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BOOK REVIEW

Income Strategies: How to Create a Tax-Efficient Withdrawal Strategy to Generate Retirement Income

BY WILLIAM REICHENSTEIN

Reviewed by Investments & Wealth Monitor Editorial Advisory Board



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As we work our way through the recent volatility associated with the global coronavirus pandemic, clients approaching or in retirement need assurance, if not certainty, that their spending goals will be met. Some clients may be concerned that they will run out of money or won't be able to retire at the planned time.

So, it may be more effective to focus on retirement strategies that an advisor and client can control, such as the value-added strategies William Reichenstein details in his book, *Income Strategies: How to Create a Tax-Efficient Withdrawal Strategy to Generate Retirement Income*.

Reichenstein is a professor emeritus of investment management at Baylor University and he's something of a guru on the subject of retirement income. For this book, he draws on his lifetime of academic and consulting research. He calls this value-added income "advisor's alpha," and he describes how it can be generated using a combination of savvy tax-efficient portfolio withdrawal techniques and a smart approach to Social Security. He believes that such a strategy may extend the longevity of a retired household's portfolio by up to seven years.

He addresses techniques and strategies in detail in *Income Strategies*, which is very timely considering the current market environment. Reichenstein's documentation can get complex, but it's also supported by examples throughout. He bases his work on research and best practices from Vanguard and

Morningstar, both of which list strategies advisors can use to generate alpha. Reichenstein gives us a quick rundown of these well-known tools (e.g., behavioral coaching is worth an estimated 150 extra basis points, dynamic withdrawal may account for 50 percent of value added), then asserts that overlaying his own tools provides even higher value.

Being smart about how and when a client claims Social Security is the low-hanging fruit of Reichenstein's advisor alpha. He estimates it's worth an additional \$100,000 for a client who lives beyond around age 85. But getting this right, even though it's complicated and time-consuming, can be extremely beneficial to a client's retirement-income plan. Reichenstein explains the claiming categories (traditional singles, traditional married couples, non-traditional clients); the retirement benefits, spousal benefits, survivor benefits, disability benefits, and many other factors. Best of all, he provides access to engines that determine best claiming strategies (www.SSanalyzer.com and www.IncomeSolver.com).

The author's treatment of tax-efficient withdrawal is worthy of a dissertation, but here is the salient point: The net return on tax-deferred assets and Roth assets are the same, but the timing of withdrawals can affect tax rates and therefore makes a huge difference in income longevity and terminal wealth. Conventional wisdom says withdraw from taxable accounts until exhausted, then traditional qualified accounts until exhausted, and then Roth accounts until exhausted. But the professor advises

using Roths earlier, when needed to keep from exceeding next brackets, to minimize the average marginal tax paid on the qualified pool.

Reichenstein covers other tax- and cost-saving strategies, too. He explains how taxation of Social Security benefits can cause a sharp rise and then a fall in the marginal tax rate as income increases. He describes how to double charitable deductions in a tax year to raise the itemized deductions above the standard deduction, how to use qualified charitable distributions to reduce Medicare premiums, and how to use donor-advised funds to reduce income taxes.

The value-add techniques in *Income Strategies* make for tantalizing reading during these interesting times. No doubt if you've read this far, you've already had some clients recently tell you their fears about the future, and you probably can expect more of them to do so, too. Reading this book will inform you about strategies that a retirement-income expert says can enhance both the level and longevity of retirement income. It may just give you some additional tools to use so you can demonstrate your value—and add alpha—for your clients during these challenging times. ●

Income Strategies: How to Create a Tax-Efficient Withdrawal Strategy to Generate Retirement Income

By William Reichenstein

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