



Debunking Common Myths About Retirement

With retirement planning, as with most financial topics, every situation is different. That said, we all need a few guidelines to see if we are going in the right direction. But these basic ideas evolve over time as demographics, life expectancy, tax laws, and available products all change. Some of these ideas are past their expiration date; others never really made sense in the first place. Here are five precepts that are no longer universally accepted.

1. You Will Be in a Lower Tax Bracket When You Retire. Here's the bad thing about a 401(k) or IRA: everything you take out is taxable. You need to factor that in when considering its value. Then there's the issue of future tax brackets. Where are they going in the future, higher, lower or staying the same? No one knows for sure, but given the current level of government spending and budget deficit, overall tax rates could certainly be higher in the future than they are now.

Also keep in mind that in many cases, when you retire you might no longer have any kids at home to claim as dependents, or 401(k) or IRA contributions to reduce taxable income. In fact, almost all of your income, with the exception of a small portion of Social Security, may be taxable during retirement.

2. You Should Retire in a More Tax-Friendly Location. We talked about this at length back in podcast episode 187. It's just not that simple. Take New York, for example, which is considered a high-tax state. The maximum state income tax rate can go as high as 10 percent. But in spite of the above-average marginal rates, New York does not tax Social Security income and offers favorable tax treatment for pension and/or annuity payments. Specifically, New York state allows a pension/annuity exclusion of up to \$20,000 for taxpayers over the age of 59½.¹

3. Maxing Out Your 401(k) Contributions Is All You Need. Contributing the maximum amount to a 401(k) can be an excellent way to save for retirement, as well reducing your current tax bill. But in general, people with high incomes cannot maintain their current lifestyle using just withdrawals from their 401(k).² And as we've stated, such distributions are 100 percent taxable, so you may not have as much *spendable* income as you thought.

4. You Don't Want to Retire Until Your Mortgage Is Paid Off. The concept of arbitrage comes into play here. The leverage provided by a mortgage can be attractive if you have a low interest rate.³ Why would you pay off a mortgage that charges three percent interest, potentially tax deductible, when you feel like you can make more than that on your investments? In the long run, it may be better to keep paying that mortgage.

5. When You Retire, Your Investments Should Become Conservative. Life expectancy isn't what it used to be. It's better! According to the US Centers for Disease Control and Prevention, life expectancy at age 65 has increased by nearly 25 percent over the last 50 years.⁴ People are living longer than they used to, which means your retirement assets need to last longer as well.⁵ You may have planned for 20 years of retirement, but can you handle 30? This may affect how you approach your retirement savings, and perhaps even *when* you plan on retiring.

The basic retirement concepts have evolved over time, and your own planning needs to evolve with them. Your Security Mutual Life agent can help. Your Security Mutual Life agent will assemble your team and coordinate with your attorney and tax professional to review your situation and to determine the insurance plan that will best suite your needs and objectives.

For More Information Contact:



¹Golden, Jerry. "Don't Move to Another State Just to Reduce Your Taxes." Kiplinger.com. <https://www.kiplinger.com/retirement/604701/dont-move-to-another-state-just-to-reduce-your-taxes> (accessed March 25, 2025).

²McKenna, Kristin. "Debunked: 6 Myths About Retirement." Forbes.com. <https://www.forbes.com/sites/kristinmckenna/2019/07/10/debunked-6-myths-about-retirement/> (accessed March 25, 2025).

³Id.

⁴Nicholson-Messmer, Elijah. "As life expectancy rises, retirement strategies lag." Financial-Planning.com. <https://www.financial-planning.com/news/life-expectancy-is-rising-are-financial-advisors-ready> (accessed March 25, 2025).

⁵McKenna, Kristin. "Debunked: 6 Myths About Retirement." Forbes.com. <https://www.forbes.com/sites/kristinmckenna/2019/07/10/debunked-6-myths-about-retirement/> (accessed March 25, 2025).

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