The Difference A Day Makes

By Jon T. Meyer, CFP®

Key Takeaway: Retiring seems so easy—you just have to pick a date and go. But if you don't understand how that date affects your money, you could end up leaving a lot on the table.

Expiration dates on food can often be fudged a little. After all, it isn't necessarily true that food that is one day past its expiration date is spoiled. Retirement should be viewed the same way. Most people can be somewhat flexible about when they retire, and waiting one more day after might help you keep more money.

Stock Options

If you have stock options, you should always read the options agreement to understand how they are treated at retirement. Often, corporations give you 30 days or 60 days to exercise them after you retire. Using this time wisely is extremely important when looking at your tax return.

Assume the following: You retire on November 30 and have 30 days, or until December 30, to exercise any remaining stock options.

With those facts in mind, you'd be better off retiring on December 3. Working all year means you would have been paid for 11 months, thus placing you in your highest tax bracket. Exercising stock options on top of that means you are subjecting them to your highest tax bracket. But by delaying retirement until December 3, you could exercise your options on January 2 of the next year and push all that income into a lower tax bracket (this assumes that the following year you would be in a lower bracket; I am not taking into account, however, that the stock price does fluctuate). Timing matters in this case.

Age 70½ and Still Working

More people are working later in life. Starting at 70½, you must start taking required minimum distributions (RMD) from your retirement accounts. But the IRS gives you relief if you are 70½ and still working in your job (assuming you are not more than a 5% owner in your business). Under these circumstances, you still have to take RMDs from your individual retirement accounts (IRA) but you do not have to take them from your company 401(k).

Taking this rule into account, it makes sense for people to leave money in their 401(k) if they think they might work past 70½. But when they are ready to retire, is it better to do so on December 31 or January 2? Under this scenario, the RMD exemption applies until the year you retire. Retiring on December 31 would force an RMD in that year, and that income would be pushed into your highest tax bracket. Thus, waiting until January 2 would hopefully allow you to take money out at lower tax rates, assuming you can manage your tax brackets.

Other Dates That Matter

The above are just two examples of all the possible dates that matter when it comes to retirement, whether you work in corporate America or own your own business. This is not an exhaustive list, but consider the following:

1. Matching 401(k) contributions or profit-sharing contributions: Every company is different; some match on an ongoing basis and some match quarterly or annually. With profit sharing, many companies say you have to be employed on a certain date to get it.
2. Bonuses: You may need to be employed on a certain date to get a bonus.
3. Health savings accounts (HSA): Some companies require you to be employed on a certain date to get the company contribution to an HSA.
4. Pension or Social Security: Knowing the formulas for both pensions and Social Security is crucial to maximizing your benefit. Sometimes, delaying allows you to get a better bang for your buck.
5. Paid time off (PTO): Some employers credit PTO at the end of a month. Retiring in the middle of the month could cost you.

After working for 30 or 40 years, it might seem like all that is left to do is pick a retirement date (or for business owners, a sale date) and then shift into the next phase of life. But before you pencil in a retirement date on your calendar, check on what you might miss out on by retiring a day too soon.

The opinion of the author is subject to change without notice and must be considered in conjunction with relevant regulation, as well as subsequent changes in the marketplace. Any information from outside resources has been deemed to be reliable but has not necessarily been verified. Each individual has unique circumstances to which this information may or may not be relevant. Under no circumstances will this information constitute an offer to buy or sell and it does not indicate strategy suitability for any particular investor.