

THE PLAIN DEALER

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ASK THE EXPERT

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Credentials: Certified financial planner, Certified public accountant, certified investment management analyst

Experience: 10 years in financial services, eight as a personal financial counselor

Assets under management: \$70 million

Generally, it is more favorable to defer retirement distributions until age 70½ and take advantage of tax-deferred compounding within your IRA. With that said, this strategy will not be beneficial if you expect to be in a higher tax bracket when you begin taking distributions.

Question: *My wife and I, ages 58 and 62, are both retired. We both get pensions, and I receive Social Security for a total monthly income of \$2,550. We live on our monthly income and also have savings of more than \$1 million. When is the best time to start taking distribution on my IRA? I'm concerned about the tax burden and whether it would be wise to begin distributions now or spread the distributions over many years starting at 70½?*

Advice: Since you're able to live on your monthly income, it sounds like you've done an outstanding job accumulating a comfortable nest egg. I can see why you're concerned about the tax burden because there are many moving parts to consider. Generally, it is more favorable to defer retirement distributions until age 70½ and take advantage of tax-deferred compounding within your IRA. With that said, this strategy will not be beneficial if you expect to be in a higher tax bracket when you begin taking distributions.

Therefore, if higher tax rates are a concern, you should consider rolling over part of your retirement assets into a Roth IRA each year. Doing that will accelerate tax on the rollover amount, but future Roth IRA distributions will not be taxed. Under current tax law, your taxable income falls into the federal

15 percent marginal tax bracket until your taxable income exceeds \$58,000. Each dollar of income exceeding that will be taxed at a 25 percent federal rate.

If you establish residency in a state without an income tax, such as Florida, you could avoid the Ohio income tax on your distributions. Also keep in mind that your Social Security benefits will be taxed when your provisional income exceeds \$32,000. Provisional income includes 50 percent of your Social Security benefits. I recommend that you use a Roth IRA calculator or a fee-only financial adviser to decide each year whether to accelerate IRA distributions before age 70½.