Rochester Wealth Strategies

439 S Main St, Suite 250
Rochester, MI 48307
(248) 434-6550

The Social Security Bridge

By Dominic Garcia

There is much talk about bridging the gap between when you retire and when to collect social security. Many people are under the assumption that they should start collecting benefits immediately after retiring, however this decision may hinder the ability to optimize your income in later years.

One significant benefit of retirement is the potential to be in a lower tax bracket. This alone can open the door to take advantage of Roth conversions, reduced Medicare premiums, favorable taxation of social security and capital gains, etc. With the potential of taxes increasing in the future thanks to Required Minimum Distributions (RMDs) and The Tax Cuts and Jobs Act provisions set to expire in 2025, this period of lower taxes could be short-lived. So what steps can you take to stay in a lower bracket, produce income, and still allow your social security to grow? In general, there are a few principles to consider.

Look to savings first. You should always maintain a solid emergency fund, but there is nothing wrong with drawing down your cash to a level you feel comfortable with prior to touching other resources; especially since this money is usually free of taxes. If you ever require extra money for the unexpected, remember that your retirement investments are usually liquid (without penalty) after age 59½.

Second, consider supplementing your income with funds from brokerage and/or trust accounts. Although taking from these accounts may require you to pay capital gains and state tax, it is often a much lower tax liability than taking from your retirement accounts.

After these sources have been depleted, you will then be faced with a much more difficult decision: do you start collecting social security or do you draw from your tax-deferred retirement accounts? This decision will be based on a number of factors such as tax bracket, stock market environment, and income needs. Despite this answer not being definitive, it is important to note that Roth IRAs are usually the last place from which you would pull funds.

Although the goal could be to wait until 70 to draw social security, it can absolutely make sense to draw social security early; but this is on a case-by-case basis. With pensions, rental income, part-time employment, and other available avenues for income, people are finding ways to let their benefit grow for longer. The intention of this article is to help those nearing or early on in retirement start to build an income blueprint for drawing from their liquid assets.