



MONEY NOTES

Cents and Sensibility: The Golden Years

(Part 6 of 6)

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A Guide to Sustainable Financial Independence: A Series

In celebration of Women, we have released a series of articles aimed at celebrating women and helping you achieve greater financial independence and understanding throughout every major life stage. Now we are ready to talk about your active retirement years.

Retirement brings many changes – maybe a move to a new location, a second act career pursuing an avocation, or more time for travel, hobbies and community work. One of the most significant changes is that after a lifetime of accumulating assets, you now face the challenge of turning those assets into income to finance the lifestyle you desire. And it raises a host of questions:

- *Should I start taking Social Security or pension benefits now or later?*
- *Which account types should I draw down first?*
- *Which assets should I set aside for my beneficiaries and how can I do it tax efficiently?*
- *And what happens if my spouse dies before me?*
- *How do I make sure I do outlive my assets?*

One of the benefits of having a wealth advisor like BLBB is precisely to help answer these types of questions and assist you in successfully navigating life after work.

Generating Tax-Smart Retirement Income

The decision of when to retire extends far beyond selecting a date. It requires analyzing the intersection of Social Security claiming strategies, portfolio longevity, healthcare coverage, and your personal vision for this next chapter.

Social Security: One Piece of the Income Puzzle

Aside from your primary (and perhaps a secondary) residence, the lion's share of your wealth is probably held in tax-deferred accounts like IRAs and 401(k)s. While great for accumulating wealth, these accounts aren't necessarily the most tax-efficient when it comes to generating retirement income or transferring wealth to the next generation.

For instance, the income you generate from tax-deferred distributions will be taxed as income whereas income generated from taxable accounts is subject to a lower capital gains rate. This is why it's generally advisable to spread your assets across a mix of taxable, tax-deferred and tax-

free accounts to have more flexibility and choice in converting assets to income in a tax-smart way.

By taking distributions from your taxable and tax-free accounts before tapping into your tax-deferred accounts, you also give your tax-deferred savings additional time to continue growing.

1. Start by working with your advisor to estimate your retirement income and expenses as accurately as you can and then prioritizing and quantifying your various goals in retirement.
2. Then align guaranteed income sources (things like Social Security, pension income, and annuity payments) to cover essential and important goals, and other non-guaranteed income sources (such as withdrawals from retirement plan accounts and your investment portfolio) to fund other desirable but less critical goals.
3. Don't forget to include projected healthcare expenses – especially the cost of long-term care which can be extensive and is not covered by Medicare.

Of course, market performance will also be especially critical during the early years of retirement. Poor returns during the first few years can quickly derail your retirement income plan.

Legacy and Wealth Transfer Planning

Creating a thoughtful estate plan will help bring your vision for the future to fruition – facilitating the tax-efficient transfer of your wealth in a way that benefits your loved ones as well as the causes that are important to you. Working together with your attorney and your BLBB advisor can help devise an estate plan that:

- Protects your assets and ensures they're distributed according to your wishes
- Minimizes the impact of estate and income taxes on the assets you transition to future generations
- Avoids the delays, costs and public disclosure associated with probate
- Helps share your wealth values with family members

In addition to making sure your estate planning documents (including your will, revocable trust, health care proxy and power of attorney) are all up-to-date, you'll also want to take time to review your beneficiary designations and verify that your assets will be distributed according to your wishes.

You may also want to make provisions for charitable giving as part of your plan. There's no right or wrong way to give; what matters is that you feel passionate about your involvement and derive a sense of satisfaction from it. One of the best ways to accomplish that is to make your charitable giving not just about **you** helping others, but instead make it about **your whole family** helping others.

Family philanthropy offers a tremendous opportunity to instill strong charitable values in your children and grandchildren – values like empathy, compassion, and generosity. It can awaken them to the unseen challenges and struggles that go on every day beyond their somewhat insulated world. And it can help turn future generations into lifelong activists and philanthropists.

Rather than just making outright gifts of cash, however, consider the benefits of one or more planned giving vehicles. Some of these structures enable you to irrevocably gift assets in a tax-efficient manner, while still benefiting from an income stream. Others also allow the assets you've gifted, but not yet granted, to continue being professionally managed so they can potentially grow and provide an even bigger gift to the charity. The four most common structured giving vehicles you may want to explore are:

- Donor-advised funds (DAFs)
- Charitable remainder trusts (CRTs)
- Charitable lead trusts (CLTs)
- Family foundations

Let's Put This in Practice with a Look at a Hypothetical Scenario: Margaret and David Loudon*

Margaret and David Loudon are a fictional couple in their late 60s experiencing a common misperception. David recently retired from a long career in engineering, and Margaret, 64, stepped away from her position as a hospital administrator two years prior. Between them, they have accumulated \$2.1 million across a combination of account types: roughly \$1.4 million in David's rollover IRA and old 401(k), \$300,000 in a joint taxable brokerage account, and \$400,000 in Roth IRAs they had been contributing to over the past decade.

When they sat down with their advisor to build a retirement income plan, the first order of business was mapping their expenses against their guaranteed income sources. Between David's Social Security — which they had delayed until age 68 to maximize the benefit — and a small pension from Margaret's hospital, they could count on about \$68,000 per year in guaranteed income. Their estimated annual spending was closer to \$110,000, leaving a gap of roughly \$42,000 to be funded from their portfolio.

David had initially assumed the most straightforward approach would be to simply begin drawing from his IRA — it was, after all, the largest pool of money they had. Their advisor flagged this as a costly instinct. Those distributions would be taxed as ordinary income, potentially pushing the couple into a higher bracket and triggering a Medicare premium surcharge they hadn't anticipated. Instead, the advisor recommended drawing first from the taxable brokerage account, where gains would be subject to the more favorable long-term capital gains rate. This sequencing allowed the IRA to continue growing tax-deferred until Required Minimum Distributions (RMDs) began at age 73 — and kept their tax bill meaningfully lower in the early retirement years.

The Loudons also worked with their attorney to ensure their estate documents were current and their beneficiary designations were properly aligned with their trust structure. They established a donor-advised fund to which they could contribute appreciated securities from the taxable account — generating a charitable deduction while avoiding capital gains tax on the appreciated shares, another move their advisor helped them see clearly.

This scenario reflects the kinds of interrelated decisions — and easily overlooked missteps — that make working with a knowledgeable advisor so valuable during the retirement years.

Widowhood and Estate Administration

In building your retirement and wealth transfer plans, you should also factor in the reality that, on average, women live five years longer than men (and often survive them by a decade or more). There are deadlines for notifying the Social Security Administration, life insurance company(ies) and qualified plan administrators about the death of a spouse. And then, once the estate administration process is completed and the assets are ready to be distributed, you will need to retitle all the joint assets you held and review and update your estate plan and beneficiary designations to reflect this new reality.

Most importantly, take care of yourself – both physically and mentally. It's only natural to be stressed and unfocused during this time. Suddenly, everything is on your plate and your responsibility. The division of labor that you and your spouse shared is gone. So, take a deep breath and lean on your trusted BLBB advisor to help lighten the load and avoid becoming overwhelmed by everything going on around you.

A more confident financial future starts with just a few simple actions – things you can begin doing today to set the stage for success. And our advisors are here to help. These steps are valuable for all genders, but we understand that there may be certain financial planning and investment challenges that are unique to women. Share this series with the women in your life and catch up on any of the earlier articles in this series you may have missed to help better prepare for your financial journey to independence.

Disclosures

*The scenario of David and Margaret Loudon is a fictional illustration. Any resemblance to actual persons or situations is purely coincidental and is intended for educational purposes only.

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