Investing for Retirement and Retire the Wright Way

Introduction

What do you feel when you hear the word "retirement"? You may feel confident that in a few decades, you'll be gardening at home without a care in the world. Or, you may imagine yourself sipping on a pina colada on a Hawaiian beach somewhere.

However, you may also be filled with dread. You may constantly see articles about how retiring is just not impossible and that the age of retirement should go up. If you're a Millennial living paycheck to paycheck, how in the world can you save money? You could be ten years from retirement or are just entering the workforce as a fresh-faced teen or twentysomething. I can't tell who the reader of this book is, but I do know what you all have in common: you want to retire the right way.

Let me first explain some basics before we get into this book.

Why is Retirement Planning Critical?

In the perfect world, you would work your adult life, and when you reach a certain age, you'd have enough to enjoy life until your dying day. But we don't live in that world. Instead, we live in a world where you have to plan your retirement as meticulously as a general in a world war, and even then, you're going to make mistakes. And more than ever, retirement planning is no easy feat. Here are some things to consider.

Increasing Life Expectancy

You never know how long you will live, and life expectancy has come a long way in the US, according to the World Bank. In 1960, it was 69.77 years. In 2022, it's 77.43. There was a short drop from 78.79 in 2019 due to the pandemic, but it's climbing back. Improving medical technology and unraveling what is healthy and what is not certainly help.

Back in the day, it was expected to believe that after you retire at 65, you get 10 years before kicking the bucket. But now, it could be 20 or even 30. With technology going the way it goes, we may reach an age where life expectancy is doubled or even tripled. Okay, it's getting into sci-fi territory, but you never know.

The point is that when you retire, you'll need to have enough to live comfortably until your number is called, and you may be waiting a long time.

Inflation

Think back to when you were a kid hearing about what a millionaire is. You probably imagined a million dollars as never-ending, when in truth, it can disappear much quicker than you may think. Especially with inflation! My goodness, have you seen those egg prices? Even if you try to be Mr. or Ms. Frugal with your money, the bills, cost of living, and a small vacation or two can lead to you having to take on a small job to make ends meet, and no one wants that. That's why careful retirement planning is so important. Think about how much inflation has impacted us in just 30 years. If you're in your mid-30s, you may have 30 years to retire and 30 more years of life left in you. Think about how inflation will be in 60 years. Terrifying stuff!

The Three-Legged School is Getting a Little Wobbly

If you’ve read anything about retirement, you’ve learned about the three-legged stool. The first leg is your Social Security, where the government gives you a base level of income thanks to payroll taxes. But it’s just that- a base level. And more and more, Social Security isn’t as secure as the name implies.

The second leg is pensions. These are employer-sponsored and have been going the way of the dodo. Nowadays, 401(k) plans and IRAs are the name of the game.

The third leg is your personal savings and investments. These can include what’s in your bank, and also cover stocks, bonds, real estate, etc.

But these legs are getting wobbly, and now experts are considering fashioning another leg to the stool instead of building another stool from scratch. This fourth leg may be part-time work or passive income, such as being a landlord. Excuse me, but the entire point of retirement is that I don't want to work anymore! Because of this, careful retirement planning is needed if you want to sit on that stool comfortably without it breaking.

Why Delaying Retirement Will Cost You

If you’ve put off planning your retirement, just know that it will be more challenging the next time you approach it. The main reason for this is compounding interest.

If you invest now, there will be more interest in your investment than if you invested ten years down the road. And don't think that putting money in a bank will save you. These banks have low interest rates. I know many who put thousands in their savings, and they earn a whopping 50 cents on dividends. I don't even think you get a can of Coca-Cola out of the vending machine for that much nowadays!

That being said if you're in your mid-twenties and reading this book, don't take this as "It's too late to bother trying." No. It may be harder than it was in your forties, but it *is* still possible!

Beyond Traditional Savings: Investment Options

This book will help you invest to retire by using other avenues besides saving in a banking account. We'll look at bonds, annuities, REITs, dividend stock, tax-advantaged accounts, and much more. Best of all, *anyone* can use these to their advantage.

You don't need to be a Wall Street insighter or someone who is massively wealthy to do this. Anyone of any age, experience, and income can start investing and gain multiple income streams. The more income streams you have, the better retirement you will have.

Retire the Wright Way

I wrote this book to give newcomers to investing an easy guide on how to choose the best strategy for their needs and to make money doing so. I'd like to give you practical ways to calculate your retirement to provide you with the most comfortable golden years possible.

Many people talk about wanting to retire the right way, but I'm here to teach you how to retire the Wright way. So, let's begin by looking at investing and deciding which is right for you.

Chapter 1: Passive vs. Active Investing—Which is Right for You?

Many people can't understand investing, and now there is more than one type. Yes, there are two main types of investing: passive and active. So, which is for you? Or should you invest in both? Let's answer these questions.

What is Passive Investing?

Think of passive investing as going on autopilot. You invest and then keep your hands off of your investment. It usually involves investing long-term in an index fund, which mimics the stock market. You invest in something such as the Dow Jones and then hold it for the long haul. As the stocks go up, so does the worth of your investment.

It does require you to have the patience of a saint, however. Sometimes, a stock can go to the moon, and you want to sell. And then it goes to the sun itself, and you wish you waited. On the other hand, you may start panic selling when the stocks start to go down. But then, they go back up after you sell.

Pros and Cons of Passive Investment

Pros

1. Passive investment has low fees. One reason for this is that it involves following an index. Therefore, it's a great way to invest if you don't have the money.

2. Growth will be automatic. Think of it like a flower that doesn't require watering and trimming. You just plant the seeds and go on your merry way!

3. It's transparent. You know what assets are in that index fund; nothing is hidden here!

4. Tax-efficient. No one likes those dreaded taxes, so good news. If you buy and hold, you usually don’t have to worry about a capital gains tax. This is a tax on capital gains, which is when an investment increases in value.

Cons

1. Passive funds are very limited. This can be good for newcomers to investing, but if you’re seasoned, you may feel shackled to what you can invest in, especially in an ever-changing market!

2. At their core, passive investments track the market and aren't the market itself. Because of this, you are probably not going to become a millionaire with them. There are exceptions; sometimes, the market can boom, and you can get a fat return, but for the most part, it's a slow walk when you'd rather take the bullet train.

3. You don't have a say. You're usually reliant on a fund manager and no one else.

4. Worst of all, they require patience. Look, I know patience is a virtue. It’s a part of being an adult in a civilized society. But there’s always a part of you that wants it now, please.

So, What is Active Investing?

Active investing is just that. Instead of it being hands-off, a portfolio manager is helping you to stay in the loop at all times. A good portfolio manager is a market guru, one who can see a short-term fluctuating coming and cash out before it comes crashing down. There is no settling down here; one second, you’ll be snuggling up to Nvidia, and the next, you’ll be friends with Meta.

Active investing has several avenues. A manager will pick stocks for you, obviously. Then, there's options trading, which gives the buyer the right to buy or sell at any time. Then, there are pooled investments known as hedge funds and venture capital, which help fund promising startups.

Pros and Cons of Active Investing

Pros

1. Active investing has the chance for higher returns. If you get a portfolio manager who knows their stuff, you can make out like a bandit and then some.

2. It gives you more control. With passive investing, you can’t really do much other than wait, and you’ll always be trailing behind the market. Active investing, meanwhile, can help you get ahead of the market.

3. Each investment you make will be researched to the manager’s best ability. Meanwhile, with a passive investment, you may have done some research, but you don’t have the time or tools to do a deep dive.

Cons

1. It's more expensive. You're paying not only a manager but potentially their entire team to do the work for you. If you have a good amount saved up, paying a manager can definitely be worth it. But it may be too much if you're living paycheck to paycheck.

2. A bigger tax burden. Because you will constantly be earning, Uncle Sam will be watching.

3. There is a chance to earn, but there's also a chance for you to lose it all. A good manager will make calculated decisions, but they're still human. It's possible for them to fall for a product or service that has too much hype behind it.

Choosing an Investing Style

So, what's the best investing style for you? If you're new to this investing stuff and lack experience, I say go with passive investing. It's so simple to do so, thanks to apps like Betterment, Acorn, Robinhood, etc. These apps don't require much upfront, and you can invest however much you want at first. Skip the combo meal and invest $5 into one of these apps. Some apps even let you round up your digital payments to the investment app.

Once you have some money and experience, move on to becoming an active investor. Several platforms will also let you do this. Smart Asset is a platform that asks some questions and then matches you with the right financial investor. That said, look for people in your area, as nothing beats a face-to-face conversation.

Of course, you do want to vet any expert you find. Are they experienced? If so, how well have they performed against benchmark indexes like the S&P 500? What is their investment strategy? Are they in it for the long haul or high turnover? How much have they earned with previous clients?

What you choose also has to do with how much you tolerate risk. In life, we all have to take risks, but losing $10 on a bad bet is a lot different than losing thousands on a bad investment.

In my opinion, go with a financial advisor first since every situation is unique. We can help you find the right advisors in order to ensure you invest smartly.   That way, you focus on stocks that will help you achieve financial freedom rather than those which generate big losses.

You want to start investing ASAP, but you need to come armed with as much knowledge as possible to have a thriving retirement. This book will give you the tools you need to start. Wee focused on investing, and now, let's look for how you can find ethical companies to invest with!

Chapter 2: Moral (Ethical) Investing—Making Money with a Conscience

When you're investing in different companies, you may have one of two minds about it. Let me explain.

There's no sugarcoating it: a lot of the companies you're going to invest in aren't the best ethically. They may be damaging the environment, have horrible business practices, treat their employees like dirt, etc. Some companies I'd call outright evil.

You may recognize this fact, but you may believe that you're looking out for your best interests or the interests of your family. After all, ethical investing is impossible in our world, right?

On the other hand, you may feel guilty. You may not want to invest in companies that are trying to make life all the worse for us. I'm not going to name names, but lots of companies are in the news lately for less-than-flattering reasons. Do you want to be associated with them? If that keeps you up at night, you should invest in companies that are known for being ethical. That's ESG Investing.

ESG Investing

ESG stands for environmental, social, and governance. Let me break down what each of these means.

Environmental

We are all stuck in this little blue ball we call Earth, so we all need to take care of it. There's a lot of talk about pollution, climate change, and sustainability. You should invest in companies that use green energy sources. For example, invest in a company that uses electricity over gas or tries to reduce the amount of plastic in their products.

Of course, you need to be wary, as there are companies that are all talk, no action. When doing research, I discovered a term: greenwashing. This is where companies make claims about going green when they have no plans to do so. Remember when BP was claiming they stood for "Beyond Petroleum?" How many companies have claimed to be "carbon neutral" by 2050 or another far-off date? This is where looking into the history of the company is essential. If they've made actual strides and tangible results, there you go. But if they're all-talk, then you should all-walk away from them.

Finally, I should mention good ol' greenwashing. If a company uses all the buzzwords, like "Sustainability," "Organic," and "Biodegradable," but they don't have any plan or goal, then they may be all talk. Sometimes, they may have a goal, but once again, if the goal is a vague statement like "Net zero emissions," and the date is way far off, this may be a sign that they're as green as a St. Patrick's Day party. If there are no ratings on the company or negative ratings, then that's another red flag.

Social

You also may invest in a company based on how they stand on certain social issues. In the past decade, companies have been more transparent on where they stand on topics like LGBTQ rights, helping the poor, what candidates they support, etc.

In fact, some company leaders' politics have become the face of the company. Think about Elon Musk recently. No matter what you think about the guy, he has turned owning a Tesla into making a statement for a lot of people. As I'm writing this, there have been folks whose Teslas have been vandalized. Twenty years ago, this was unheard of!

Again, there are companies that will agree with the current social issues even though they don't actually care. Think about all the companies that put up a rainbow flag for Pride Month but donate to politicians who oppose them. This is what's known as pinkwashing. Lots of companies seem to be washing with different colors, huh?

So, like the environment, you'll want to do some research. You'll want to see which companies are all hype when it comes to what they support and which are actually making social changes.

Governance

Finally, we have governance, which is about how the company is run. Governance can refer to several factors, such as how diverse the company's board members are or how they pay their employees. It may also refer to how much hot water a company has gotten in due to its actions. For example, some companies have had lawsuits after lawsuits. Do you really want to be a part of a company that isn't governed very well?

With all of these things, it's entirely subjective. You may be reading this and be right or left of the political compass, or you may have a mixture of values from both sides. How strongly you feel about your political beliefs is also a part of it. You may have your beliefs but not feel strongly enough to care about where you invest. But, I should mention:

It’s More Than Just Feeling Good

Let's say you think environmental policies are hippy-dippy nonsense and that you don't agree with current popular social issues. It's still important to look for companies that are at an ESG risk.

For example, a high-risk company may have a high stock, but then it all comes crashing down during a PR disaster when the CEO is exposed as a horrible human being.

Invest in environmentally friendly companies because of regulations. We are in an age where some of these regulations are rolling back, but this can change in a hot minute. If a company is ahead of the curve, you don't need to worry much. However, if they are struggling to meet regulations, this can spell doom for the company – and your investment.

So, there are more reasons to invest in an ESG-compliant company other than feeling good. Now, let's talk about the different types of ESG investing.

SRIs and Impact Investing

ESG is not the only term you may hear when it comes to ethical investing. There's also SRI or socially responsible investing. This form of investing both eliminates or invests solely based on an ethical consideration you may have.

You may not want to invest in a company that makes weapons for the military to kill other people. If a company has many human rights violations, you may not want to do business with them. If you have a moral stance against drinking alcohol, you may not want to work with a company that produces that stuff.

Now, let's talk about impact investing. This is where you not only want to invest in a company that stands for something good, but you want to invest in one that has produced tangible results. For example, a company that has weaned itself off gas power instead of making promises that it can't keep. With all that said, how do you screen companies so that you know you're investing in places that align with your values? Here are some tips.

Screening Companies Based on ESG

Look at the Green Data

Several sites will rate companies and also provide real-time data that you can use to see if a company aligns with your values. For example, MSCI will rank companies based on a scale that uses AAA or CCC. Sustainalytics is another great site, monitoring companies based on past controversies and giving you an ESG risk rating. I recommend looking at several sites that rank them, as they all can carry their own biases. Just like you may want to look at a news story from several different outlets with different perspectives so you can get the complete picture, the same applies here.

Another piece of data you should look at is their environmental impact. What is their carbon footprint, which reflects how many greenhouse gases they release? If they do have a carbon footprint, sustainability reports may uncover whether or not there is a net-zero plan. In other words, do they plan to achieve a net zero of carbon emissions? If so, when? How? How much renewable energy are they using? Have they ever had an environmental violation? Has there ever been a spill? If so, how did they handle it?

Once again, use various sources to paint a complete picture. Some companies will have their own sustainability reports in their investor relations section. Of course, companies are going to sugarcoat their impact, so you should also look at other sources. The Carbon Disclosure Project (CPD) database can help, and for publicly traded companies, you can look at the SEC Climate Disclosures.

Checking Social Responsibility

What about social responsibility? You'll want a company known for paying its employees equally, offering competitive wages with great benefits, and being a safe place to work. You may also want to invest in a company that supports its local community and helps the kids—and also doesn't exploit kids!

Again, many companies may talk a big game on social media, but posting “I like good things” on Facebook or Twitter (or X) doesn’t mean they actually like good things. So, where can you check?

First, read some reviews from people who have worked at the company. One example is through sites like Glassdoor and LinkedIn. Here, you can read reviews from current and past employees. A company may claim they're all about diversity, yet their reviews tell a different tale. However, you have to remember that some reviewers have an ax to grind, so read positive reviews as well, and don't let one negative review make you think that the company is evil. However, if many negative reviews are saying the same thing, that is a red flag.

You can also visit Human Rights Watch and read a company's corporate responsibility reports on its website to learn more about its social ranking.

Audit the Governance

Finally, let's look at how to find out if a company has glowing governance rankings. The first question is, how transparent is the company? Can you easily look up the CEO's pay and find out that it isn't excessive compared to how much they pay their workers? Is there a history of bribery and fraud? Do the investors get to vote on the important decisions?

If you want to learn this, you can look at SEC filings, which should be on the SEC's website. You can also look at Glass Lewis & Institutional Shareholder Services, which will rate companies based on governance. Finally, you can look at the company's website, which can reveal its code of ethics.

The Financial Performance of ESG Funds

That said, is it even worth it to invest in an ESG fund compared to a traditional fund? Or is ESG all hot air? Well, there are some studies that we can look at. One came from a 2021 MSCI study. MSCI is a global index provider, and they found that ESG was similar or slightly better when it came to risk-adjusted returns.

If a company had a high ESG rating, it would be less volatile and better at risk management. In other words, when the market crashes, it can ride the wave much better than companies with a lower rating.

The Morningstar Report includes another study from 2023. This study found that ESG funds outperformed traditional funds over 10 years but did not perform as well in short-term investing.

In other words, ESG funds may be perfect for retirement, since you’re investing for the long-term, not short-term gains. But it also depends on what ESG companies you are investing in, too. You also need to think about the hidden fees some ESG funds can have.

The Hidden Fees in Some ESG Funds

Boo, hidden fees! No one likes them, but they are a part of life. ESG funds may have higher expenses due to how much research and monitoring goes into the screening processes. Traditional funds may have ratios as low as 0.03%, while ESG funds can have as high as 1.5%. That being said, some funds strike that right balance.

Also, some funds may charge performance fees. So, what's a performance fee? If the fund goes well, they want a bigger cut of the pie. Some funds may not use the term performance fee but may use other terms. "Incentive-based management fees," is one they like to use a lot. My opinion? The wordier the buzzword is, the more likely it is to screw you over, so do your research properly.

Despite their risks, ESG funds are the way to go. There are issues, for sure, like hidden fees and the fact that many companies like to pretend they're ethical when they're not. But generally, ESG funds are not only more ethical but also futureproof. And when you're investing for your retirement, you want to invest in companies that are investing in emerging alternative energies and are regulation-ready.

If you are still having trouble with choosing an ESG fund, we can point you in the correct direction, so that you find ethical investments that warrant good returns.

Next chapter, we’ll discuss the Wright way to set up your trusts or your wills.

Chapter 3: Trusts vs. Wills—Protecting Your Wealth

As you earn, you may be living in the moment or thinking about the short term. But what about the long haul? What happens if you can no longer make a decision for yourself or after you die?

It's not fun to think about, but it will happen. And if you don't have the Wright paperwork set up, your money may not go where you want it to.

This is when you must think about making a trust or writing a will. Let’s explain.

Wills Vs. Trusts: What’s the Difference?

Understanding the distinctions between **wills** and **trusts** is essential for effective estate planning. Here's a comprehensive overview:

Wills

Even if you've never touched this legal stuff in your life, you probably know a little about a will. This document tells how your assets will be distributed when you die. If you have left behind a fortune, the will explains who gets what. If someone is a beneficiary, this means they will get your estate without much worry about dealing with it in court. Let's also say that you're raising a child under 18, and you pass away. A will can assign guardians for that child.

If you don't have a will, or it's vague, this can lead to a lot of messy legal fighting among your family. You won't be around to worry about this mess, but it can tear apart those who love you, and I don't think you don't want that.

A will should also be signed through a legally binding process, usually through the help of an estate planning attorney or another lawyer who specializes in wills. You must write and sign it, and it usually requires witnesses to sign.

Usually, these witnesses need to be disinterested. A family member who really wants your inheritance should not be the one to sign! Also, a will goes through other legal processes, including probate. Probate will validate the well and help to oversee how the assets are distributed. Again, if the will isn’t clear, this can be a messy process.

Like most legal stuff, what makes a will legally binding can depend on what state you live in. So research your state and hire an attorney who specializes in local law! Also, a will should be updated as your life changes. If your will said that everything goes to your now-ex-wife, you may want to change that!

Trusts

With that out of the way, let's talk about trust. This agreement is where the trustee is someone who is legally responsible for overseeing and managing assets. Trusts can explain who gets what assets you have. Wait, this sounds like the same thing as a will!

However, there are differences, the main one being that wills take effect after your death, while trusts can take effect while you're still alive.

Revocable Trusts

One particular trust, revocable or living trust, lets you have control. You can change what the trust entails at any time. When you die, revocable trusts make it easier for your assets to go where they want. But they have disadvantages. Creditors can access your trusts and use that to pay off your debts. And they are subject to escape taxes.

Irrevocable Trusts

This trust can't be changed once they're established. While this can come with its disadvantages, there are plenty of perks, too. Mainly you get tax benefits, and those pesky creditors can't get access to your assets. This is because you're moving your assets away from your estate. If you want to protect your most valuable assets and reduce estate taxes, go with an irrevocable trust. Some may choose a mix of both, depending on their assets and current situation.

What Are the Main Differences Between Trusts and Wills?

Again, wills and trusts have many similarities but also plenty of differences. Let's look at some of them.

First, wills need to go through probate, and trusts do not. Probate is a necessary legal process to validate wills and to ensure that the assets go to the right people. But trusts work outside of the court to bring the assets to the ones who need it the most. Plus, they deliver privacy. There may be a lot less drama between family members as to who inherited what, as long as your family isn’t revealing what they’ve earned.

Another difference is control. Wills can be changed depending on what life circumstances you're dealing with, and certain types of trusts can, as well. However, irrevocable trusts cannot be changed. However, you do get more benefits as a result of this.

Finally, the costs. Setting up a trust is much more expensive than setting up a will. Trusts require more expert oversight, while a will only need to be written once. However, trusts can be less subject to estate taxes. In other words, you may pay more to make your beneficiaries' lives much easier.

Minimizing Estate Taxes

We all gotta pay Uncle Sam, as he wants his. However, Uncle Sam can be a flexible guy, and there are some tricks you can use to pay less while also satisfying him. You don't want hefty estate taxes on your assets. They are yours, and they belong to your next of kin.

Gift Tax Exclusions

If you have money, why not give some of it to your beneficiaries as a gift? Only a heartless soul would tax a Christmas present. All jokes aside, the IRS does allow you to gift a certain amount of money to people, tax-free. As of 2025, that number is $19k per recipient or $38k for married couples. The gift tax limit and rules can change, so be sure that you check yearly before you gift someone.

Trusts

I mentioned this before, but it's worth repeating. Irrevocable trusts can be an excellent way to reduce how much estate tax you earn. That being said, they are unchangeable once established, so be sure you get it right the first time.

Marital Transfer

Another technique is to transfer assets to your spouse after your death. He or she is exempt from estate taxes until they pass away and your children or another beneficiary receives your assets. While this can greatly reduce taxes, you do need careful legal planning to ensure your spouse isn't hit with any surprises!

Again, taxes are something that you need an expert to handle for you. Don’t do it all on your own! Even if you research the law to the best of your ability, all it takes is for you to overlook one stipulation for you to be in legal trouble!

Beneficiary Designations

Here's another fancy legal term that means "transferring your assets to a certain person regardless of what the will says." Certain assets, like life insurance, use beneficiary designations to reduce the receivers' wait time.

But while beneficiary designations can supersede a will, it's essential to ensure both are consistent. If your will says one thing, but the beneficiary designation says another, there may be a dispute brewing. Therefore, keep things consistent and update as needed!

That covers wills vs. trusts. Again, it's not my favorite topic to discuss; we don't like hearing that one day, we won't be here. But until we get those promised cybernetic bodies, let's assume we are all mortal beings, and one day, our kids will get what's ours! Now, let's talk more about retirement plans and investment opportunities.

Chapter 4: The Most Common Retirement Plans & Investment Opportunities

There are several paths to retirement, and you may wonder which road is worth traveling based on your career and preferences. In this chapter, I'll look at the most common career paths and investment opportunities.

Of course, the roads less traveled may be worth it as well, so I'll look at several alternatives you may want to take.

Employer-Sponsored Retirement Plans

If you work a 9-to-5, your job may have an employer-sponsored plan waiting for you. These plans can give tax benefits and encourage contributions so you can retire faster. The three main types of employer savings plans you'll find in the wild are 401(k), 403(b,) and thrift savings plans (TSPs.)

401(k)

A 401(k) plan, named after the section of the Internal Revenue Code, is what you'll likely find if you work for a private company. As an employee, you can contribute pre-tax or post-tax dollars, and employers may contribute as well. For many jobs, one of their more inviting perks is a fast-growing 401(k) plan.

The 401(k) plan will have contribution limits, however. As of 2025, the contribution limit is $23,500. If you're 50 or over, there's also the catch-up contribution. If you need to catch up to your impending retirement, you can make a catch-up contribution of up to $7,500.

When an employer contributes, this is known as an employer match strategy. Employers will match a certain percentage of the contributions employees make. How much they'll match can depend on the money earned and the type of business. One plan may be a 50% match-up for up to 5% of salary.

Finally, 401(k) plans are tax deductible. The more you donate, the less taxable income you have. Meanwhile, Roth 401(k) donations will grow tax-free. What is a Roth 401(k)? I'm getting ahead of myself here, so let's move on to a 403(k).

403(b)

This plan is very similar to the 401(k) plan, with its main difference being the type of employment. 403(b) plans usually deal with people who work in nonprofits, the public sector, or religious institutions. The contribution limit, as of 2025, is also the same as the 401(k) plan ($23,500 with a $7,000 catch-up.)

However, 403(b) does have a difference between its brother! If you have had 15 years or more of service, you may qualify for an additional $3,000 in contributions. The more, the merrier.

Thrift Savings Plan (TSP)

I should briefly touch upon the TSP, a retirement plan for Federal employees. It is similar to a 401(k) plan, so if you work in the Federal government, consider this option.

Traditional vs. Roth 401(k): Which is Better?

A Roth 401(k) is similar to a Roth IRA, which we will discuss later. The Roth retirement plans were named after the late Senator William Roth, who introduced them and made them part of the Taxpayer Relief Act of 1997. The more you know, the better!

To understand which may be the better option for you, let’s look at both and compare.

Traditional 401(k)

The traditional 401(k) uses pre-tax contributions. When it's time to file your taxes, you'll have less of a tax burden, which I think you'll like. But what I think you don't like is that when you make a withdrawal when you're retired, you'll get it taxed as ordinary income. Uncle Sam always gets his, even if he has to wait until you're old and gray. If you're in a lower tax bracket, however, this can be advantageous. But if you’re in a higher tax bracket, you may be sweating every time you make a withdrawal!

Roth 401(k)

The Roth 401(k) consists of contributions that have already been taxed. In other words, when you file your tax return, you’re not going to have a lower tax burden. But when you’re retired, you don’t pay any tax to withdraw the money. Thanks, Senator Roth!

What’s Better?

Both are a double-edged sword. The traditional plan will give you benefits now but can cause headaches when you're retired. Meanwhile, the Roth plan will give you headaches now but relief later.

Choosing which is better can be a big shock, depending on life circumstances. If you're in a higher tax bracket or expect to be in one, go with the Roth 401(k). However, if you're in a lower tax bracket, you may go with a traditional one.

I'd recommend talking with an expert about it, but here's how I see it. When you're young, you can handle the stresses of taxes. But when you're old and expected to enjoy the rest of your life, you may not want to deal with the burden of taxes. Well, I don't want to deal with taxes at any age, but I can't change that.

What Are the Best Asset Allocation Strategies Based on Your Age?

When you invest, there are many different factors you may consider, with one of them being how many rotations you’ve made around the sun. Yes, depending on how old you are, it can affect how much you should invest. Let’s explain.

Young Adult

By young adult, I'm talking about how much you earn in your late teens, twenties, and, yes, thirties. This part of your life is one where you can take risks and invest a lot more. At this age, you should have about 70 to 90 percent of your money invested and the remaining percent in cash or bonds.

Middle-Aged

What about when you’re in your 40s or 50s? This period is one where you still need to grow, but you can’t afford to take as many risks. It just takes one failure for you to lose it all. Having about half-and-half your money in investing and in fixed income can work here, though you can adjust this to 70s.

Pre-Retirement

You've reached the retirement age. You've just hit 60 and are planning to retire in five years, or you're waiting until your 70s. Regardless, it's time to have the majority of your money be fixed income. This stage is the reverse of middle-aged; you want between 50% to 70% fixed income and the rest in investment.

These Rules Aren’t Set in Stone!

Some people cannot imagine investing more than 70% of their money, especially when they're living paycheck to paycheck. That's why I should mention that this is general advice, and you may need to invest less depending on whether bills come first. Do the math yourself, or talk to a professional to see what the safest amount you should invest in is.

Individual Retirement Accounts (IRAs)

Now, let me talk about IRAs. These are similar to 401(k) plans, except that they are opened and managed by an individual, not an employer.

This begs the question: Why would someone use an IRA over a 401(k)? There are plenty of reasons why this may be the Wright way to save.

First, you may be self-employed or own a small business. This means that you can't have a 401(k) because you are not an employee. But sometimes, you may need an IRA even though you are an employee. This is because not all jobs offer 401(k) plans. There is no legal obligation for a business to have one, and if it's a smaller business or an entry-level position, you probably won't be offered such a plan.

But even if a business does offer a 401(k) plan, there are other reasons why you may want to open an IRA. As I mentioned, a 401(k) has a limit as to how much you can contribute to it annually. If you earn a lot, you may want to contribute more in a tax-advantaged environment, and that’s where the IRA comes in.

Another reason is that you're changing jobs. Yes, you can roll over your previous employer's 401(k) into an IRA. Even if you aren't changing jobs, however, you may expect to earn more as you climb up the corporate ladder. In this case, you should use an IRA now so you pay less tax later!

Traditional IRAs Vs. Alternatives

As you may expect, there is not just one monolithic IRA to which you can donate your money, but several types. Let me explain.

Traditional IRA

In this IRA, you make contributions that may be tax-deductible, meaning you pay less tax each year. However, when you withdraw your money during retirement, your money will be taxed.

IRAs also have RMDs or required minimum distributions. Talk about a lot of abbreviations, huh? These are the minimum amounts of money you must withdraw annually. If you were born before 1960, the age where the RMDs take effect is 73. If you were born in 1960 or after, it's 75. And it may change again by the time you reach that age, so always double-check!

Roth IRA

The Roth IRA works the same as the Roth 401(k), where you get no tax benefits now but tax-free withdrawals later. In addition, you have no RMDs to worry about. RMDs will apply if someone inherits your IRA, however.

SEP IRA

Wait, there's a third IRA? Yes! The simplified employee pension (SEP) IRA is intended for business owners or the self-employed.

Contribution Limits

Yes, all three IRAs have contribution limits. For a traditional IRA, the limit is $7,000 annually or $8,000 if you're over 50. The same limits also apply to Roth IRAs. However, because the IRA may be your central retirement fund if you own a business or are self-employed, the SEP IRA is much higher. It's up to $70,000 or 25% of your income.

For high-income earners using a Roth IRA, you may run into the barrier that is

Backdoor Roth IRA

Okay, this one isn't necessarily another type of IRA, but it's a legitimate strategy for high-income earners. Instead, you make non-deductible contributions to a traditional IRA, and then you can convert the funds to a Roth. I recommend talking to your financial advisor about this strategy so that you are in the legal clear!

Reasons You May Want to Convert from a Traditional to a Roth IRA

Let's briefly touch on when you should consider converting to a Roth IRA. First, market downturns. If the market dips, converting to a Roth IRA may be a good strategy, as the taxable amount will be based on the current market value. So, even when the market recovers, your tax burden will be lessened.

But what if you anticipate a bigger tax burden in the future? If you're heading toward a higher tax bracket, converting to a Roth IRA now may help you save in the future. Another reason is if you're planning an estate. Estate planning does not require RMDs, which means that your heirs will get your money with less hassle.

Alternative Investment Opportunities

Besides investing in the stock market and in an IRA, what are your other options? Let's look at some different ways that you can invest your money.

In the Real Estate Market

As the population grows and there's more need for homes, the real estate market thrives. There are several avenues you can take if you want to become a real estate investor. For instance, you can purchase a home and become a landlord. This allows you to make some extra money from your tenant while earning appreciation on your property. Of course, being a landlord comes with its own problems, such as maintenance and a possible disobedient tenant.

Real Estate Investment Trusts (REITs) also make for great investments. These companies own, operate, or produce real estate. If there is a growing city, you should invest in the real estate there, as you can make some big profits!

Another technique you can try is house hacking. This is where you let someone rent out a part of your home, letting you earn some money while keeping the house you live in. Think Airbnb or other applications that let users rent a home.

Through Dividend Stocks

These stocks will pay a portion of their profits to shareholders using, you guessed it, dividends! If you invest in companies that provide dividend stocks, you can get a steady, reliable stream of income, either quarterly, semi-annual, or annual.

Dividend stocks also come from companies with a history of financial stability, meaning you usually don't need to worry about them failing. Companies like AT&T can offer high yields, while Johnson & Johnson offers consistent increases. Companies like Microsoft or other computer manufacturers provide steady income as well.

That said, while dividend stock can provide high yields, you should always be mindful of any changes in the market. Play hard, but also play smart.

Municipal Bonds

Another thing you can try is municipal bonds, which are income tax-free. The government, both locally and statewide, may use these to fund public projects. If many projects are happening in your area, you should invest in them. These bonds can give you steady money, and best of all, it's tax free. However, municipal bonds may become less valuable as interest rates go up or if there's a higher credit risk, where the issuer cannot repay.

Annuities

An annuity is when you create a financial contract between you and the insurance company. You make a series of payments, and the insurance company will make payouts at a later date. This option will give you a steady income and ensure that you don't outlive your savings.

However, annuities also come with many risks. The first is those pesky administrative fees. The fee can either be flat or a percentage of your account's value. For example, you may be charged a 0.3% annual fee. Risk fees, such as mortality and expense risk charges (M&E), can also apply.

Other things to keep in mind are investment management fees and optional rider fees, which may give you perks like long-care coverage. Also, if you withdraw your funds before the agreed period, you may be charged a surrender fee.

Besides those pesky fees, annuities lack liquidity and may not keep up with inflation. If the insurer is having issues paying off their own debts, this can affect your annuity as well. So yes, annuities are an alternative where you need to think carefully and do your research. They're not for everyone, especially if you're young or just getting into investment.

These are several retirement and investment options I hope you consider. The beauty of these is that you don't need to choose just one; in fact, it's wise if you, and I know it's a cliché phrase, don't put all your eggs in one basket. If one avenue isn't working, invest in another. But even if the avenue is working, I definitely think you should invest in another if it invites the potential for you to make more money.

Now, let’s talk about the retirement portfolio, including how to set it up, and other problems you may run into during the process.

Chapter 5: Building a Retirement Portfolio That Lasts

In life, it helps to have a fat portfolio. In retirement, a portfolio is your collection of financial assets that can lead to a happy retirement or one that is a little lacking. When it's time to cash in, you should have enough to enjoy the fruits of your labor.

A retirement portfolio can also be a part of your bigger investment portfolio, but there is a difference. Your bigger investment portfolio may be focused on high-risk, high-reward. This portfolio may be where that gambler in you bets all or nothing on black. But when life throws it in the red, you can lean on your retirement portfolio. This is because retirement portfolios have a steady increase in income while being low-risk and preserving your savings.

Your retirement portfolio will have several key components.

Key Components

Equities

This part of your portfolio focuses on long-term growth, but there's always a chance of risk. The most obvious part of any equity is owning stock in a company. ETFs, or exchange-traded funds, are another equity you may want to invest in.

ETFs are securities that trade on the exchange very similar to stocks. They are low-fee and tax efficient, making them a worthy part of your portfolio.

Mutual funds are also another essential part of your equity portfolio. Investors like you pool money together, and this is used to buy stocks and other assets by professional managers. When they win, you win!

Your equities should be a good mix of both. You'll want the low fees of ETFs and the professional guidance of mutual funds. However, you'll also enjoy the freedoms that stocks provide. With that said, all three of these have risks, which is why it's just one piece of the puzzle.

Fixed Income

Besides equity, you'll want to invest money in things that will provide you with consistent income and stability. When the market goes south, these will help you go north without too much of a detour. Annuities, which I discussed earlier, are one such option.

Another option is bonds. I haven't explained what these are yet, so let me fix that. Investors lend money to various people, and they get regular interest payments or coupons in return. When you invest in bonds, you're usually investing in something that can give you consistent income.

With bonds, you will want to consider the credit ratings. With AAA bonds, these are paid back consistently by the people taking the loan out. However, because many people trust these, you may get lower yields. Another consideration is the maturity date, which is when the issuer will repay the entire principal. If the maturity date is a while, you'll have to wait a good time as well.

Not all bonds are created equal, either. Bonds can be issued by the government, cities and states (usually tax-free), or companies. Government and municipal bonds may have lower yields, but they are usually more reliable. Meanwhile, corporate bonds can have bigger yields but also no risk. One day, we'll find an investment with high yields and low risk.

Finally, there are junk or high-yield bonds. These bonds have high interest but are also extremely risky. So, once again, the best solution is to have a mixture of all the types of bonds to balance reliability with the possibility of winning it big!

For the final type of fixed-income bond, I wanted to talk about CDs. No, not the kind of CDs you put in your car. I'm talking about a certificate of deposit. This is a savings account where you deposit a certain amount of money, and you cannot access it until a certain amount of time. However, during that term, a CD can accumulate a lot of interest! It's low-risk and has a decent yield, but you have to wait.

Banks, credit unions, and brokerage firms offer CDs. There are also various types. Jumbo CDs will require a higher minimum deposit but can give you lots of return on investment. If interest rates rise, a bump-up CD will let you match that interest rate. Callable CDs do let you redeem them before they reach maturity, which can be good if you're in a pinch but may offer lower rates or possible penalties.

Alternative Assets

Finally, we have the alternative assets. These are your commodities, real estate investments, or REITs, which we've already discussed. Alternative assets go up over time, which helps you combat inflation.

Cash & Money Market Funds

Finally, you should have some money left over for emergencies and a fund for donating more to the market. You've set up your portfolio as strong as possible, but you never know when the market will crash, or when you'll face a personal issue, from emergency medical bills to helping your kid out in college.

Safety Nets for Your Portfolio

You've built up a vast portfolio, but what if something were to knock it down? It's a terrifying thought. Luckily, with smart investments, you can make this less likely. That said, there is still a chance that this might happen.

That's why it's important to have safety nets. If it comes crashing down, these nets can at least break the fall. Common reasons you may want to set up a safety net include a changing market and unexpected expenses. Let's look at the Wright way to set up safety nets.

Have One Year of Expenses in Cash Reserves

When there's a market downtown, you should avoid selling your investments, as you can lose a lot of money! But what about when you need to pay the bills? That's when having at least one year's worth of expenses can help. Put at least a year of expenses into a savings account. Money market funds, which include Treasury bills, can also help.

Your Options

Let's look at these three options now.

High-Yield Savings Account

Most banks and credit unions have some savings account in which you can put money, but a high-yield savings account is a little different. These have lower overhead costs and can offer higher interest rates. If there are no local banks that offer these, you can also look online.

Savings accounts are safe from market fluctuations, easily accessible, and you're protected via FDIC insurance. However, there's limited room to grow with these, as the interest rates don't keep up with inflation and can change depending on Federal Reserve policies. Also, you may be subject to withdrawal limits, though these can and may be able to be changed depending on the bank.

Money Market Funds

These involve short-term debt securities such as CDs, Treasury Bills, and commercial paper. Unlike savings accounts, there is no FDIC insurance, but these are still low-risk and make up for it by having higher yields than savings accounts. They're easy to buy and sell, too. If you want access to funds but want to see some growth, these may be ideal.

Short-Term U.S. Treasury Bulls (T-Bills)

These securities have short maturities, up to one year. Because the government itself backs them, they are generally considered safer and are expected from state and local taxes. The yields are also higher, up to 5%. However, interest rates may change, and you cannot adjust an old T-bill's interest rate.

Holding 2-4 Years of Expenses in Low-Risk Investments

Your portfolio should have between two to four years of living expenses in investments considered low-risk and income-generating. These investments will give you financial stability if there's ever a stock market crash.

Low-risk investments include bonds, CDs, fixed annuities, and dividend-paying stocks, just to name a few.

Your low-risk investments will grow over time, and soon, you should have enough for several years of peace of mind.

The 60/40 Portfolio Debate

One retirement rule that has been repeated over the years is 60/40. If you haven't heard of it, this means that 60% of your portfolio is in stocks, and 40% is in bonds. However, this rule is considered to be outdated in modern times.

For context, this rule can be traced to Harry Markowitz, who developed the Modern Portfolio Theory in the 1950s. I don't need to explain this, but the 1950s isn't modern anymore. Bonds used to be worth a lot more than they are and don't keep up with inflation. The stock market has a lot more surprises than it did in the 1950s as well. It takes just one news story or controversy for a well-respected company to plummet in the stocks.

But others argue that this rule is still evergreen and that as long as you play your cards right, you can get a huge cash-out. But the thing with these rules is that they are not absolute. Depending on your situation, you can easily adjust them based on your needs.

If you want more growth, try the 70/30 rule. Or go 50/50 for higher stability. If you want low risk and a steady climb, try 30/70. Once again, you can adjust this as you grow older or if your risk tolerance changes.

Another proposed change is the glide path strategy. As you age, your portfolio will shift, being more bond-focused and less on stocks. When you're around 50-60 years old, the rule is 70/30. Between 60-70, you should be 50/50. And when you're over 70, 30/70. The older you get, the less risk you probably want to take and the more you may want to settle in.

How Much Do I Need to Retire?

As you look at your portfolio, you may be asking this question. And the answer can come in the form of, yes, rules of thumb. You may only have two thumbs, but in investing an retirement, you're dealing with a multi-handed beast.

The 4% Rule

With this rule, you withdraw 4% of your portfolio annually, which gives you over 30% of your savings. So if you have $1 million saved, 4% of that is $40k. It's a reliable method, but when inflation is high or returns are low, you may need to reconsider.

The 7% Rule

This is just the 4% rule but add three more percentage points. Three percent wouldn't be a big difference, but when it comes to your savings, you will notice it! This rule can work well if you can tolerate significant risks and high rewards. But if the market sinks, so will your savings!

The Dynamic Withdrawal Rule

Market conditions are something you can never predict, which is what this rule observes. Instead of worrying about a certain percentage, you instead adjust along with the market. Bear markets, where the stocks decline, may have you observing the 4% rule or less. But if it's a bull market, you may observe the 7% rule or even go higher if that bull is charging fast! That being said, it's possible you miss some opportunities or overspend, so always keep your eyes on the market!

Now that you have an idea of how to have a good portfolio let's explore the concept of risk further.

Chapter 6: Riskalyze—Are You Taking Too Much Risk?

When investing, you're inherently taking risks, which some people may not like. But Mark Zuckerberg, love him or hate him, had a good quote on this from a 2011 interview. He said, "The biggest risk is not taking any risk."

This sentiment has been around a lot longer than in 2011. The idea was first observed with the starving caveman who didn't want to go out and hunt the mammoth. But Mark said it perfectly. That said, any feel-good quote is going to lack nuance. Go figure, huh?

You should take risks, but they should be calculated moves. Rarely does going with your gut and charging into the market work. And there are some times when not taking a risk makes sense. If you know the gun has five bullets, you'd not want to play the game of Russian Roulette with Wall Street.

So this chapter, I wanted to talk about understanding your risk and when you should take the plunge.

Risk Tolerance

Risk tolerance is your willingness to lose it all with the possibility of winning it big. Some investors have a high tolerance, and they're like Evel Knievel, able to jump across rings of fire without a problem. Even if they spill, they recover and are ready to take on the next challenge. Then you have the investors who treat investing like an arachnophobe treats a den of tarantulas.

Of course, you have those who are in-between, able to take some risks but want to avoid something that's super high risk. It is a spectrum, and there are ways to measure how much risk tolerance you have.

Riskalyze

One financial tool you can use is Riskalyze. It looks at your previous investments and assesses how much risk you're willing to take, then gives you a score called a Risk Number. The Risk Number is between 0 to 99, and the higher it is, the more likely you are to take risks and vice versa. If your risk number is 20, you may be more of a bond and dividend type of person.

Meanwhile, if your number is 70 or higher, you may be more inclined to high-growth, high-risk equities. Numbers in the middle play it safe generally but may take occasional risks.

Other risk assessment tools exist, and many are offered for free. If you visit Fidelity, Schwab, or Vanguard, you may find some. I would use several different tools to form a complete picture of your risk tolerance.

But You Don't Need Software to Calculate Your Own Risk Score!

Look, technology is good and all, but it's not infallible, and it can be expensive. Through a bit of math and common sense, you can calculate your own risk score. There are just a few considerations you need to make.

Time Horizon

Look at your withdrawals and see how much time has passed between them. The longer your withdrawals have been, the more risk tolerance you have. Meanwhile, if you're constantly withdrawing money from your investments, this may mean you're less risk-prone or aren't confident in your investments.

Investment Experience

Have you been around and witnessed more crashes than a busy interstate? If so, you're probably numb to it and have a higher tolerance. But if you're young and getting into investment, you don't have much tolerance.

How Do You React to Market Drops?

You're investing in a stock that seems to be going to the moon, and instead, it crashes into the Earth's core. If this happens, do you panic sell? Or do you hold and wait for the stock to climb back up to possibly bigger heights? Also, how much does the market need to drop before you start to panic?

Financial Needs

Your financial needs, both currently and in the future, can also reflect how much risk you're willing to take. If you're in a time where you don't have too many bills to pay, you're more willing to take some risk, and vice versa.

So What Are The Risks, Anyway?

In retirement investing, you'll run into several risks.

Risks in the Market

Even if you don't know a single thing about stocks, you probably know that they go up, go down, sometimes go really up, and sometimes plummet. In the 21st century, the most infamous example is the 2008 financial crisis. Here, retirement accounts dropped up to 40% for people who had heavy equity investments.

Risks for Inflation

Inflation is inevitable in this market, but in some decades, it's a slow increase, and in others, it blows up like the blueberry girl in Willy Wonka. If inflation makes investment returns unsustainable, then that's a risk. There's no point in investing money if the return is less purchasing power.

Outliving Your Retirement Savings

The Grim Reaper is coming, but you don't know when. But due to a longer life expectancy, he may be coming later rather than sooner. We already talked about life expectancy, and despite it being common sense, many people save like they're checking out for good at 75.

But you may live to be 100! And no matter how spry and sharp you are, you probably aren't in the mood to get a job at that age. That's why having decades' worth of savings is so essential and so difficult.

There are many other risks as well. For example, you may withdraw too much, too soon. Or a giant meteor can hit your home when you're on vacation. Life is full of risks, and you can't stop them all while still reaping their benefits.

Low Risk, High Returns

You can mitigate your risks while still getting as much out of your investments as possible. One strategy is to spread your investments in different ways.

You may invest some money in index funds, ETFs, and dividend growth stocks, which can all give you consistent growth. Bonds and REITs are reliable, and though they don't have the greatest return, they are excellent for stability. And cash reserves and even investing in gold may help to keep you protect

ed.

I need to mention another retirement rule: the 60/30/10 rule. This rule states that one should have 60% in stocks, 30% in bonds, and the rest in alternative assets.

And Don't Invest or Sell Emotionally!

The best way to mitigate risk is not to invest emotionally.

Okay, we all can't be Mr. Spock and be completely logical. In life, you're sometimes going to chase after your heart and leave that brain outside of the window. You may invest due to the hype of online communities around you or panic sell because others are panicking.

For example, think about how often people have invested in a crypto pump and dump, thinking they'll become millionaires. Or think about how people sold everything during the pandemic despite the recovery eventually happening.

There are a few ways you can invest and sell without emotions. A fiduciary advisor tends to stay cool, calm, and collected, even during a market crisis. That said, some advisors can be like used car salesmen, selling you risky assets.

It is also important to be committed to the long term and automate your contributions. Sometimes, it works to not look at the market 24/7. Instead, why not brush up on history to learn about the many instances of the market bouncing back?

Also, think on it! There is a sense of urgency when it comes to buying and selling, and that's because there's often a short window of time you have to make a decision. But this doesn't mean you can't come back and decide with a cooler head. If you're stressed, talk to a therapist. Go to the gym. Think about it a little before making a decision that could set your retirement back a few years. That's the Wright way to do it!

Another Retirement Map

Before we end this chapter, let's look at another example of a less risky yet profitable investment. Retirement income laddering is a way to climb steadily to the top, so you'll have plenty of income without selling your assets when they shouldn't be sold.

The ladder has three rungs. First is the short-term rung, which is your next 1-5 years. This is your cash, your Treasury Bills, your high-yield savings, that sort of thing. The next rung is mid-term, between 5-15 years. Your bonds, annuities, and dividend stock should go here.

Finally, there's the long term. Think 15 years or more. Your stock market investments, real estate, and higher-yield assets should go here.

Every map will be different, but we're all going to the same destination, so keep that in mind when mapping it out. Again, there's always going to be risk. It's vital to embrace the risks and also look to the future. A sweet, sweet retirement will be ahead if you play your cards right.

We have Riskalyze software that will pinpoint where your financial risk is. If you have questions or concerns, we can address ach matter. That way, if there are problems, they are caught immediately. We also look not only at long-term, but also short-term risks with your investment.

There's another way to reduce risk: knowing what *not* to do. In the next chapter, I will give you 10 retirement mistakes you should avoid.

Chapter 7: Pitfalls of Retirement Planning & How to Avoid Them

Knowing the wrong way to retire is just as important as knowing the Wright way. You can make some great investments, have a nice portfolio, and be frugal with your spending, but if you make other mistakes, your retirement can be doomed.

In my experience, there are ten pitfalls that you will want to avoid.

1. Underestimating Healthcare Costs

Is there anything more confusing and costly than the US's healthcare system? Unless you hit the genetic lottery, you're going to be dealing with a lot more health issues the older you get. You also get more benefits, like Medicare, and you may have your own health insurance.

But people tend to overestimate just how much these plans cover. Medicare doesn't cover dental, vision, hearing aids, and other long-term expenses. And as you age, you may have to make more trips to the eye doctor!

That's why having a healthcare budget is vital for your retirement plan. In 2023, Fidelity estimated that the average couple would need $315k saved up for healthcare expenses. A Health Savings Account (HSA) can help. It provides tax-free contributions.

Also, get long-term insurance before age 60. The older you get, the higher your premiums may be. Be sure that the insurance you get covers what you expect to spend on healthcare.

2. You Take Your Social Security Out Too Early

How long should it be until you take out your Social Security? The longer you wait, the more beneficial it can be. If you're 62, you may only be getting 70% of your full benefits. But if you wait until you're 70, it can be over 116%.

Of course, every situation is different, and there may be some instances where you don't see it beneficial to take out your Social Security right away. One solution is to go to a professional who can give you a break-even analysis. Here, you can determine if it makes sense to delay your Social Security or if you should wait a little.

If you want to wait but need some money, partial withdrawals from your IRA or 401(k) can work.

3. Not Having a Tex-Efficient Withdrawal Strategy

There's nothing more frustrating than getting money only to learn that Uncle Sam took a bite from it beforehand.

That's why it's so important to have a withdrawal strategy that has tax efficiency in mind. This can come in the form of focusing on your Roth accounts first, as these will be tax-free. As a backup, you may use any taxable brokerage accounts you may have, then traditional 401(k)s and IRAs. This is a tax bucket strategy, and it helps you avoid paying any unnecessary taxes.

4. Overestimating Your Investment Returns

You want your market returns to be bountiful, but you should be realistic. A return of 8-10% is possible, but if the market isn’t doing so well, that pesky sequence of returns risk can happen. Even during bullish markets, always assume that your estimates may be lower, between 4-6%. If the returns end up being higher, then great!

Another way you can avoid this is to have at least 3-5 years of expenses in low-risk investments. Sure, you won't get as much money, but these are often safe withdrawals.

5. Holding Too Much Cash

They say that cash is king, but retirement isn't a monarchy. Having a bunch of cash feels safe, but inflation will happen. If the inflation outpaces interest rates, the purchasing power of the cash you do have will suffer. Savings accounts often don't keep up with inflation, meaning the money you have won't go as far within a few years.

It's a good idea to have a chunk of your expenses in cash, but the rest should be in stronger assets like high-yield savings accounts, money market funds, and Treasury Inflation-Protected Securities (TIPs). Doing so will make that dollar go much further.

6. Forgetting About Long-Term Care Planning

As you age, you may be terrified about having to be in a nursing home, but it can happen. Even if you stay at home as you grow older, you may need a caretaker, which can cost money.

In fact, 70% of retirees may require some long-term care. What type of care you need isn't certain, but assume the worst.

Assume that if you have to go to a nursing home, it's going to cost $100,000 a year on average, and make a savings fund for that. Having long-term care insurance or a hybrid insurance policy can also help. In your 50s and 60s, you should look into insurance that can cover it, as you may pay less of a premium when you're younger. Hope for the best of health as you get older, but prepare for the worst.

7. Not Diversifying Your Investments

Again, it's those pesky eggs staying in one basket! There are certain stocks you may prioritize over others because of how evergreen they are, or you may see the real estate bubble as never-ending. But even the most substantial companies can deal with market downturns, and even those bubbles that seem like they're going to grow bigger than the Earth itself can pop.

The bucket strategy and having a diverse portfolio of stocks can help you as you reach retirement age.

8. Having Too Much Debt Before You Retire

Getting into debt is a certainty of life, but it's also essential for you to pay off as much as possible before you retire. The last thing you want is to come into retirement with a maxed-out credit card or your mortgage still not paid off. You don't like the fruit of your labors being stolen by paying off high-interest debt, so be sure that you pay off any high-interest debt. In some cases, you may need to downsize your home if your mortgage is too much.

Also, talk with a financial advisor to figure out the best course of action to pay off your debts. Depending on your situation, you may use the snowball method, where you pay off the smallest debts first, or the avalanche method, where you pay off the highest interest or highest number of debts.

9. Relying Too Much On a Single Income Source

Eggs, please get into other baskets! Don't think Social Security will cover your expenses. It may replace 40% of your pre-retirement income if you're lucky. But there's been a lot of talk recently about how Social Security isn't what it used to be and will be even less with time. So, you should have multiple income streams if you want to succeed. From stocks to even a part-time job, this can help you stay secure in your retirement.

10. Failing to Update Estate Plans & Beneficiaries

Finally, you should update your estate plans or beneficiaries as quickly as possible. You may have gotten a divorce, had a falling out with a beneficiary, or there's another situation where the circumstances have changed.

Review your plans and beneficiaries every 3-5 years and make changes accordingly. Also, be sure to speak with an estate planner so that the people who receive your assets do so as efficiently as possible!

Chapter 8: Retiring As Tax-Free As Possible—How to Keep More of Your Money

As Ben Franklin once said, death and taxes are the two things that are certain in this world. And in the case of estate planning, you don't escape taxes even after death! Can't a guy get some shut-eye down here?

While Uncle Sam will always get his cut, there are ways for you to keep more of your money as you retire. This chapter will deal with ways that you can retire with more of the money you worked hard for and pass it on to the people who matter the most.

Also, tax laws are constantly changing. Before you execute any of these plans, always talk to a tax professional for more up-to-date information.

How Are Retirement Accounts Taxed?

How your account is taxed will depend on its type. There are three main types of accounts, each with its own pros and cons. Let's look at all three.

Tax-Free

Well, tax-free is a bit of a misnomer. Do you expect Uncle Sam to have a legal, no-strings-attached way for you to live tax-free? Tax-free means that you contribute already taxed money to an account, so when you withdraw the money, you don't need to pay taxes on it because you've already paid your part.

Tax-free accounts are ideal if you expect to be in a higher tax bracket later in your life, but may not be good if you're in a lower bracket. Types of tax-free accounts include the Roth 401(k) and IRA, and the Health Savings Account (HSA.

Tax-Deferred

This type of account is for when you want to say, "Eh, I'll worry about it later." Your contributions are tax-free, but once you withdraw the money, it's taxed like income. These are your traditional IRA and 401(k)/403(b) accounts, Annuities, and Thrift Savings Plans (TSP).

This plan is ideal if you expect to be in a lower tax bracket during your retirement. Let me say this in another way. Will it be less painful for you to pay your tax now or pay it later? Gotta love the lesser of two evils, right?

Taxable

Taxable accounts are when you contribute taxed money to accounts such as brokerages, dividends, REITs, rental income, etc. As the money accumulates, it's taxed at applicable capital gains rates. So, why would you get double-taxed? These accounts are good for having a little extra income, and also when you want something where you can withdraw from it whenever you want to.

Tax-Friendly States

When you retire, what state do you want to move to? The weather, the sites to see, and the culture are all considerations, but what may be an even bigger consideration is how tax-friendly that state is.

Some states are very tax-friendly, while others have it out for retirees.

Tax-Unfriendly States

These are the states that will tax most types of retirement income. Well, they'll be lenient on sales and property taxes. Nope! These states don't offer *any* tax benefits. Unless you really like the state, can live comfortably regardless of taxes, or offer something else that you can't miss, you probably shouldn't move to these states:

- California
- Connecticut
- Maine
- Minnesota
- Nebraska
- Rhode Island
- Vermont

Somewhat Tax Friendly

These are your states that do tax retirement income, but the deductions are much smaller. Other taxes may also be more lenient. However, depending on your tax situation, these states may not be ideal, either.

Moderately Tax Friendly

States that offer smaller deductions on some or all forms of retirement income. The sales, property, estate, inheritance, and income tax rates in this category range in friendliness based on the degree of retirement deductions available.

- Arizona
- District of Columbia
- Hawaii
- Indiana
- Iowa
- Kansas
- Maryland
- Massachusetts
- Missouri
- Montana
- New Jersey
- New Mexico
- New York
- North Carolina
- North Dakota
- Ohio
- Oregon
- Utah
- Wisconsin

Relatively Tax Friendly

These states typically won't tax your Social Security income, and they may have other deductions to make your retirement income easy. Their other taxes are also relatively low as well. These states include:

- Alabama
- Arkansas
- Colorado
- Delaware
- Idaho
- Illinois
- Kentucky
- Louisiana
- Michigan
- New Hampshire
- Oklahoma
- Pennsylvania
- South Carolina
- Tennessee
- Texas
- Virginia
- Washington
- West Virginia

Your Best Tax Friends

These states don't have any state income tax or taxes on retirement. And if there are any taxes, they are very little. These taxes include:

- Alaska
- Florida
- Georgia
- Mississippi
- Nevada
- South Dakota
- Wyoming

Now, I want to stress that states tend to change their laws much faster than the Federal government does. In other words, this information could become outdated eventually.

Also, taxes aren’t the only reason why you may choose to retire to one state or another. Some states may have lower taxes, but the cost of living in other areas is much higher. When you’re near your retirement, you’ll have to do careful research in deciding which state is right for you.

Minimizing Required Minimum Distributions (RMDs)

I briefly touched on RMDs, which are mandatory withdrawals you must make on tax-deferred accounts. The SECURE Act 2.0 says that you have to start withdrawing starting at 73. Where do they get these ages?

So, why is it a problem that you have to withdraw your money? Well, every time you do so, it’s taxed, and the more you have to withdraw, the bigger tax bracket you’ll be on, so even more taxes. Oh, joy. Luckily, with some preparation, RMDs won’t be as bad. Here are some ways to reduce your RMD impact.

Roth Conversions

Before age 73, start to move your money from a traditional account to an IRA. When you do this, keep in mind that moving the money will mean that you have to pay tax on it at the moment. However, doing this will stop RMDs and higher tax rates in the future. Also, if you have heirs who are in a higher tax bracket, converting your money to a Roth IRA means that they won't have to be taxed as hard.

Ideally, you should convert in the early retirement years. However, you should also do so during a market downturn. When you convert your assets, you'll be doing so with lower values.

Qualified Charitable Distributions (QCDs)

When was the last time you said your age was a number and a half? Probably since you were a kid. Well, half-birthdays are about to be important again. If you're 70½, you can use QCDs to donate up to $108k per year to charity, reducing your tax burden and your RMDs. Charities that have a 501(c)(3) are eligible to receive QCDs.

Sure, you still have to give your money away, but you can donate to a cause you're passionate about instead of not knowing what your money will be used for.

Strategic Withdrawals

Another great idea is to withdraw strategically before age 73. How you strategize will depend on your income and your needs, but let me give you an example.

In your 60s and early 70s, you may want to withdraw about $30k annually from your Traditional IRA, which means your taxable income will stay low. You may also want to convert $20k of your money from a Traditional to a Roth, which will put you in a low tax bracket. Ideally, you'll want to withdraw up to the lower bracket limit, which is 12%.

Capital Gains Taxes on Investments

Let's discuss capital gains taxes a little. When you pay for an asset that grows in value, capital gains taxes will apply when you sell it.

The taxes you pay will depend on how long you have held the asset. These are what are known as short-term and long-term gains.

Short-Term Gains

Short-term gains taxes are when you've held onto an asset for less than a year. When you have short-term gains, it will be taxed as ordinary income. This means, depending on your tax bracket, you will pay between 10% to 37% on it.

So, if you buy $10k in stocks and sell it for $15k in the year, you'll be taxed for the $5,000 difference. And if your tax bracket is 22%, that's $1,100 you owe.

Long-Term Gains

Long-term gains are any investment that you've held for over a year. While your fruits will take longer, they are taxed at a much lower rate. If you're a single filer, you may pay no tax on your investments if you make under $44,625 a year. If you make between $44,626 to $492,300, you're taxed 15%, and 20% if you make more than that.

In other words, one excellent tax strategy is to make investments designed for long-term gains. Now, there will be instances where you may need to bite the bullet and pay short-term taxes. For example, if you need the gains now, or you're investing in something that's growing now but may dip later. But more often than not, the phrase "good things come to those who wait" is sound advice. In some cases, it may be months, or even days, before a year has passed since your investment.

How Your Social Security Can Be Taxed

You may have to pay tax on virtually everything, but surely your Social Security isn't taxed. It's called Security for a reason.

Well, I hate to break it to you, but your benefits may also be subject to income tax. Depending on how much income you make, you may have to pay significant tax on it.

The IRS determines this through Combined Income, which is the sum of half of your Social Security benefits you received that year, any nontaxable interest you've earned, and your AGI.

Social Security Tax Rates

If you're a single filer and your combined income is below $25k or $32k for joint filers, then congratulations! You have no taxable Social Security.

But if your single income is between $25k and $34k, or $32k to $44k if joint-filed, then you have to pay up to 50%.

And if it's above that, then up to 85%! Ouch! It's like being given a cookie after someone took the biggest bite out of it imaginable.

How Can I Minimize Social Security Taxation?

It is possible to avoid a high tax rate on your Social Security. Remember Roth accounts? Since withdrawals are tax-free, they won't go toward your combined income. If you do have tax-deferred retirement accounts, be mindful of how often you withdraw from them. Again, strategic withdrawals are key!

Also, invest in any assets where the income is tax-exempt. Municipal bonds are one great example. As long as you plan your retirement properly, you should have a low combined income, but there may be times when you'll have to bite the bullet.

The 10 Tax-Saving Strategies

Before I end this chapter, I wanted to give you ten strategies, as taxes will be a significant part of your retirement. You may be a master investor, but if you don't plan accordingly, you may lose a chunk of that. Consider this a quick reference guide if you don't want to reread the entire chapter.

1. Invest in the Long Term!

If you hold onto your investments for over a year, you'll be taxed at a much lower rate, sometimes nothing at all!

2. Sell During Low-Income Years

When should you sell stocks? When your taxable income is below $44,625 if single or $89,250 if married. You'll pay 0% tax!

3. Losses Matter, Too!

When selling an investment as a loss, this loss can end up making you pay less capital gains tax. In some cases, your tax bill will also be lower by thousands as well.

4. Roth Accounts Are Your Friends!

Roth accounts mean you will pay less tax when you withdraw at the cost of the money being taxed before it enters the account. It's possible to transfer your funds from a traditional to a Roth as a legitimate legal tax strategy.

5. Look Into a TFRA

A Tax-Free Retirement Account (TFRA) is a life insurance policy that will give you tax-free growth and withdrawals. However, their fees are much higher than Roth accounts, so use them wisely.

6. And Municipal Bonds

Municipal bonds are from the government and can give you tax-free interest income. However, there is a credit risk, and the yields are lower.

7. Take Advantage of Catch-Up Contributions

When you're over 50, you can donate extra to your 401(k), which can help you in the long run. As you do so, be mindful of when you must withdraw this. As you get older (73½), you may have to make mandatory withdrawals unless you move your money to a Roth IRA.

8. Retire to a Tax Friendly Place

Some states are much friendlier with retirement taxes than others. While other living costs are also essential to consider when figuring out where you wish to retire, a state that offers minimal income, estate, sales, and other taxes can help you have a happy retirement.

9. Always Stay Up to Date

Tax laws are constantly changing. The minimum amounts you need to reach a certain tax bracket can change, and so can certain loopholes being closed. In a few years, the information you read in this book may be outdated, so be sure that you double-check anything you read.

10. Hire a Great Tax Professional

Finally, I must stress the importance of hiring a competent tax professional who will have a one-on-one conversation with you and find the best strategy for your situation. More affordable professionals may have a one-size-fits-all approach, which may not give you the best savings.

Although such a professional may cost you a bit more money, it will be worth it. The money you spend on them may be far less than the amount that you will save! They will ensure that you get the most net gains possible. Our team has some great outlets for you to check out, so feel free to ask and we will connect you with top-level professionals.

So yes, here's how you can win at taxes—well, win as much as you can, anyway. No one likes them, but we all have to pay our fair share. Luckily, there are ways to make that share a little fairer to your wallet.

Taking Action Now The Wright Way

This book is just a taste of what you need to do to retire. Investing, dealing with taxes, and your wills could each warrant their own book and be twice as long as what I've written. That said, the purpose of this book is to learn something new and take action to learn more about it.

I've met with many people, and they've told me they didn't know why savings accounts aren't enough. Apparently, many younger folks are not being taught well in schools, but that's a whole other discussion.

Some readers may even read this and think it's too late. For example, you may be in your 30s and think that it's too late for you. But I've known people who made some smart investments later in life and had a thriving retirement. Sure, you can wish that you had done some things sooner, but that's a part of life. Very few people, if at all, haven't wished they could have done something earlier in life.

What’s important is that you start taking action now! Even if it’s just $100, that will add up in the next few decades. And start making a plan. I mentioned it earlier on, but when you’re young, you’ll want to invest as much as you can, then rely on that less and less as you reach retirement age.

So start now. What's something you can do right now that will move you in the Wright direction? For some, it's starting a 401k or downloading an investment app. Depending on their situation, others will want and need an advisor who can guide them to retirement.

Whatever it is you can do, do it now. Your future self will thank you for it later.