Key to senior physicians’ retirement: Understanding the taxman

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After working hard for decades to deliver high-quality patient care, physicians in retirement may hope their golden years will be less focused on dollars and cents and more on finding time with loved ones and ways to keep contributing to medicine.

But there’s another wrinkle to retirement income than having a big enough nest egg. Your retirement income isn’t solely a function of how well your investments perform. It also depends hugely on how your investment gains are taxed, said financial expert Jason Combs during a recent webinar geared toward senior physicians.

Combs is executive vice president of Millennium Brokerage Group LLC, a strategic marketing partner of AMA Insurance, an AMA subsidiary committed to helping physicians access resources to help protect their finances and their assets. He said if you want to end up with the most after-tax income, you should dispose of age-old investment axioms and, instead, look at how you could be affected by current and future tax policies.

Ways you could end up paying more

No matter when you retire, the taxation landscape may be quite a bit different from how it is today, Combs noted. For starters, you could move into a higher tax bracket. This can happen simply as a result of the death of your spouse, which would move you from the “married, filing jointly” filing status to “single.”

In addition, there are a few ways you could, or likely will, see your tax deductions go down.

“When you get into retirement, hopefully you’ve got your home pretty well paid for, and you’re not
carrying a big mortgage ... therefore you lose that deduction,” Combs said, adding that once your children are grown, you will also lose the child tax credit. Plus, when you stop working, “you're no longer making contributions to your retirement plans, so you're no longer getting that tax deduction.”

At the same time, income taxes could go up. President Joe Biden is proposing significant increases on wealthy earners, as well as on capital gains. Meanwhile, states and municipalities may also impose new sales taxes.

How life insurance can help

“The last 30 years or so, the narrative in this country—when it comes to saving for retirement—has really been to defer taxes now and pay them later in retirement,” Combs said, noting that this is often predicated on the assumption that one will earn less in retirement and therefore have a lower tax rate.

But because of inflation many retirees are “not spending a lot less money,” he said. “They're actually needing to replicate their preretirement income just to maintain their standard of living.”

The first step in making sense of the retirement-tax puzzle is understanding when you pay tax. As a rule, this is either when you contribute to your retirement plan, when it accumulates or when you take the money out.

If you pay tax on what you contribute, for example, you typically won’t pay it on the money you take out. Many take this to mean it would be better to pay tax at the end—on distribution—but that isn't always true.

It’s simple math, Combs said. Distributions on traditional individual retirement accounts, pension plans and 401(k) plans are taxed at income tax rates, whereas those from stocks, mutual funds and real estate are taxed at capital gains rates, which are generally lower than income-tax rates.

On the other hand, distributions from Roth IRAs, municipal bonds and life insurance are usually tax-free—and this is why many advisers believe they are important to have in an investment portfolio.

“There are no contribution limits to life insurance plans,” Combs said, adding that there are “no income limitations to the plans [and] the assets inside of the policy do grow tax deferred.” In many regards, he noted, it works like a Roth IRA for high-income earners.

Before making any investment decisions, talk with your financial adviser. If you don’t have one, you can find one through the Certified Financial Planners organization, the Financial Industry Regulatory Authority or the AMA Insurance Physicians Financial Partners program. The program provides access
to a nationwide network of independent and experienced financial professionals who have undergone
a comprehensive due-diligence process by AMA Insurance.

AMA Insurance also offers life, disability, health, home and auto insurance and provides access to
other financial services products through Millennium Brokerage Group LLC.

Learn more about the AMA Senior Physicians Section, which gives voice to and advocates for issues
that affect physicians age 65 and older, both active and retired. This May, the section is observing
AMA Senior Physicians Recognition Month.