Audiocasts: Market and financial planning insights from Ameriprise
<u>Retirement, investing and taxes in a bear market</u>

Guests:
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Marcy Keckler:
Hello, I'm Marcy Keckler, Vice President of Financial Advice Strategy at Ameriprise Financial. Thanks for joining our audio cast today. Recently, I had a conversation with Ameriprise and Columbia experts about what we've been seeing in the markets and what we might expect in the economy in the coming months and you can listen to that conversation at Ameriprise.com/marketvolatility.

And as a follow-up to that conversation, we want to provide you with some further thoughts to consider discussing with your advisor the and things that might make sense in the current environment and joining me for that conversation today is my colleague Amy Diesen, who is the Vice President of Retirement Wealth Strategies at Ameriprise. Welcome, Amy.

Amy Diesen:
Thanks for having me, Marcy.

Marcy Keckler:
So, before we get into some specific ideas that clients might want to consider talking about with their advisor. Let's just acknowledge that with the recent market volatility that we've seen we know it can be an emotional time and it has followed the longest bull market in history. So, you know, we really haven't been used to it. It's certainly something that can be emotional and unsettling.

Amy Diesen:
Absolutely and it's important to be aware of people's emotions because right now it could affect the way you make decisions.

Marcy Keckler:
Right, it's natural that we're going to have these emotions. It's understandable. It's probably unavoidable and I think the important message is to make sure that you know, we don't let our emotions get in the way of smart decision making and really advisors are a great resource to help with that.

Amy Diesen:
Yep, and it's a great time to step back and think objectively about your financial situation and now is a really good time to connect with your advisor.

Marcy Keckler:
Absolutely. Your advisor knows you your advisor cares about you and your advisor understands your goals and your objectives and they can, they can really help you through this time. So with that we know there are a few ideas that people might want to think about is opportunities even in an unsettled market and one of those is associated with the fact that people's account values might have dipped a little bit and that actually could be an opportunity to take a step back and look at something that we both like to talk about and that is tax diversification. Amy, can you set us up with a little bit of conversation? What is tax diversification? What do we mean by that?

Amy Diesen:
I think about tax diversification as a way that your advisor helps you diversify among three tax categories of assets and it can help manage the impact of taxes once you're in retirement. So, think about it in these terms, you have a tax-deferred account. You might have a tax-free account and you might have a taxable account and when you think about tax diversification coupled with a tax-efficient withdrawal strategy, it can really help your assets last longer in retirement. So, can you give us a kind of a prime example of what we might call a tax-deferred account?

Marcy Keckler:
So, you might have a tax-deferred account like your 401(k) or your IRA.

Amy Diesen:
Right. Those assets, you've earned those assets, you've deferred them, but you haven't paid taxes on them yet.

Marcy Keckler:
Right and that we do know is for many people that can be the lion share of your retirement savings is money that's in your tax-deferred account like your 401(k) plan at work, right?

Amy Diesen:
Absolutely. That's what you've been saying for your entire career. You've been saving in that retirement account potentially, you might be saving in the IRA account, but that's usually where the big part of your savings is right now.

Marcy Keckler:
Right, very common for people who are still in there working and saving years. And so that's one of the three categories. Another one you mentioned is tax free. What are, you know, how do you think about a great example of a tax-free account for retirement?

Amy Diesen:
It's your Roth IRA.

Marcy Keckler:
Yep.

Amy Diesen:
That's the account that once you start taking distributions, as long as you're eligible to take those distributions they're tax-free. You've already paid taxes on them and they've been growing tax free. It's a great way to help diversify the way you're paying taxes, once you start drawing out of those accounts.

Marcy Keckler:
So that's our second of our three types. We've got - we’ve already talked about tax deferred, tax free and then the final is taxable, and maybe you can give us that sort of classic example of a taxable type account.

Amy Diesen:
It's your regular brokerage account. It's the one you've been saving in it might be the one you save for perhaps your kids college, your first home purchase. There's lots of things that you might be saving in that taxable account. It looks a lot of times like a savings account or a brokerage account.

Marcy Keckler:
Yep, even just a bank account is probably in that same category. So, we've got those three types of accounts and one of the things that we do think makes sense to consider it this time is taking a look at your balance between them. And so, what if you find that like many people you do have a big concentration of your assets in that tax-deferred like the 401(k) or the IRA. What might people want to consider it this time given that account values may have dipped in the current market environment.

Amy Diesen:
It well now might be a way to get assets from that tax-deferred account over into that tax-free account by doing something we call a Roth conversion. So, it's something that people might consider if those account balances have dipped in the last few days.

Marcy Keckler:
And so why would this be smart move to at least consider now, even though it you know, it may be hard to take a look at our account values, but if they're down but you know, why would we want to consider doing this now? Can you say a little more?

Amy Diesen:
Well, the amount of taxes due will be next year and they may be lower if the value of the traditional IRA right now is lower. So, your conversion done today, you'll end up paying taxes on next year in 2020 on an account value that could have possibly dipped in the last few days.

Marcy Keckler:
Right? So, a great way to get yourself future flexibility and control over your tax situation by having some tax-free money and reducing the, maybe the tax bill associated with that conversion. Amy, one other question is do you think of this as something that

makes sense for people who might actually have already retired? Is that something they would consider is it more for people in their working and saving years or is it something that might make sense for both?

Amy Diesen:
Well, I always start with saying this is something you should talk to your advisor and your tax professional about but we do see people that are retired doing conversions because they may want to pass on as a legacy a tax-free account to their beneficiaries. So, there's a lot of reasons to consider doing a Roth. Also, when you think about it many of these individuals could be living 20-30 years in retirement. So, they have an opportunity to continue to allow those assets to grow over a number of years and they want that tax-free account.

Marcy Keckler:
That's a great point. So certainly maybe this strategy is something to consider talking with your advisor about whether you're still working or you have already retired. There may be maybe some, some benefit to consider here and just I'd reinforce what you said your advisor can really help you think this through and in partnership with your tax professional so that you really understand the full situation.

I want to ask you about another idea that we've talked about in the past you and I and that is another way to get money into kind of a Roth account might be taking advantage of your 401(k) or you know, if your 401(k) plan at work offer something called an after-tax savings option. Can you talk a little bit about what that might look like for people?

Amy Diesen:
Well sometimes what people will do is they'll have a 401(k) they've been making pre-tax, contributions to and they'll elect to add additional after-tax contributions to that 401(k). Now could be a great time to do a conversion of those after-tax dollars into a Roth IRA as well. You think about it there probably hasn't been any earnings that you'd have to pay taxes on. And once again, you're filling up that tax-free account so that you're able to have diversification, once you start taking distributions in the future.

Marcy Keckler:
That's a great summary and another sort of another twist if you will on the idea of converting to a Roth IRA, you might roll over money that's in the after-tax 401(k) into a Roth IRA. So those are a couple great strategies and, and really all in service of trying to improve the tax diversification that people have in retirement. It, it can give you some additional flexibility and control in your, in your retirement years by doing that now

Any final thoughts you want to add Amy, on this strategy around tax diversification and Roth conversions?

Amy Diesen:
Well this also when you think about that 401(k) after tax contribution idea, it will allow you potentially to defer additional amounts above your Roth limit, which is a true benefit.

So, another thing to consider when you're talking to your advisor and your tax professional about this strategy.

Marcy Keckler:
Great.

What I want to talk with you about is how clients might want to think about saving and investing in this current environment. It is certainly bumpy. Can you give us some context for how people might want to think about the, you know, the idea of putting more money into the markets right now?

Amy Diesen:
And acknowledging how people might be feeling when we say hey, now might be a great time to actually contribute more, it’s still important to have a conversation potentially with your advisor and tax person about contributing additional dollars to your 401(k) account or at least contribute systematically and sticking with your savings and investing plan.

Marcy Keckler:
Yeah. It’s a great point because we do know a lot of people do have a systematic, a systematic kind of savings plan in place. They may be having money come out of every paycheck into like a 401(k) plan at work or something like that, and is that something you encourage people to, to stick with?

Amy Diesen:
Absolutely and it’s one of the benefits of your workplace retirement plans. Oftentimes, those accounts are auto savings, they have auto increase functionality, and oftentimes, there’s even an employer match. And now is the time when you really want to continue to put those dollars into the market. And it really makes sense when the stock prices or the mutual fund prices are low and even with the uncertainty of what’s happening right now, you will be buying more shares at lower prices and lowering your cost basis, which can benefit you down the road.

Marcy Keckler:
So for people who have been saving into those kind of automatic savings plan like at work or maybe even automatic, you know, withdrawals coming out of your bank account regularly into other types of savings vehicles or other strategies, sticking with it might make sense even in this kind of bumpy market just because you are getting more shares, right?

Amy Diesen:
That’s absolutely the case. And now is also a great time to look at your asset allocation, make sure that you’re investing in the right things at the right time, but the key here is you have time on your side and putting dollars into the market every two weeks or once a month can be a true benefit during this type of market fluctuation.

Marcy Keckler:
So Amy, what would you say to people who are maybe earlier in their working, saving, and investing years? You know, earlier career people who maybe their majority of their time in the markets has been during this long bull market that I talked about earlier. What advice do you have for them?

Amy Diesen:
Well, people that have been in the market for a long time often are used to this sort of fluctuation, but younger individuals sometimes will feel like I want to step out, I’m a little bit nervous. The key here is continuing to invest without emotion on a regular basis is a real benefit in the long term.

Marcy Keckler:
That’s right, and you said it earlier, but for people who are certainly at the earlier stage, time really is on your side. And so, if that’s your situation, trying to stick with your savings and investing behavior can really help you. You’ve got time on your side, time to recover, so maybe stick with it is a message for those people.

Amy Diesen:
Absolutely.

Marcy Keckler:
So what about for people who are maybe in what I’d call kind of their core working years? People who have had a longer time working, a longer time saving and investing, and maybe they’re, they're not about to retire but they are in their core working years. Any thoughts for that group on how they should think about saving and investing in the current environment?

Amy Diesen:
There’s two things you want to do. You want to continue to make contributions hopefully at a higher rate because you’re getting close to retirement. You really want to fill up your retirement bucket. But also, you’re looking at your asset allocation to make sure that you are getting the most benefit out of your investment strategy. And a great way to do that is talk to your financial advisor. They can help you consider that asset allocation model.

Marcy Keckler:
That’s great. And I think also helping people look at their full picture, you know, the asset allocation you have in maybe your retirement plan at work and any other financial accounts that you have, and really how it all fits together. And so then, Amy, let’s talk about people who maybe were hoping to retire in 2020. If this was the year and they haven’t pulled the trigger yet, I think people might be asking should I still do that? What thoughts do you have for people in that situation where that was the plan and they might now be having a pause?

Amy Diesen:
Marcy, I have a lot of empathy for people that are about to retire or maybe perhaps just retired, because this could be a very nerve-wracking situation for them. But behavioral science tells us the first thing you need to do is just acknowledge how you're feeling, the fact that this is emotional, and then have a fact-based conversation with your financial advisor and really, truly look at what were your objectives? There was a plan in place and continue to follow that plan. Now, some people might be wondering should I retire or should have I retired? And after that long period of planning, you still should feel really confident in what you and your advisor had decided on, but individual situations can vary, so you might want to take into account some new ways to think about your retirement.

Marcy Keckler:
I agree with you. I think the best advice before deciding that you will or won't proceed with a retirement plan date is to check in on your financial plan with your financial advisor. Your financial advisor can help you understand where you're situated now and how your plan really accommodates the reality of markets moving over time. Volatility is normal and your plan accommodated, but you may want to look at your situation. You know, one thing that I wanted to ask your thoughts on is how people should think about their retirement situation relative to maybe the income sources that they have or that they expect in retirement.

Amy Diesen:
So, one great thing to do is to really evaluate now if you know what your income sources are going to be, whether it's pension or your social security, are those income sources going to cover your essential expenses? You might not want to tap into your investments right now. You might want to wait for a while to allow them to recover. You might want to look at whether or not you should be reallocating your account. We probably want to think about things like is now a time to liquidate any assets or should we let those assets sit and recover? There's a lot of things you might be thinking about doing in retirement that you want to rethink. Some folks might be thinking about working part-time, some people might be thinking about vacations or a new car purchase. Now is the time just to think about is this a time to hit pause or is this a time when it makes sense? And what I always say is talk to your financial advisor, you've had a plan in place, it could be that you might have to just wait a few months or even a few years, but that can really help you know, your decision moving forward.

Marcy Keckler:
I think that's great advice and to just acknowledge as you said, it can, it can be an unsettling question to contemplate the end of work. If you haven't yet ended your working career but you were hoping to soon, it can also be unsettling if you recently retired and so I think knowing that your advisor is there, your advisor cares about you, your advisor understands your goal, and can help you acknowledge your emotions but also take an objective look at your financial situation. So I want to say thank you, Amy. I appreciate your joining me today and having conversation about investing and saving in the current environment. Thank you as well to all of our clients and their advisors

who’ve joined us today. And I do in closing just want to say on behalf of all of us at Ameriprise, we appreciate your trust in us. We’re here to serve you and help you. Your advisors care about you and we care about your financial confidence and financial situation but also the health and safety of you and your families. So, take good care and reach out to your advisor who’s here to help. Thank you.

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