Kevane Grant Thornton
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Tax Insights: Managing risk at retirement

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When planning for retirement, or even if you are already retired, it is important to evaluate and assess the factors that can affect the lifetime of the assets that will finance your retirement.

Some of the factors that can impact your financial security are:

- longevity risk
- inflation risk
- investment portfolio risk
- public policy

Let's discus them and the actions that may be taken to face them

Longevity risk

One important fact, and the most difficult to figure out, is how long you might live.

The population is living longer and the number of elderly people is increasing. Without planning for longevity many retirees will face shortfall between the amount saved and what they will actually need. This is why you need to evaluate and manage those retirement assets to mitigate this kind of risk.

Depending on your needs, goals and specific circumstances, strategies are developed to keep your assets safe, and to generate lifelong income you can count on. Social security, pensions and annuities can mitigate some of this risk because all of these provide an income stream for life.

Inflation risk

Over the long run, inflation erodes the purchasing power of your income and wealth. When you layer the risk of inflation onto the risk of outlasting your income (longevity risk), the risks are compounded; representing a challenge for retirement income planning.

It could be a challenge to maintain the same quality of life style when living on a fixed income and exposed to the purchasing power loss.

Inflation can have significant impact in retirees and would-be retirees. In order to offset this kind of risk, you should consider investing in real estate, equities or other assets with a "cost-of-living" adjustment feature, such as some annuities products.

Also, keep working when possible, even if it is only a part-time basis, it reduces the potential risk of decline in purchasing power.

Investment portfolio risk

Stock market losses can seriously reduce retirement savings. Investment portfolios have to be reviewed periodically to accommodate for future income needs, the growth of assets and the savings provisions. You need to provide hedge against inflation and manage the risk of longevity through diverse investments.

Also, your portfolio should be analysed for tax efficiency: be aware of the cost of taxes (ordinary income versus capital gain, tax deferral versus after tax accounts).

Public policy

Government policies may affect retirement planning in many aspects. For example:

- changes in tax laws (e.g. increases in taxes, new kind of taxes)
- reduction in entitlement benefits from Social Security, Medicare and Medicaid
- changes to pension plan rules (Government plans, ERISA)

Retirement planning should not be based on the assumption that government policies will remain unchanged forever.

Recently, the House Ways and Means Committee released a draft tax reform legislation. The Tax Cut and Jobs Act, H.R. 1, contains a large number of provisions. If the bill is enacted as is, will affect individual taxpayers, including their retirement planning. Some of the items that will need to be considered are:

- repeal of the estate tax after 2023.
- repeal of the alternative minimum tax (AMT).
- decrease in the top gift tax rate and increase in the exclusion amount.
- change in tax rates for ordinary income, active business activities, capital gains and passive activities.
- most of the deductions would be repealed, including among others the medical expense deduction and the alimony deduction.
- limitation on the property tax deduction and the mortgage interest deduction.
- repeal the credit for individuals over age 65 and permanently and totally disabled, among others.
- repeal the exclusion of income for interest on US savings bonds used to pay qualified higher education expense.
- lower the minimum age for allowable in-service distributions to the age of 59 ½, among other provisions for retirement savings.

Please contact our Tax Department should additional information is required regarding this or any other tax issue. We will be glad to assist you.

Changes in government policies always need to be considered when developing a retirement plan, and monitored to update the plan as needed.

Plan for retirement as part of your estate planning. Your retirement strategy is critical to ensure the success of your estate plan.

"Creating an estate plan, it is just the first step of managing your future; keeping it up to date is necessary for the long journey."

To achieve legacy goals your estate plan requires of financial and retirement planning. Our estate planning team is committed to provide guidelines and advice to preserve and protect your wealth by a distinctive estate planning and minimize future tax burdens. It is our goal to provide you the assurance that your legacy is clearly detailed and in accordance with your desires

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