A **Kiplinger** SPECIAL REPORT

FALL 2018

Guide to Retirement Income Planning

- **Ways to make your money last**
- **How taxes can affect your income**
- **Creating guaranteed income for life**

Beacon Retirement
PLANNING GROUP, INC.
The Retirement Income Specialists

About Beacon Retirement

Who we are and what we do.

This is our philosophy.

Beacon Retirement Planning Group, Inc. was founded on the principle that our clients' interests always come first. Building on this tradition, we are proud to be at the forefront of the pioneering trend of integrating life planning with financial planning. Our goal is to connect your money to your life. Who you are and what you care about is of paramount importance to the work we do together.

As your Financial Life Planners, we will help you to define and design your unique version of "the rich life". This dynamic team-based endeavor will allow us to develop a comprehensive financial life plan that aligns with your values and priorities, and supports your life goals. It is important to select an advisory firm who truly cares about what is most important to you and understands your needs and aspirations.

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9 Smart Moves to Make Your Money Last

Financial advisers will tell you that the most telling—and risky—years of your retirement are the five before you leave the 9-to-5 world, and the five after you have forsaken a steady paycheck and learn to live on Social Security, perhaps a pension, and a lifetime of wealth accumulation through a retirement plan. Indeed, making your money last as long as you and your spouse do consistently shows up as the biggest worry among folks approaching or in retirement.

To help you with these vexing questions, Kiplinger asked credentialed financial advisers for their best advice. Here's a sampling of what they had to say.

Plan for a long life

How long do you need to plan for your retirement? A lifetime, of course. But how long is that? You could try using the Social Security life expectancy calculator (SSA.gov/OACT/population/longevity.html). But it will only give you an "average" life expectancy, and the problem with that is if you used that number for your planning, you could have a 50% probability of outliving your savings.

So, what are the alternatives? One option is to make your best judgment of your life expectancy projection based on your health, family history, etc. After all, no one knows your situation better than yourself! Otherwise, use a tool such as the Living to 100 calculator (Livingto100.com/calculator), which takes your ethnicity, family history, health habits, etc., into consideration and generates a more customized life expectancy for you.

Keep a stash of both cash and bonds

Keep a certain amount of your investment portfolio in cash and bonds. Financial professionals commonly advise clients clients to keep one to three years of cash in the bank and an additional three to five years of investments in bonds to cover living expenses.

Here's why: If the stock market craters, a person with five to 10 years of living expenses in cash and bonds can not only cover their expenses, but also preserve their investment portfolio as they are not forced to sell their stocks at temporarily low values. This strategy provides peace of mind.

Be realistic about future income needs

Ron and Rhonda Retiree have what they feel is a huge amount of money for retirement but have done no planning. They believe they can live on X amount of their retirement portfolio each month. So, their adviser helps them do a cash-flow analysis that shows that the amount they want, let's say around 5% annually, is sufficient for their needs.

But then it starts—the calls to the adviser for extra withdrawals. It seems they forgot to include some regular expenses—the long-delayed weekend jaunts or the maintenance on the boat or annual golf outings. They didn't consider them a regular expense when they did the cash-flow analysis.

The result: A cash flow need estimated at 5% annually turns into a 7%, 10% even 15%. Burning through 5% a year was doable. But 15% is not realistic.

Consider a modified 4% withdrawal rule

Many people are familiar with the '4% withdrawal rule,' which assured retirees that by holding their annual withdrawals to 4% of their retirement portfolios it would allow their portfolios to last 30 years. However, that advice appears outdated and overly optimistic. A Morningstar report (*Low Bond Yields and Safe Portfolio Withdrawal Rates*) found that the modified 'safe' withdrawal rate is 2.8%, and a retiree would be more than 50% likely to run out of money withdrawing 4%.

Retirees should follow the modified 4% rule and reduce the amount for withdrawals from their retirement accounts every year after big losses or gains in their portfolios, inflation and other circumstances.

Maximize Social Security

Now, more than ever, it's important for retirees to maximize their Social Security benefits. It's a guaranteed income stream that you've earned through your years of hard work.

But you have to know how and when to take Social Security to maximize your benefits. Most people are amazed to learn there are more than 500 different claiming strategies and more than 2,000 governing rules. There are strategies for married couples, divorced couples, domestic partnerships and widows and widowers. Some are simple and straightforward, and some can be complicated and include multiple steps.

Don't be afraid of taking some risks

Retirees face a tough decision-making process when it comes to their financial assets. On the one hand, you likely want to be able to generate income for as long as possible. On the other hand, you probably want to know that your savings are safe. To balance these competing priorities, you may need to take on more investment risk than you were expecting.

Think about it this way: If your investments are growing at a low but steady rate that just barely keeps up with inflation, you won't see your investment returns fluctuate much, but you'll be losing money every year with account withdrawals. In other words, there is a real risk that you'll outlive your assets.

Think about long-term care insurance

A major reason most people fear running out of money in retirement is an unknown major expense, which is primarily the cost of a health issue, such as cancer, a heart attack or a stroke. A financial adviser can more confidently project longer-term planning scenarios when clients have this extra ballast against the unexpected calamities in life.

Don't forget about inflation

Inflation is a risk that most people simply don't fully consider. Even with a 3% average annual inflation rate, the purchasing power of a dollar will fall by more than half, after 25 years. When we meet with people who are very conservative and want to take very little risk with their money, they often have most of their money in fixed-income securities, such as bonds or CDs. While these assets are often considered 'safer' because they are more conservative than other investments, these assets may not be able to support a retiree's long-term spending goals.

Ease into retirement

Retirement planning in the 21st century is not an all-or-nothing proposition. If you expect to live till 100, and if you fully retire at 65, you'd end up having 35 years of retirement! That is a long period of spending while not earning. Not ideal for your financial well-being or your personal well-being.

So, here is something to consider: Phase into retirement gradually. In other words, do not turn on the full-stop retirement switch yet. See if you can scale back and work fewer hours in your current job. Alternatively, consider working part-time at a lower-stress job. Or pick up consulting work. Or be your own boss and start a business. ■

The presenter of this information is not associated with, or endorsed by, the Social Security Administration or any other government agency. Clients should seek guidance from the Social Security Administration regarding their particular situation. The presenter agent] may be able to identify potential retirement income gaps and may introduce insurance products, such as an annuity, as a potential solution. Social Security benefit payout rates can and will change at the sole discretion of the Social Security Administration. For more information, contact a local Social Security Administration office, or visit www.ssa.gov.

10 Types of Retirement Income: How They Are Taxed

When you're planning for retirement, it's fun to contemplate all the cruises, rounds of golf, and restaurant meals you have ahead of you. You've earned it!

Unfortunately, many retirees discover too late that the fun times have to be curtailed by 10%, 15% or more—the cumulative impact of federal and state taxes on withdrawals from their nest eggs. Indeed, most forms of retirement income—including Social Security benefits, as well as withdrawals from your 401(k)s and traditional IRAs—are taxed by Uncle Sam. And unless you live in one of seven states with no income taxes at all, you can expect your home state to ding you in retirement as well.

"Many retirees discover too late that fun times must be curtailed."

That's why finding tax-efficient investments can be important. Take a look at the tax bills you're likely to face.

Traditional IRAs, 401(k)s and 403(b)s

Savers love these tax-deferred retirement accounts, because they don't pay taxes on their contributions. Their contributions reduce their taxable incomes, saving them money on their tax bills in the current year. Their savings, dividends and investment gains continue to grow on a tax-deferred basis.

What they tend to forget is they DO have to pay taxes when they retire and start taking withdrawals, and those taxes apply to their contributions AND their gains. And at some point, you must withdraw money from the accounts: Required minimum distributions (RMDs) kick in at age 70½ for holders of traditional IRAs and 401(k)s. You'll start out at about 3.65%, and the percentage that the IRS requires you to withdraw each year goes up as you age.

The tax rate you pay on your traditional IRA and 401(k) and 403(b) withdrawals would be your ordinary income tax rate, which is typically higher than the more advantageous long-term capital gains tax rate.

Roth IRAs

Roth IRAs come with a big long-term tax advantage: Unlike their 401(k) and traditional IRA cousins—which are funded with pretax dollars—you pay the taxes on your contributions to Roths up front, so your Roth withdrawals are tax-free once you retire.

One important caveat is that you must have held your account for at least five years before you can take tax-free withdrawals. And while you can withdraw the amount you contributed at any time tax-free, you must be at least age 59½ to be able to withdraw the gains without facing a 10% early-withdrawal penalty.

Social Security

Currently, depending on your "provisional income," up to 85% of your Social Security benefits are subject to federal income taxes. To determine your provisional income, take your modified adjusted gross income, add half of your Social Security benefits and add all of your tax-exempt interest. If you're married and file taxes jointly, here's what you'll be looking at:

- If your provisional income is less than $32,000 ($25,000 for singles), there's no tax on your Social Security benefits.[1]
- If your income is between $32,000 and $44,000 ($25,000 to $34,000 for singles), then up to 50% of your Social Security benefits can be taxed.[1]
- If your income is more than $44,000 ($34,000 for singles), then up to 85% of your Social Security benefits are taxable.[1]

The IRS has a handy calculator that can help you determine whether your benefits are taxable (click on "Help" at IRS.gov and use the Interactive Tax Assistant tool to locate it).

Pensions

Most pensions are funded with pretax income, and that means the full amount of your pension income would be taxable. Payments from private and government pensions are usually taxable at your ordinary income rate, assuming you made no after-tax contributions to the plan.

Stocks, Bonds and Mutual Funds

Sales of stocks, bonds and mutual funds that have been held for more than a year are taxed at long-term capital gains rates. These rates can be quite favorable. For tax year 2018, if you're single and earn up to $38,600 or married filing jointly and earn up to $77,200, gains are entirely tax-free up to a certain amount.[2]

For higher incomes, the rates go up. The next level is 15% (singles with incomes between $38,600 and $425,800, and married couples making $77,200 to $479,000). For those with incomes above those amounts, the top level is 20%.

You can find a chart listing all long-term capital gains tax rates here. Short-term capital gains from sales of investments held for under a year are taxed at your ordinary income tax rate.

Annuities

There's a good chance that some (or all) of the income you receive from any annuity you own is taxable.

If you purchased an annuity that provides income in retirement, the portion of the payment that represents your principal is tax-free; the rest is taxable. For instance, if you purchased an annuity with $100,000 and in 10 years it is worth $190,000, you would only pay tax on the $90,000 of interest earned. The insurance company that sold you the annuity is required to tell you what is taxable.

Different rules apply if you bought the annuity with pretax funds (such as from a traditional IRA). In that case, 100% of your payment will be taxed as ordinary income. In addition, be aware that you'll have to pay any taxes that you owe on the annuity at your ordinary income-tax rate, not the preferable capital gains rate.

Life Insurance

Life insurance proceeds paid to a beneficiary because of the insured person's death are not taxable.

As for a life insurance policy with a cash value component, under IRS rules, the cash value withdrawn from a life insurance policy is tax-free as long as it is structured properly and doesn't become a Modified Endowment Contract (MEC).

Dividends

Dividends are the profits gained from stocks. There are two types of dividends, taxed at different rates: Qualified dividends—the most common type that investors typically encounter—are taxed at long-term capital gains rates; non-qualified dividends are taxed at your ordinary income tax rate, which is usually higher than the capital gains rate.

To be considered as "qualified," dividends must be held for a minimum of 60 days during a 120-day period which begins 60 days previous to the ex-dividend date. The ex-dividend date is the day after a company distributes dividend payments to its shareholders.

Note that if the dividends stem from a tax-deferred account funded with pretax dollars (like a 401(k) or IRA) and the dividends are reinvested, then they aren't subject to taxes at that time. But when you start making withdrawals, they will be taxed at your ordinary income tax rate.

Municipal Bond Interest

The interest on a municipal bond is not taxed at the federal level, but capital gains from the sale of these bonds can be taxed. Interest from bonds issued in an investor's home state is usually exempt from state income taxes, too.

Keep in mind that although municipal bonds are tax-free, interest earned will be factored into calculating Social Security taxation.

CDs, Savings accounts and Money Market Accounts

Interest payments on CDs, savings and money market accounts are taxed at your ordinary income tax rate. ■

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[1] *https://www.kiplinger.com/slideshow/taxes/T064-S003-how-10-types-of-retirement-income-get-taxed/index.html*

[2] *https://www.kiplinger.com/article/taxes/T055-C032-S014-tax-rules-on-10-retirement-accounts-or-investments.html*

Adding an Annuity to Your Retirement-Income Mix

Guaranteed lifetime income available through annuitization or the purchase of an optional lifetime income rider, a benefit for which an annual premium is charged.

A number of strategies can help you stretch your retirement savings over your lifetime. But when it comes to choices you control, only an annuity guarantees that your income—or a portion of your income—will continue no matter how long you live.

You can integrate an annuity into your retirement income strategy in a variety of ways. One popular method is to add up your regular expenses (such as housing, food, utilities, insurance premiums and out-of-pocket health care costs) and subtract any guaranteed sources of income (such as a pension and Social Security). Then buy an immediate annuity to provide enough income to fill in the gap. Once you know those costs are covered, you can invest the rest of your money more aggressively—providing extra funds to keep up with inflation, cover emergencies and other large outlays, or leave to your heirs.

Lifetime income

The simplest way to provide lifetime income is with a single-premium immediate annuity: You hand over a lump sum to an insurance company when you retire, and it pays you a regular check for life (or for as long as you live) starting right away. (With a deferred variable annuity with lifetime income benefits, another flavor of annuity usually sold to preretirees, you invest a chunk of money in mutual-fund-like accounts in exchange for a promise of a stream of income in the future.)

Immediate annuities may be simple, but they come with a couple of caveats: Because this type of annuity has fixed payouts that usually aren't adjusted for inflation, and because you can't reclaim the money once you commit it, you should invest only enough to help cover regular expenses and no more. More problematic are today's low interest rates; now is not a good time to lock in a fixed payout for the rest of your life.

For example, if a 65-year-old man invests $100,000 in an immediate annuity now, he'll receive about $6,900 per year for life—about $1,800 a year less than if a 65-year-old had bought the annuity five years ago. Low rates translate into lower payouts because the insurer earns less on its money.

You can combat lower payouts a couple of ways: by laddering annuities or by buying a relatively new product that guarantees

How Annuities Are Taxed

If you use after-tax dollars to buy an annuity, then a portion of the payouts will be a tax-free return of your principal. But if you use pretax money from an IRA or a 401(k) to purchase the annuity, then all payouts will be fully taxed. Either way, you'll have to pay any taxes at your ordinary income-tax rate, not the preferable capital-gains rate.

Example 1: Say that you invest $100,000 in an immediate annuity and the annual payouts are $8,000. If the IRS considers your life expectancy to be 20 years, divide $100,000 by 20 to determine how much of each payout will be a tax-free return of investment. In this case, $5,000 of each $8,000 payout would be tax-free and $3,000 would be taxed at your ordinary income-tax rate.

Example 2: Say that you invest $25,000 in a deferred annuity and the investments increase in value by $20,000, making the account worth $45,000. The first $20,000 you withdraw is considered to be taxable earnings, so you'll pay taxes on all of the withdrawals up to that level before you can withdraw the original $25,000 investment without taxes.

heftier payments if you pick a date down the road to begin receiving them.

An annuity ladder

One way to avoid locking in too much money at low rates is to buy an immediate annuity now with a portion of your savings and invest more in annuities every few years. Payouts will be higher because you'll be older; they'll also increase if interest rates rise.

Michael Ritschel of Colorado Springs retired four years ago as a financial consultant. He receives a small pension and Social Security, but most of his retirement income comes from his own savings. Ritschel, who is 73, has 20% of his portfolio in fixed-income investments and 60% in dividend-paying stocks. He plans to put the rest of his savings in immediate annuities to cover living expenses for himself and his wife. He recently bought his first annuity and plans to make two more purchases over the next six years. "My goal is to have enough income to cover the necessities and to provide growth with income that will keep up with inflation," he says.

The older you are when you buy an annuity, the higher the annual payouts—assuming interest rates don't fall further. For example, a 73-year-old man who invests $100,000 in an immediate annuity now could get $8,820 per year for life; a 75-year-old could get $9,432 per year for life; and a 77-year-old could get $10,200 per year for life. If interest rates rise by the time the man purchases the annuities, the payouts will be even higher.

You'll receive the highest payouts if you choose a life-only annuity, which stops paying when you die. (Ritschel chose that version because he already has a universal life insurance policy, with his wife as the beneficiary.) You'll receive a lower annual payout if you buy an annuity that pays out as long as you or your spouse lives. If you're worried that you might both die early, you can choose an option that guarantees payments (to you or your heirs) for at least ten years. A 70-year-old man who invests $100,000 in a single-life annuity could get $7,956 per year, or he could get $6,684 for payouts that continue as long as either he or his wife (also 70) lives. The income would be $6,588 per year if payouts continue as long as either spouse lives or for at least ten years.

Having the annuities to cover his retirement expenses allows Ritschel to feel comfortable investing his remaining savings more aggressively, because he won't need to sell his investments in a down market to pay his bills.

Deferring income

Annuities can protect against outliving your income, but you don't really benefit from that protection early in retirement. For that reason, experts have embraced products that delay payouts until much later—typically your seventies or eighties—when you're most concerned about outliving your savings. "If you focus your longevity-risk thinking on those later years, it's less expensive," says Tom Terry, president-elect of the American Academy of Actuaries.

Several years ago, a few insurers introduced "longevity insurance" annuities that paid out beginning when you turned 80 or 85. The payouts were high because many people didn't live that long—and as a result received nothing. But few consumers were willing to take the risk of losing the money if they died before payouts began.

One well-known insurance company led the way by allowing people to start receiving income much earlier. So, if you purchase one of that company's deferred-income annuities, you may choose to defer the payments for from two to 40 years (although you may have to start taking payments by age 70½ if the money is in a retirement plan subject to required minimum distributions). The longer you defer the payments, the higher the annual income. (You can usually change the date once before payouts begin.) In the meantime, you know the rest of your money needs to last only until the annuity payouts begin.

Let's say a 65-year man invests $100,000 in that insurer's annuity product and defers payments until age 70, he'll receive $10,370 per year for life. If he defers payments until age 75, he'll get $17,270 per year. Plus, unlike the earlier versions of longevity insurance, you may choose a cash refund option, which promises that you or your heirs will get back at least as much as you originally invested, even if you die early. But the annual payouts are much lower than they are with the version that stops payments as soon as you die—which can be a good option if you have life insurance or if your spouse isn't dependent on the income. Choose the version with the refund option and you'll get $8,800 per year starting at age 70 or $13,840 per year starting at age 75.

Case study: In 2006, Barbara and Wallace T. retired from their jobs as college administrators. They were both 62. They didn't have pensions and wanted income to help pay their bills, but they didn't know if they would return to work or make other big changes, so they didn't want to tie up too much money in a life annuity. The couple worked with an adviser to convert their retirement savings into income.

Based on his advice, they took one-third of their retirement savings, which had been invested in stock funds, and shifted it into a seven-year fixed annuity to help cover their expenses during the early years of retirement. With enough income to pay their bills, they didn't have to sell stocks during the market downturn of 2008. The term on their fixed annuity is nearing an end, so they invested one-third of their remaining retirement savings in a deferred-income annuity that will provide guaranteed payouts later on.

They were able to buy a policy that also pays dividends. Each year, you can choose either to reinvest the dividends or to receive all or part of the dividends as additional payouts, for extra flexibility. Barbara returned to work in 2011, so the couple plan to defer the payouts for several years. Meanwhile, they're reinvesting the dividends. "We'll see what our needs are and whether we'll be self-sufficient without them," Barbara says. ■

By Kimberly Lankford

ASK KIM

A Tax-Friendly Way to Get Income for Life

By KIMBERLY LANKFORD
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Q *I heard that you can use $130,000 in an IRA to buy a deferred-income annuity without having to pay taxes on the money. Have you come across this before?*

A That sounds like a Qualified Longevity Annuity Contract, or QLAC. In 2018, you can invest up to $130,000 within a traditional IRA (or 25% of the IRA balance, whichever is less) in this special kind of deferred-income annuity. You're not taxed on the move, and the money you put into the annuity is not included when calculating your required minimum distributions from the IRA after you reach age 70½.

You don't avoid taxes on the money forever, though. The taxable portion of the money is still subject to taxes when you start receiving annuity income. But the tax bite will be delayed if you postpone receiving income from the QLAC until you're in your seventies or eighties. (You'll still have to take RMDs from the IRA money that you didn't roll into the QLAC.)

With a QLAC, you invest a lump sum years before you need the income—say, in your sixties—and decide when you want to start receiving the money, usually in your seventies or eighties. Payouts continue for the rest of your life. So, the QLAC not only removes a chunk of money from your RMD calculation but also guarantees that you won't outlive your money.

For example, a 65-year-old man who invests $50,000 in a QLAC could receive about $11,116 per year for life starting at age 80, says Jerry Golden, founder of Go2Income, which compares payout rates for several insurers offering QLACs. The downside: If he dies just a few years after payouts begin, he may not receive as much as he invested—or he may receive nothing if he dies before payouts start.

Another option is a "life with cash refund" annuity. It provides a smaller payment per year, but it returns the balance of the investment to your beneficiary if you die before receiving at least as much as you invested. That option, in the above example, would reduce the annual payout to $9,215. You can run your numbers with the calculator at Go2Income.com. ★

Should You **Pay Off the House Early?**

Colette Leavitt faced a difficult financial decision a few years ago, as she approached her sixties. She originally planned to retire early, at age 62, with her mortgage paid off. She would be free and clear of the financial burden of monthly payments. "It would open up some income to do things for enjoyment, as opposed to obligation," says Leavitt, of Hooksett, N.H.

But in the end, Leavitt, now age 60, decided to keep her loan. She owes just $49,000, at a rock-bottom 3.25% interest rate. Despite the low balance, she felt the peace of mind of building up her savings and keeping cash in hand for future expenses outweighed her initial desire to be mortgage-free.

Although she worked with her longtime financial planner, it was still a hard choice to make. Dealing with mortgage debt isn't always just about the finances. The decision is often emotional. "You think about it, think about it, and think about it," says Leavitt, an administrative assistant at a utility company. "It can cause a lot of anxiety."

Making the right choice for you

These days, more retirees are carrying mortgage debt into retirement. About half of all people ages 65 to 69 were mortgage-free in 2015, down from nearly 60% in 2000, according to mortgage giant Fannie Mae. But you'll need to carefully consider whether carrying a mortgage into retirement is right for you.

You may be in a position similar to Leavitt's, wondering whether to pay off your mortgage, particularly if you are a few years away from the payoff date and have the balance whittled down. Should you pursue the relief of having no monthly payment hanging over your head anymore, or find other uses for your money that could potentially be more beneficial to your bottom line?

You can start to answer that question by considering a variety of factors, such as whether you plan to stay in your house, your cash flow needs in retirement and how much investment risk you can tolerate.

Your feelings about debt and financial security could affect the decision you make. Investing in stocks may deliver a higher return than paying off a mortgage with a low interest rate—but you may not be able to sleep at night. And changes under tax reform also may affect your choice.

Will you itemize or not?

Under the new law, the standard deduction is significantly more generous, while some housing-related itemized deductions have been squeezed. The standard deduction for a married couple this year is $24,000, with an additional $1,300 for each spouse over age 65. So, a couple with both partners over age 65 will get a $26,600 standard deduction. Those who itemize deductions face a $10,000 cap on the write-off for state and local taxes, which includes property taxes on the house; that cap applies to both individual and joint filers. In addition, interest on up to $750,000 of new mortgage debt is deductible, while the prior cap was interest on $1 million of mortgage debt.

A homeowner with sizeable charitable deductions or medical expenses may still find it advantageous to itemize deductions. But many seniors who have itemized in the past likely will find themselves switching to the standard deduction in 2018. Not itemizing means losing the tax benefit of a mortgage because the taxpayer won't be able to write off the interest on the loan.

For retirees who are homing in on their mortgage payoff date, the loan may not be throwing off enough tax-deductible interest to help make itemizing worth it. If your original mortgage had a balance of $350,000 and it's down to only $60,000, most of the monthly payments will be principal. Mortgages throw off the most interest—and provide the most tax benefits—on the front end, so an older mortgage won't provide much of a mortgage interest deduction. That makes the hurdle for itemizing even higher.

If you won't benefit from itemizing, paying off the loan could be a sensible route tax-wise. But if you snagged a low interest rate for your mortgage, consider where the money you would use to pay off the loan is coming from and how much it earns. If you're earning about 4% or so on the bonds in your portfolio, and paying about the same or less in mortgage loan interest, "you really have to step back and say, 'Am I better off paying off my house and reducing my bond portfolio a bit?' " says Robert Keebler, a partner with Keebler & Associates, a tax advisory firm, in Green Bay, Wis.

Assess your asset allocation if you plan to draw from your portfolio. If your portfolio is over weighted in stocks, you might pull cash out to pay off the mortgage when you rebalance. Or if you are taking required minimum distributions from your retirement accounts, consider using that money to pay off a mortgage early.

But before you pay off your mortgage, take a look at any other debts you have. If the interest rates are higher, consider knocking those debts off first. If you have a home equity loan, you might want to pay it off before the mortgage. The new tax law doesn't allow a deduction for interest on either old or new home equity loans, except when used for home improvements.

And don't forget to factor in the opportunity costs for the money you are using to pay down your mortgage. You could invest it instead, if you feel confident that you can generate higher returns than your mortgage rate. Or, like Leavitt, you could put it toward your living expenses and an emergency fund.

Even if the numbers don't favor paying off the mortgage, finances may not be your only consideration. Some older homeowners feel more secure with their homes totally paid off. Others worry about running out of money in retirement, so they want a paid-off home as a lifeline.

Taking action now

If you are still a decade or so away from retirement and are sure you don't want a mortgage in your future, take some steps now to reach that goal. Make an extra mortgage payment each year, apply a bonus or other windfall to your mortgage payments, or refinance into a 15-year mortgage to pay it off as quickly as possible, while you have income. ■

By Mary Kane

Kiplinger

The articles in this special report were written by the editors of Kiplinger's Personal Finance, Kiplinger's Retirement Report and Kiplinger.com.

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A New Tax Break
for Retirement Income

Need an extra incentive to ease into retirement with a part-time gig? Or to earn some extra cash to supplement your Social Security and IRA payouts? Would the chance to treat 20% of your freshly found income as tax-free do the trick?

If so, say thank you to the U.S. Congress.

The new tax law created a special 20% deduction for "pass-through entities," a category that includes most businesses in the U.S., whether they are organized as a Subchapter S corporation, a limited liability company or a sole proprietorship—that is, simply working for yourself. Basically, you're a pass-through if you're not a regular corporation.

Cotty Lowry, a highly successful real estate agent in Minneapolis, reports that his accountant thinks he'll be a "big winner" under the new tax bill. The 20% write-off can apply both to Lowry's net income from his real estate business and to the rental income thrown off by several buildings he owns.

How it works. The 199A deduction, named after the section of the tax code that authorizes it, applies to "qualified business income." It's probably easiest to cite what does not qualify: earnings by an employee, earnings by a regular corporation and earnings from "specified service" businesses that provide service in fields such as health, law, accounting, performing arts and athletics.

You might wonder what's left, but don't worry. There's a gigantic exception. The specified-services poison pill only applies to high-income individuals. If your income is less than $157,500 on an individual return or under $315,000 on a joint return, you can deduct 20% of your qualified business income even if it comes from a specified-service business. The write-off is gradually phased out as income rises above those levels.

What kind of pass-through-income work might make sense for you? Consider phasing into retirement by becoming a consultant for your former employer.

And you don't have to be a major league landlord like Lowry to get a 20% break on rental income. The IRS hasn't written regulations yet, but Steve Fishman, author of Every Landlord's Tax Deduction Guide, says he believes that owning a single rental property will rise to the level of a business, opening the door to the new deduction.

Get creative. Do you make and sell crafts at local fairs or online websites such as Etsy? Drive for Uber or Lyft? Babysit, run a dog-walking service, tutor children or give music lessons? The new tax law gives you more incentive than ever to develop a new retirement income stream. And if you already have one, you'll get to keep more of what you earn. ■

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