Retirement Income
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Let These Tax-wise Algorithms Do Your Calculations

By Editor Test *Thu, Jun 14, 2012*

So far, LifeYield's product has been adopted by Suntrust, Northwestern Mutual, ING, and Cambridge Associates. The firm is now in "serious discussions with seven of the 10 largest firms in our industry," says LifeYield v.p. Jack Sharry (left).

Retirees hate to pay taxes, and they especially hate to pay them unnecessarily. That of course creates opportunity for advisors who want to help clients generate retirement income tax-efficiently—and for the software companies that serve advisors.

One such firm is Boston-based LifeYield LLC, which was started by none other than Paul Samuelson (the son of the legend). It claims that its algorithms can help retirees liquidate assets so tax-efficiently that they enhance their income by up to 33% and increase their legacies by 45%. LifeYield even hired Ernst & Young in 2010 to certify those claims.

"Smart advisors understand what we're describing, but few do it because it's too time-consuming," said Jack Sharry, LifeYield's executive vice president of strategic development, in a recent interview with *RIJ*. "We're working with very simple, well known rules, but synthesizing them all is mind-boggling."

LIfeYieldROI starts by creating a unified managed household (UMH) account, ensuring that a client's desired asset allocation spans all of a family's accounts. The next step is to relocate investments to their most tax-efficient positions. Bonds, which produce ordinary income, are better suited to tax-deferred or tax-free accounts. Equities held for more than a year have the lowest tax liability and can live in taxable accounts.

Relocating assets creates a tax cost, which LifeYield calculates as well to ensure that the expense of moving assets doesn't outweigh the gain. Finally, the program looks at tax lots for each asset and calculates how best to harvest capital losses to offset capital gains.

"This way you not only cut taxes, but you generate income," says Sharry. The program makes recommendations every time cash is withdrawn or invested. It also calculates the best way to withdraw money from taxable and non-taxable funds in retirement.

This can be complicated. Conventional wisdom says that assets should come out of taxable accounts first, leaving money in tax-deferred and tax-free accounts to continue to grow. (With the exception that required minimum distributions must be taken after age 70½.) But a client might be better off if he spent his qualified assets, which are taxed heavily at death, and left appreciated taxable assets to heirs. Because the cost-basis of appreciated assets is "stepped up" to their market value at death, heirs pay no capital gains tax on them.

"Part of our process is to recommend Roth conversions along the way," says Sharry. "We're walking, chewing gum and juggling chainsaws all at once."

The process is so complex at times that Sharry, who spent more than 25 years in marketing and product development at Morgan Stanley, Putnam Investments and The Phoenix Companies, didn't believe such a system could be built. Then he met Samuelson, an MIT graduate (and whose father, of course, won the Nobel Prize in economics) who had been working on the problem for several years.

"He's a whiz kid," Sharry said. "As we say in Boston, he's 'wicked smart.'" After Sharry retired from Phoenix in the summer of 2008, Samuelson asked him to join LifeYield's board. Sharry, who has lots of contacts among prospective clients, subsequently became a partner, serving as a senior leader in sales, marketing, product development and distribution strategy.

So far, LifeYield's product has been adopted by Suntrust, Northwestern Mutual, ING, and Cambridge Associates. The firm is now in "serious discussions with seven of the 10 largest firms in our industry," says Sharry. "They're all looking to incorporate this as part of an overall retirement program."

Of course, the wealthier the client, the greater the potential to reduce taxes. And if taxes rise in the future, as many fear, demand for LifeYield's product should climb. Investors who've given up on the stock market and can't find yield elsewhere should be eager to find significant savings in taxes, says Sharry. "We're doing a lot of little things that over a long period of time make a big difference by saving people from paying taxes they shouldn't have to."

LifeYield also offers LifeYield Illustrator, which brings all of a client's assets into one illustration, thereby encouraging clients to consolidate their assets with one advisor. A third product, which will tell advisors when to take money from Social Security, pensions, annuities and other accounts, is set to come out this summer.