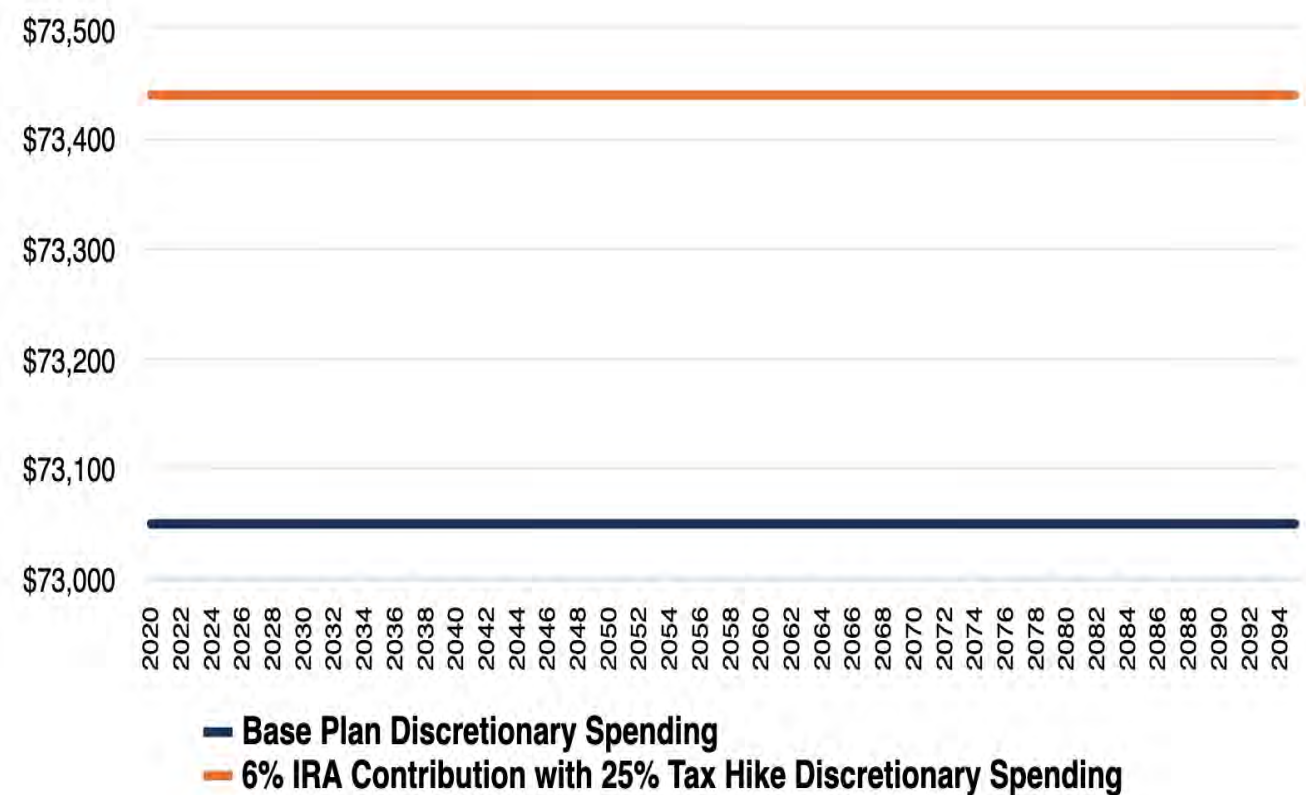
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% IRA Contribution with 25% Tax Hike.



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.

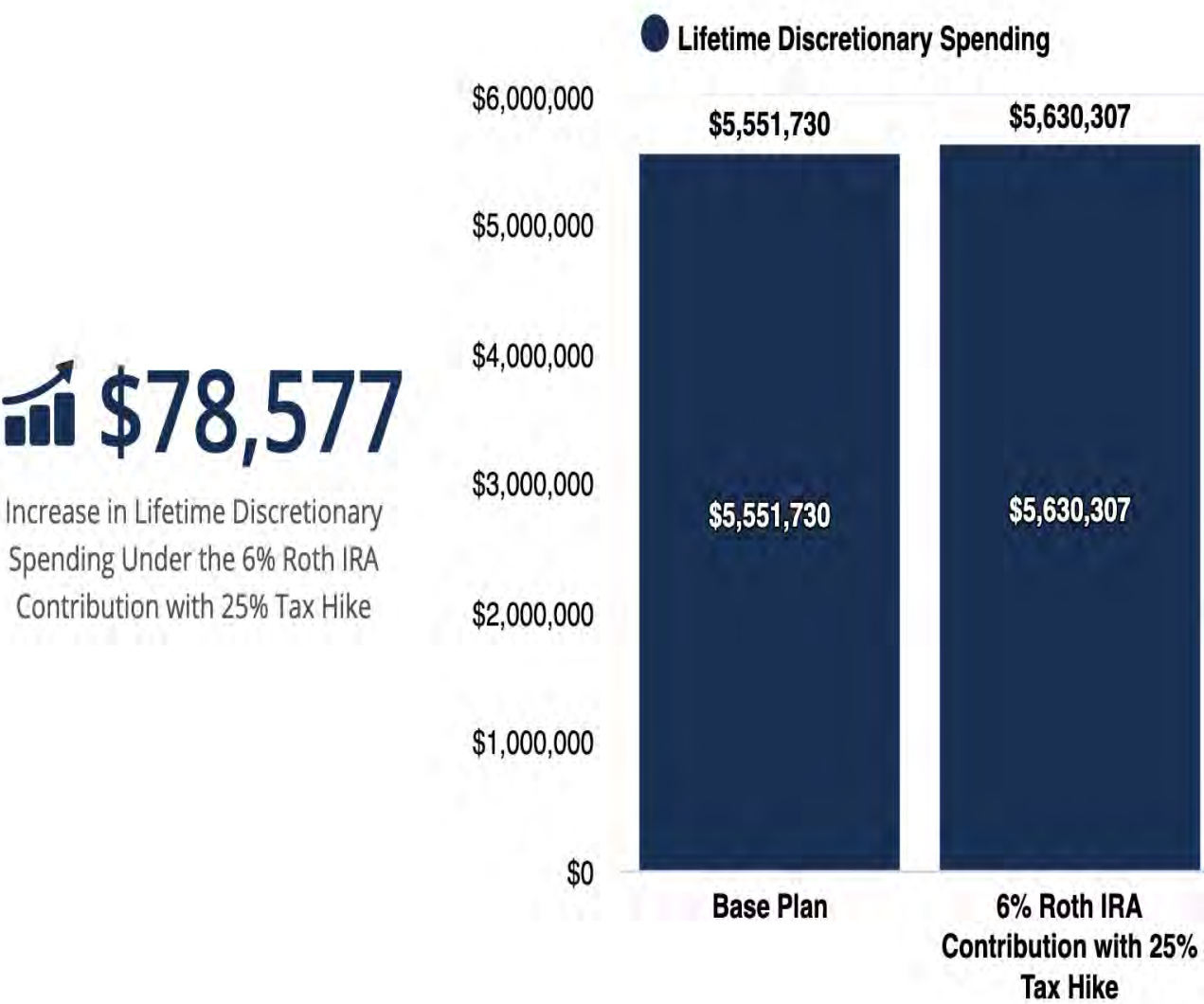


Note: Base plan also includes 25 percent permanent federal income tax hike starting when withdrawals begin.

3X Jerry's Larger Gain from Roth IRA if Taxes Rise 25% when Withdrawals Start

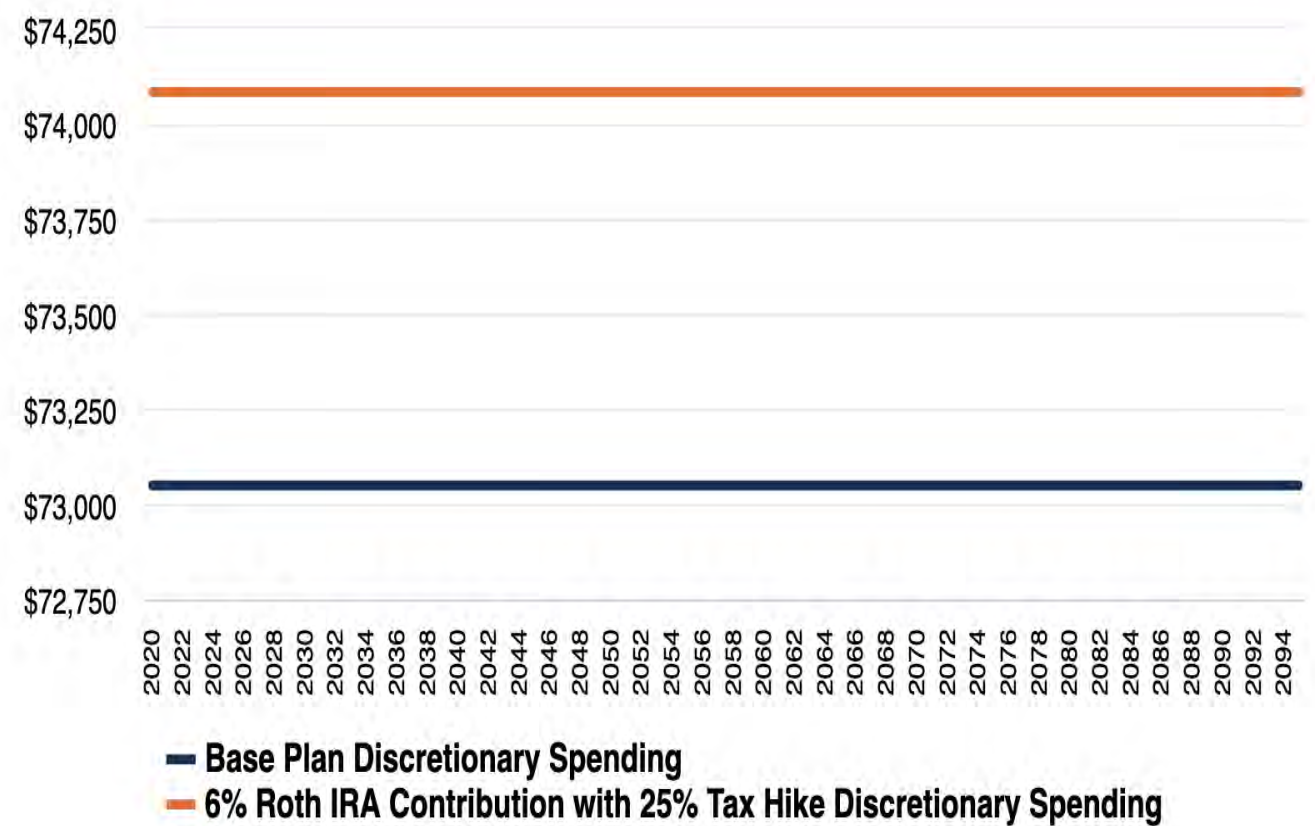
Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and 6% Roth IRA Contribution with 25% Tax Hike.



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



Note: Base plan also includes 25 percent permanent federal income tax hike starting when withdrawals begin.

Analyzing a Roth Conversion – Meet Jane Elwood

Age 60

Earns \$100,000, Retiring Next Year

Regular Assets -- \$500K

401(k) -- \$2.5 million

1.5% Nominal Return and 1.5% Inflation

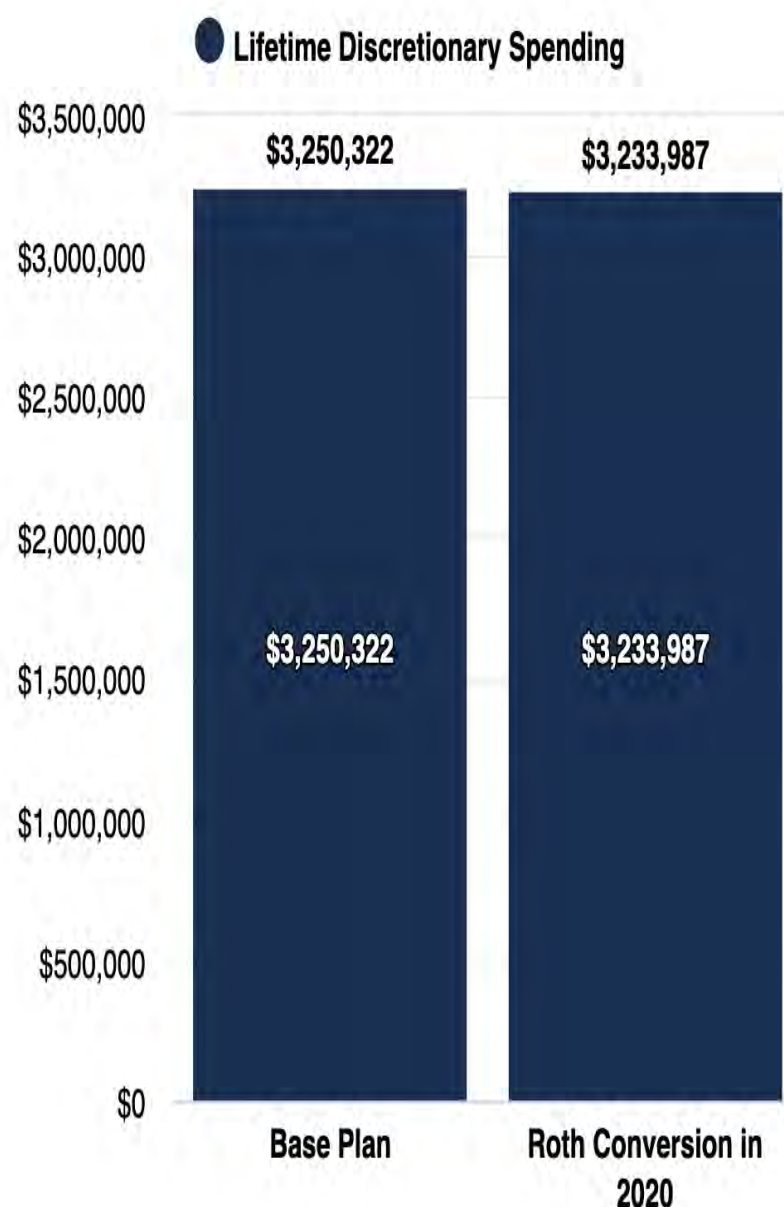
Jane's Losses from Roth-Conversion of \$500,000 in 2020

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Roth Conversion in 2020.

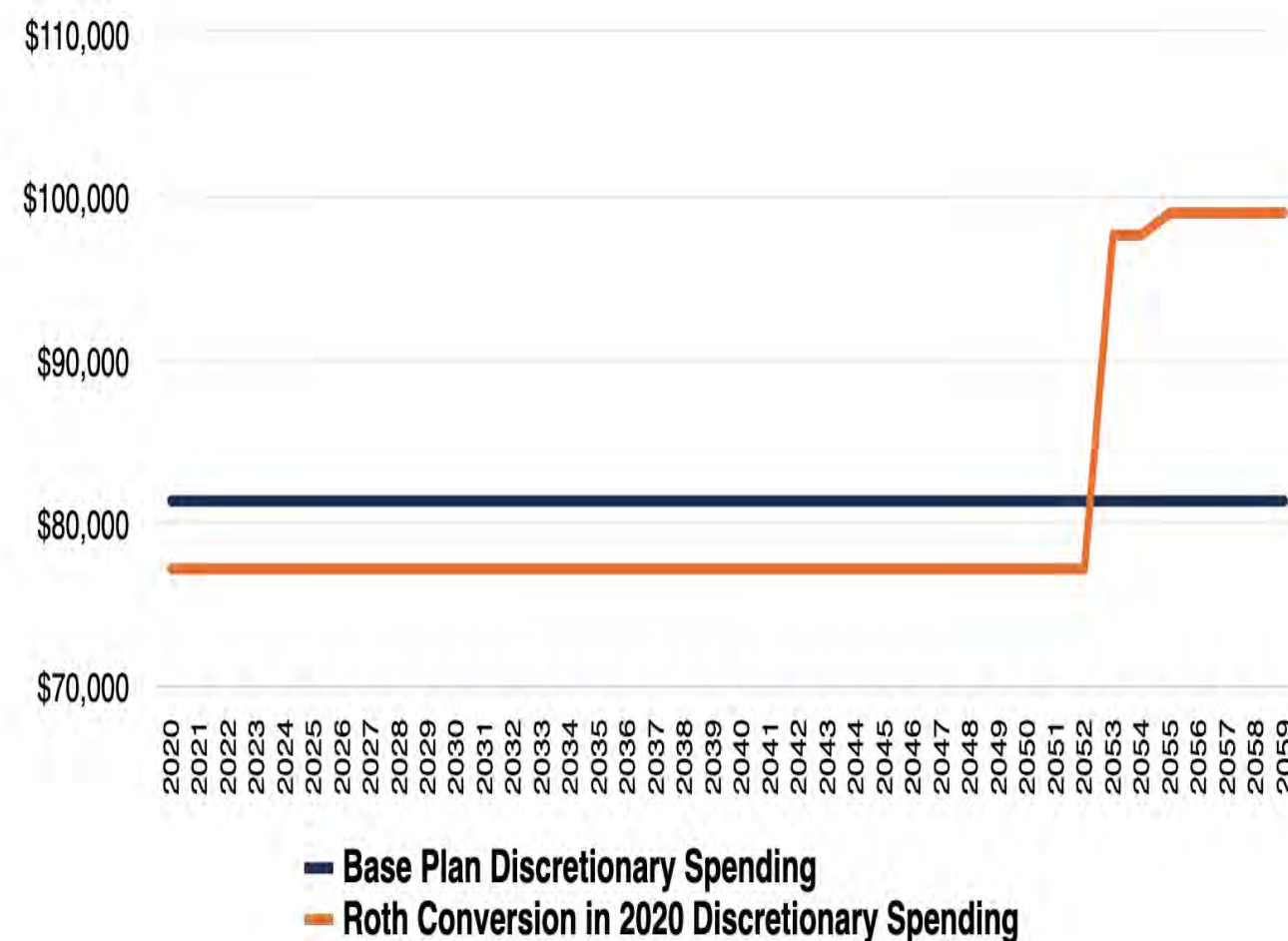


Congratulations! Base Plan dates provide the maximum Lifetime Discretionary Spending.



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



Jane's Tax Changes from Roth-Converting \$500,000 in 2020

Base Plan vs. Roth Conversion in 2020

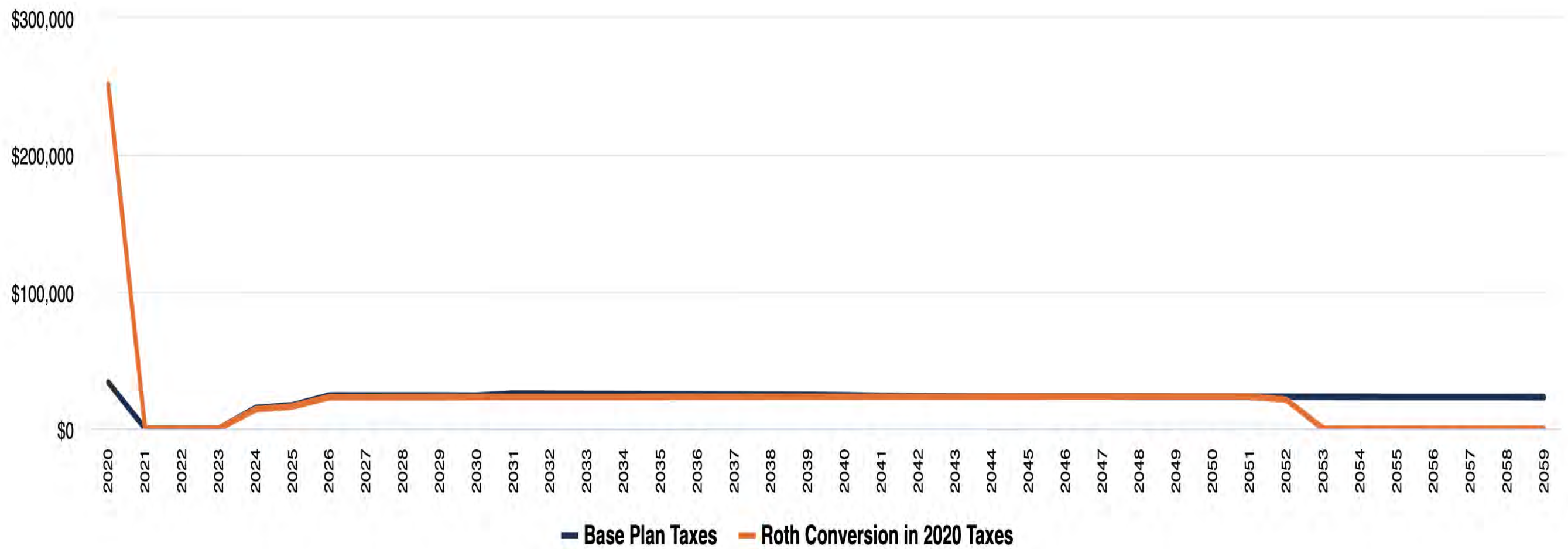
Choose a criteria from the drop-down list to see a side-by-side comparison between Base Plan amounts and Roth Conversion in 2020 amounts. You can view as a table or chart by clicking the appropriate button.

Taxes

▼

Chart View

Table View



Note: All results are presented in [Today's Dollars](#).

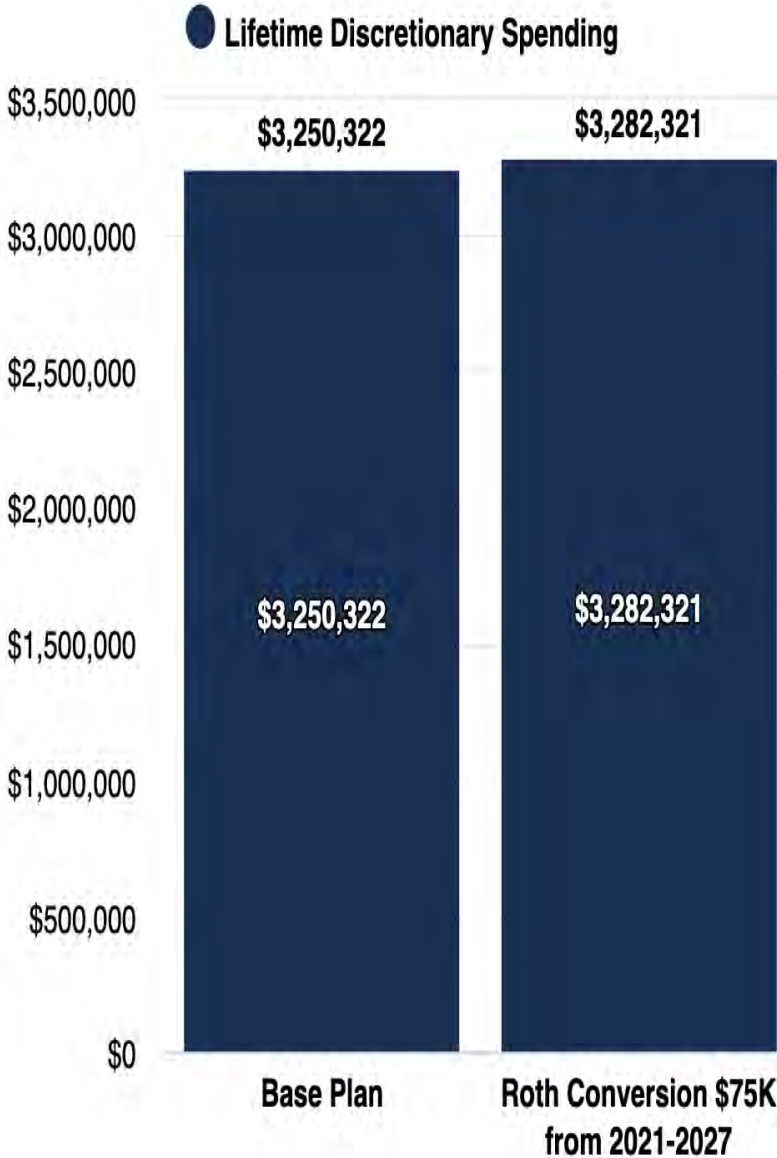
Jane Gains from Converting \$50,000 Annually to a Roth from 2021-2026

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Roth Conversion \$75K from 2021-2027.

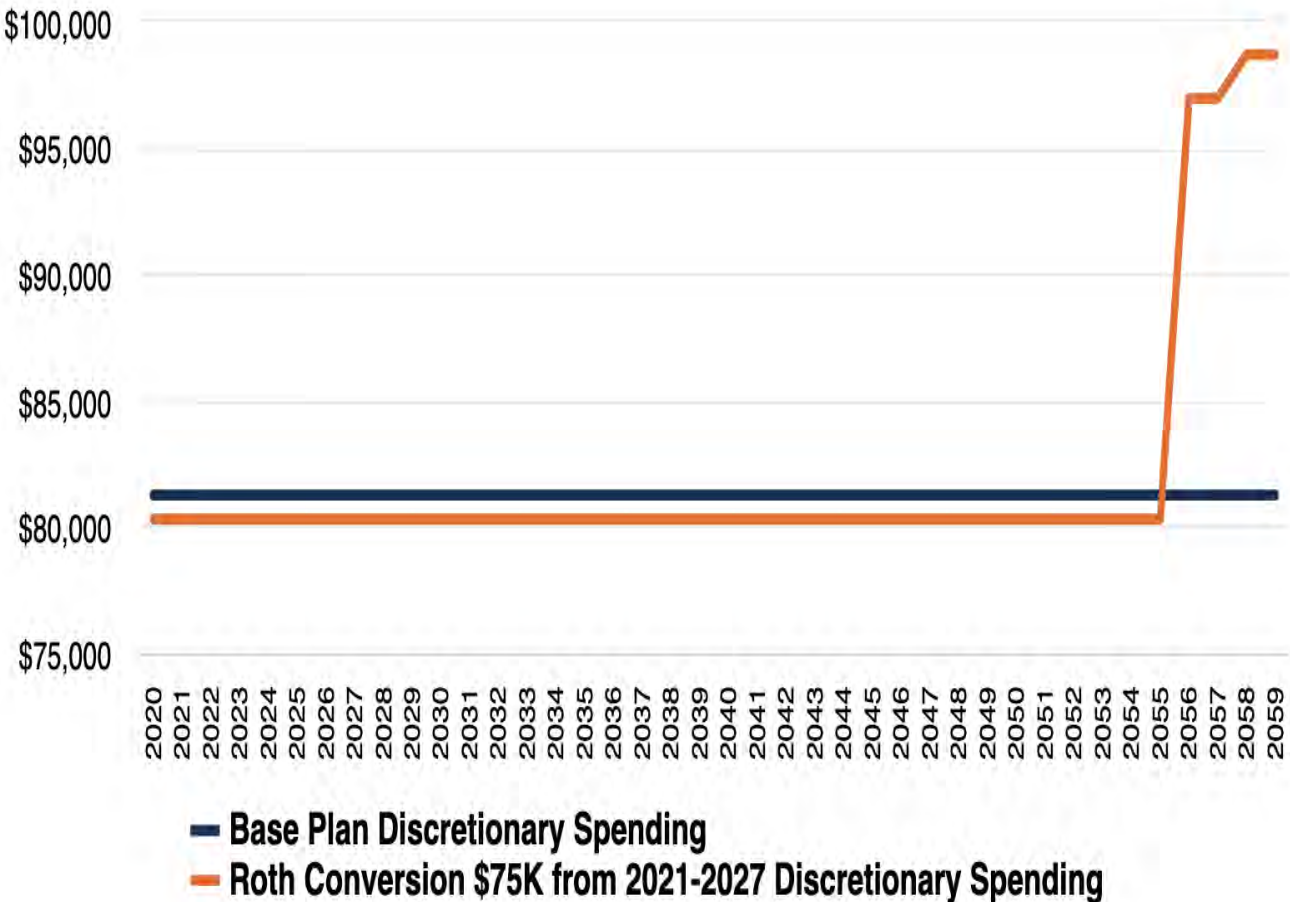
 **\$31,999**

Increase in Lifetime Discretionary
Spending Under the Roth
Conversion \$75K from 2021-2027



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



Earning a Higher Safe Return on Your Retirement Assets

- Interest rates are extremely low
- Mortgage, car loan, and credit card rates remain high
- Consider using retirement account assets to pay off debts
- This assures a high safe return
- Using Roth money avoids immediate increase in taxes
- But cashing out your tax-deferred accounts may also work
- Let's examine this option in MaxiFi Planner

Case Study: Cashing Out Your IRA to Pay Off Your Mortgage

- Meet Jeff, Age 61, and Danielle, Age 55
- Jeff just furloughed, expects to return in Jan to \$150K job
- Danielle makes \$50K. Both will retire and take SS at FRA
- Couple has \$1.7 mil in their IRA, \$100K in the bank
- \$600K house with 3.65% 30-year \$400K mortgage
- Couple withdrawing \$600K from IRA to pay off mortgage
- Let's see the results

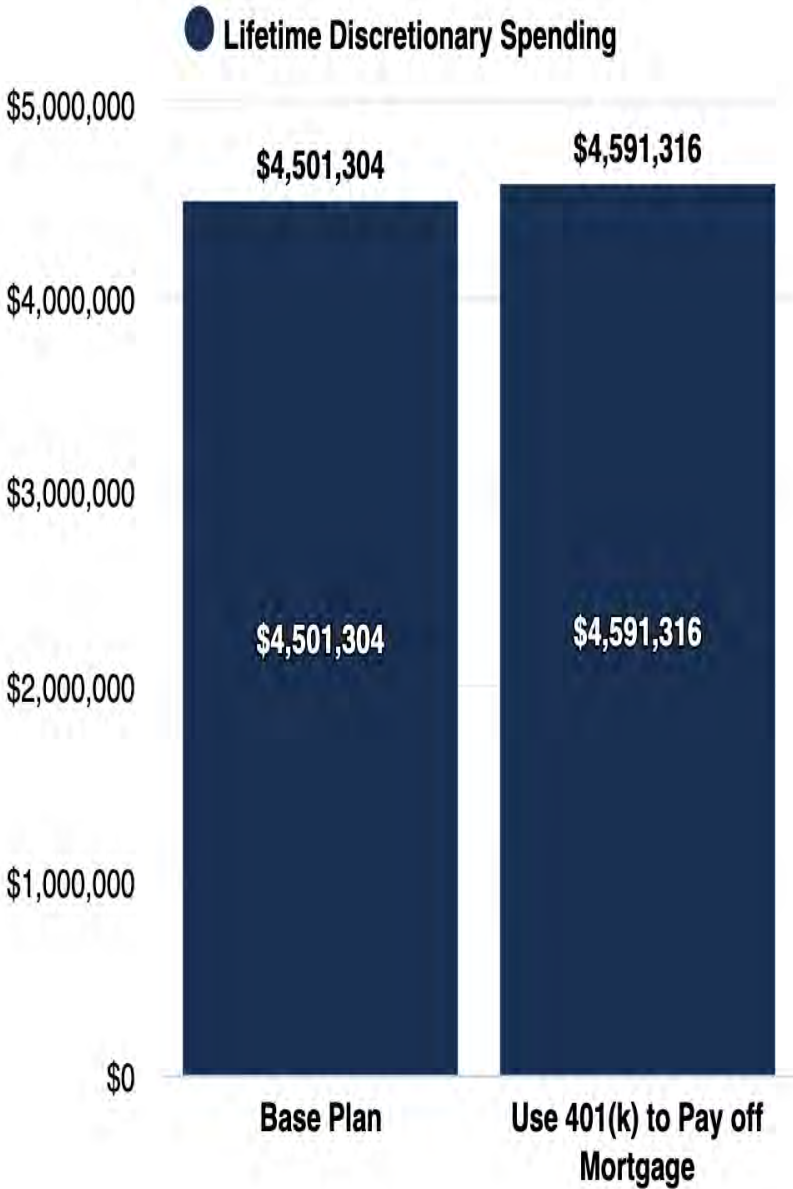
Case Study: Cashing Out Your 401(k) to Pay Off Your Mortgage

Lifetime Discretionary Spending

The chart below shows the difference in Lifetime Discretionary Spending between the Base Plan and Use 401(k) to Pay off Mortgage.

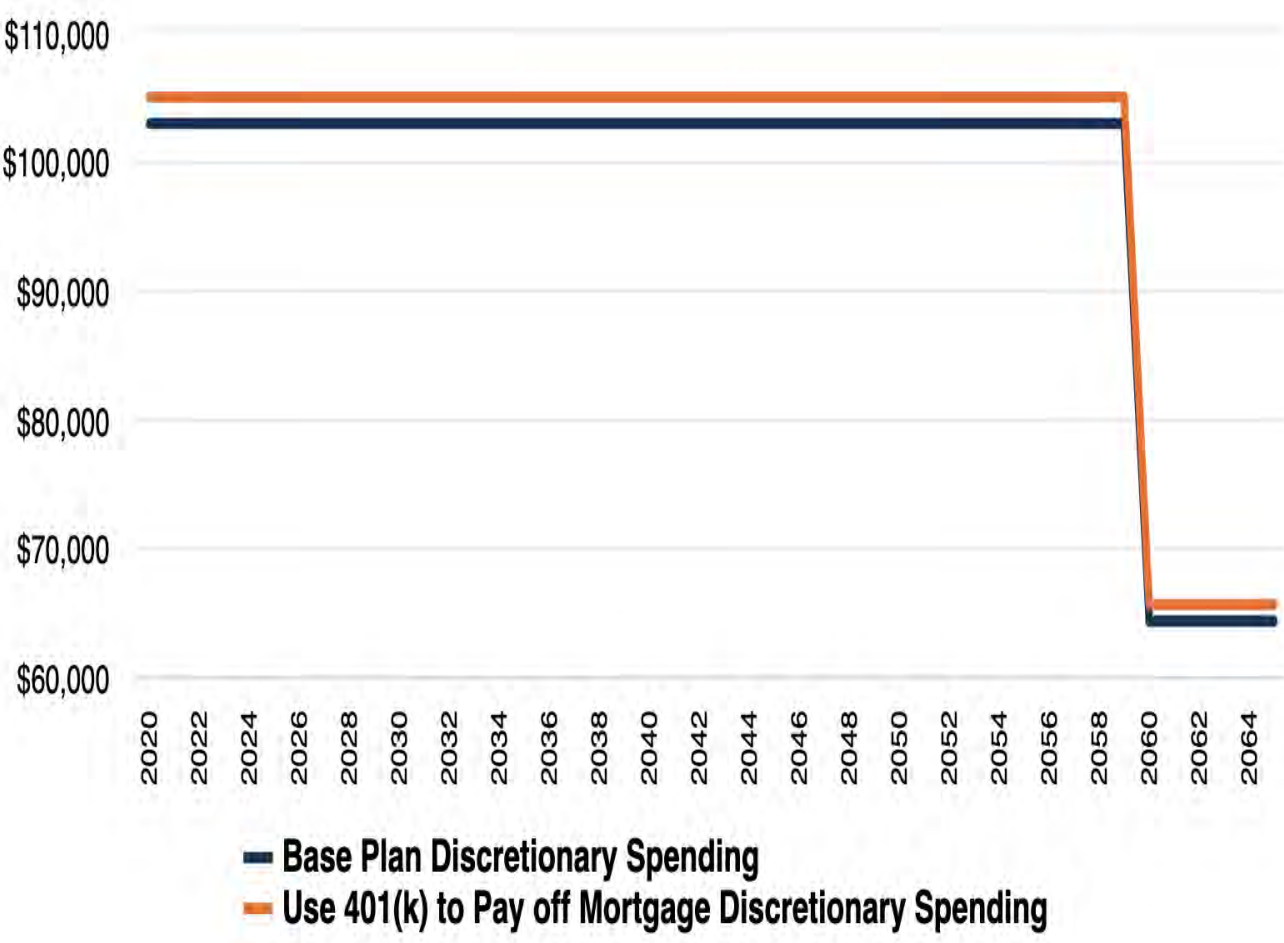
 **\$90,012**

Increase in Lifetime Discretionary Spending Under the Use 401(k) to Pay off Mortgage



Annual Discretionary Spending

The chart below compares Annual Discretionary Spending between the two plans. To see other plan results compared, click the 'Compare' tab above.



12 Retirement-Account Takeaways

1. Contributing to Retirement Accounts Lowers Taxes
2. But Gain in Lifetime Spending is Modest
3. Gain in Lifetime Spending is Proportionately Larger for Lower Earners
4. Lower Earners Experience a Bigger Drop in their Tax Bracket in Retirement
5. Roth IRAs do Worse for Low Earners and Better for High Earners
6. For High Earners, Going Roth Means Relatively Less Taxable Regular Asset Income
7. If Employer Match Requires Own Contribution, Gain from Contributing is Huge
8. If Tax Rates Are Higher in Retirement, Gains from Tax-Deferred Accts Are Smaller
9. If Tax Rates Are Higher in Retirement, Gains from Roth Accts Are Larger
10. Roth Conversions Can Hurt If Done While Working
11. Roth Conversions When Retired Can Help, But Can Cause Cash-Flow Problems
12. Best Return on Retirement Account Assets Is Likely From Paying Off High-Rate Debts

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