

AI and Your Retirement

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Don't overlook the beneficial impact AI might have on your financial future.

There's been much in the news lately about artificial intelligence (AI)—including both benefits and risks.

Artificial intelligence has become a catch-all description for many things, the latest being large language models (LLMs) like ChatGPT and others.

However, AI has been in our lives for years...

If you use Google Photos, there's a layer of artificial intelligence that recognizes faces in your photos so you can tag them or to search for someone specific. Soon, the platform's [Magic Editor](#) will allow us to change the composition and style of our photos..

[Here are more examples](#) of artificial intelligence that have already been incorporated all around us.

While I'm no authority on LLMs like ChatGPT and Google's Bard, I've been tinkering with these platforms, and it's pretty fascinating what they can do.

For instance, if I ask ChatGPT to "explain how the US income tax system works like I'm a 12-year-old and be sure to explain how income tax rates are progressive," it generates this in just a few seconds:

Of course! Let's dive into how the U.S. income tax system works, including the concept of progressive tax rates, in a way that's easy to understand for a 12-year-old.

Imagine you have a big jar of cookies, and each cookie represents a portion of the money you earn. The government wants to make sure everyone pays a fair amount of taxes based on how many cookies they have. So they came up with a system called income tax, which is a little different for each person.

Here's how it works:

- 1. Earning Cookies: First, you earn cookies by doing things like having a job, doing chores, or running a lemonade stand.*
- 2. Cookie Brackets: The government has divided people into different groups, called brackets, based on how many cookies they earn. Each bracket has a range of cookies and a different tax rate. The tax rate is like the percentage of cookies you have to give to the government.*
- 3. Progressive Tax Rates: Now, here's where it gets interesting. In the U.S., income tax rates are progressive, which means that the more cookies you earn, the higher percentage of cookies you have to give as taxes. It's like a sliding scale.*

For example, let's say the first bracket is for people who earn 0 to 10 cookies a year, and the tax rate is 5%. This means that if you earned 8 cookies, you would have to give 5% of those cookies (which is less than 1 cookie) to the government as taxes.

But if you earned 15 cookies, you would fall into the second bracket, which has a higher tax rate, let's say 10%. In this case, you would give 10% of your cookies (which is 1.5 cookies) to the government.

As you earn more cookies and move up to higher brackets, the tax rates keep increasing. So, the more you earn, the bigger the percentage of cookies you have to give as taxes.

This system is designed to be fair because people who earn more have the ability to contribute a little more, while those who earn less get to keep more of their cookies for themselves.

Remember, this is a simplified explanation, and the actual income tax system has more brackets and rates. But I hope this helps you understand the basic concept of progressive tax rates in the U.S. income tax system!

If I put the exact same "prompt" into Google's LLM called Bard, it produces this:

Sure. Let's say you have a lemonade stand. You make \$100 in one day. You have to pay taxes on that money. The amount of taxes you pay depends on how much money you make. If you make less than \$12,950, you don't have to pay any taxes. If you make more than \$12,950, you pay a little bit of tax on the first \$12,950. Then you pay a little bit more tax on the next \$12,950, and so on. The more money you make, the more taxes you pay. This is called a progressive tax system.

Here is a table that shows the tax brackets for 2023:

Income	Tax Rate
\$0 - \$12,950	10%
\$12,950 - \$25,900	12%
\$25,900 - \$39,475	22%
\$39,475 - \$52,850	24%
\$52,850 - \$85,525	32%
\$85,525 - \$163,300	35%
\$163,300 and above	37%

So, if you make \$30,000, you would pay \$2,590 in taxes. You would pay \$1,295 on the first \$12,950 of your income, and then you would pay \$1,300 on the next \$17,050 of your income.

There are a few things that can reduce the amount of taxes you have to pay. One is to contribute to a retirement account, such as a 401(k) or an IRA. Another is to take advantage of tax credits, such as the Earned Income Tax Credit. You can also deduct certain expenses, such as medical expenses and charitable donations.

If you're not sure how much taxes you owe, you can use the IRS's Tax Withholding Estimator. This tool will help you figure out how much money you should have withheld from your paycheck each pay period so that you don't owe any money at the end of the year.

And finally, if I again enter this identical prompt into a tool called Perplexity, [I get this response](#).

You might be surprised just how many people don't really understand how our income taxes work. I've heard stories of people rejecting pay raises or bonuses because "it pushes them into a higher tax bracket." If your earnings push you into a higher tax bracket, you only pay the higher tax rate on the dollars that fall within that bracket. Bard & Perplexity highlighted this in their responses. ChatGPT... not so much.

I find these AI tools interesting and increasingly helpful (as long as I double-check what they're spitting out). I especially like that Perplexity includes citations and links to source material in its responses.

They're not capable of replacing many jobs in their current form, though perhaps that may change in the future.

I'd encourage you to check out ChatGPT, Bard, Perplexity, and other tools.

Rather than typing in a Google Search and having to sort through all the links and webpages to find what you're looking for, you can instead have a "conversation" with one of the LLM tools.

If you'd like me to create a short video providing some examples of how these work, just hit reply and let me know.

And when you're ready to experiment with AI, [here's a list](#) of the 3,000+ (yes, 3,000... not a typo) most popular AI tools ranked by monthly traffic.

But today, I'd like to talk about another form of "AI" that I believe is equally—if not more—important and may very well have a significant impact on your retirement.

The AI I'm referred to is **autopilot investing**...

This doesn't involve robots or large language models, but it does rely heavily on systems and processes to both make your life easier and your portfolio more profitable over time.

As I've written many times before, investing is simple but not always easy.

Actually, let me rephrase that... it's simple and easy—if you're an emotionless robot.

But since you're not a robot and you are subject to human emotion, there are benefits for putting your financial life—including your investment portfolio—on autopilot as much as you can.

For instance, I haven't made a transaction in my personal portfolio in over 15 years.

Yes, transactions have happened, but it was all handled by my firm's portfolio management team according

to the investment policy they were given. And I hope it will come as absolutely no surprise to you that my investment policy was created in the context of our financial plan.

But beyond investment funds and related transactions, I've set up most of my finances to operate on autopilot.

My 401k contributions happen automatically and are deducted from every paycheck. Same for Elizabeth's. Yours too, I imagine...

We then have our take-home pay automatically deposited into our checking accounts where certain amounts go to savings and some go to long-term investments— again, all on autopilot.

Sure, I review the system from time to time and it's easy to adjust if and when needed.

But otherwise it's just operating in the background...

On autopilot.

Removing myself, my emotions, and my decision making from the day-to-day operations of our family's finances has helped make managing our money much more simple and easy.

And it helps avoid emotion-driven short-term thinking that can derail the most well-intentioned long-term strategy: your financial plan.

I'd encourage a financial autopilot approach for you too.

Whether you're still working or retired years ago, what are the ways you can put your finances on autopilot?

Many of my clients who have transitioned to retirement have created a monthly "paycheck." Based on their financial plan and their lifestyle needs, we've established a monthly dollar amount they need to support their lifestyle and electronically transfer it from their investment portfolio to their bank account on the same day every month...

Sorta like a paycheck.

Just like you can systematically invest a fixed amount of money into your portfolio at regular intervals over time, you can also systematically withdraw a fixed amount of money from your portfolio at regular intervals.

Of course, this is a flexible setup that can be easily adjusted at any time.

This is just one example of how you can put your finances on autopilot.

So whether it's the "AI" of autopilot investing, using automatic bill pay, setting up your monthly savings and investing amounts to happen in the background, or creating what amounts to a regular paycheck in retirement, don't make all this a series of manual decisions you have to make each month, each week, or every day.

Instead, rely on systems, processes, and automation to make your life easier and your money work for you.

And autopilot investing (or other systems and automations) also benefit your financial advisor.

Not only are pre-determined and agreed upon strategies and decisions going to help **YOU** avoid additional decisions and the emotions that often accompany them, it will also help insulate your advisor from those same emotions, news headlines, and more.

Sounds like a win-win to me!

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