

Preparing to Retire

If you're thinking of retiring, you have important decisions to make. Lump sum payouts, and the best time to start thinking about them is immediately. We'll address here some of the financial decisions that you may find yourself facing.

Programming your pension payouts: Traditional company pensions provide a lifetime annuity—fixed annual payments as long as you live. The payments are subject to income tax. If you're married, your standard pension will be reduced in order to provide a continuing income for your spouse if she or he outlives you. You may elect to receive higher payments for your life alone. This option may appeal to two-income couples where both husband and wife have earned good pension benefits.

Lump sum payouts: Benefits from 401(k) and other similar company retirement plans commonly are paid in a lump sum. Some pension plans also offer a lump sum option. Lump sum distributions are subject to income tax in the year received. Indeed, withholding tax of 20% must be subtracted before you receive such a distribution.

How to defer tax: Unless you plan to use the lump sum payout for some specific purpose in the next several years, you'll probably want to postpone tax. Rollover IRAs are subject to the usual IRA rules: Whether or not a lump sum is rolled over into an IRA, devising an investment strategy requires careful, personalized analysis. See our investment management specialists for experienced individual solutions.

Tax-wise ways to “cash out”: When owners of successful businesses or profitable real estate investments retire, converting their holdings to cash may result in the realization of large (and taxable) capital gains.

Two possible ways to avoid the tax bite:

- Sale of closely held stock to an ESOP.
- Sale through a charitable remainder trust.

Owners of real property or other assets that have appreciated in value often wish to make charitable bequests in their wills. But there's another way to benefit charity. They may transfer the appreciated assets to a charitable remainder trust, reserving a life annuity. The trustee of the trust then may sell the appreciated assets and reinvest the entire proceeds, undiminished by tax on the realized gain, in income-producing securities.