Taxes in Retirement DO Matter!

Tax Guide

Tax Planning in Retirement

With the prospects of living longer lives, also comes the need for fiscal knowledge and responsibility that will ensure that your money lasts as long as you do! This tax guide will help you get started on an "efficient and sustainable for life" retirement income plan!

This tax guide reviews the basics of income and tax planning and will assist you in thinking about your own retirement income needs!

Section 1: Overview of some fundamental income and investment concepts

Section 2: Overview of taxes and the tax system

Section 3: Social Security and Taxation

Section 4: Ten Tax Saving Strategies

Section 5: Conclusion – Retirement Planning Matters

What you will learn from this tax guide:

- Retirement Distribution Planning: how to position savings with asset location to minimize taxes and maximize cash flow in retirement, and how to efficiently harvest income sources.
- Maximizing Social Security: impact of Social Security taxation on your retirement, including provisional income and IRS thresholds that cause Social Security taxation, and strategies to put you in position to receive your Social Security free from tax .
- Protecting Against Market Loss: how to safeguard against the two types of investment risk.
- Generating Tax-Free Income: how to use a little-known IRS code to potentially generate tax-free and non-reportable income.

- Tax Rate Risk: strategies you can implement that may help insulate your assets from the impact of higher taxes

Strategies for saving in retirement are completely different than those during the accumulation phase of life. Be aware that such planning may require an attitude adjustment or at least an open mind.

Section 1: An Overview of some fundamental investment concepts

A Proper Retirement Income Plan is MORE than just an investment portfolio. In order to create an Efficient & Sustainable-for-Life Retirement Income Strategy, there are 4 key strategies:

1. Tax minimization (or elimination)
2. Proper Social Security timing
3. Portfolio Management & Volatility Reduction that combine traditional investments, insurance and/or annuities
4. Use of home equity

The Reality vs. the Rhetoric

In order to maximize these strategies, proper financial advice is key. These strategies are not based on speculations or conventionally-held wisdom, but are informed by several research studies in the field of tax planning that support these findings. A study by Morningstar Star Gamma suggests that dynamic withdrawal strategies, together with proper asset class selection and allocation and product selection can add value of up to 1.59% a year. In addition, advice on proper tax-efficient withdrawal ordering and asset location adds to the full economic benefits of proper planning.

A Vanguard Advisor Alpha study indicates that advice on investment selection and systematic rebalancing, tax-efficient withdrawal ordering, asset location and behavioral coaching can increase economic benefits by up to 3% a year. Likewise, a study by Envestnet Capital Sigma found that financial planning advice/dynamic withdrawal strategies, asset class selection together with allocation and product selection, investment selection, systematic rebalancing, and tax loss harvesting can give results greater than 3% per year.

A Balanced Advice Option

While such strategies can increase values in a portfolio, the question remains as to where a retiree can get the help needed in order to obtain maximum yields. Traditionally, most retirees have had to rely on a "siloed" Financial Services industry, made up of CPAs, Insurance Agents and Investment Advisors. This outdated approach has left many retirees inadequately prepared for today's complex and highly-integrated financial market.

While CPAs have been important for filing tax returns, they are not necessarily the best source for tax planning. To the same extent, Insurance Agents have typically focused on annuities and life insurance, but don't usually have the proper training or credentials to help make decisions about investments that

could benefit a retiree. Likewise, Investment Advisers have typically focused on traditional investments, without taking into account the ramifications of taxes and clients' other holdings.

Therefore, an alternative approach to these three "siloed" fields of the financial industry is what is known as a **Hybrid Retirement Advisor**. A hybrid retirement advisor focuses on integrating all these disciplines in order develop and maintain a balanced, comprehensive, and efficient retirement plan that offers the best potential retirement outcome, without a retiree having to worry about running out of money.

Taxes in Retirement

Taxes in retirement **do** matter! While taxes are often considered a boring personal finance topic, it should be considered as one of the most interesting! Why? Proper tax planning is a critical part of retirement income planning. Taxes affect almost every aspect of personal finance and with the proper guidance, retirees can learn how to legally pay fewer taxes, which results in more dollars available to them.

There are many financial strategies to keep more of what you earn. We will begin by briefly covering a few tax-related issues.

Eye-Opening Stats to Consider…

- **37% of retirees admit they did not consider how taxes would impact their retirement income.***
  - As a result, Nationwide Retirement Institute says, they may have lost the opportunity to save six years' worth of income in retirement!
- 60% percent of pre-retirees, 70% of recent retirees, and 75% of those who have been retired for more than 10 years say they are only somewhat knowledgeable or not at all knowledgeable about tax planning!
- 52% percent of pre-retirees and 47% of recent retirees wish they better understood how their income in retirement will be taxed!
- 46% percent of recent retirees wish they had better prepared for paying taxes in retirement, and 24% said they have paid several thousands of dollars more in taxes than they had expected!

Retirees Lack Awareness of Income Tax Hits: Nationwide Research, Think Advisor, By Elizabeth Festa | November 02, 2018

*https://www.plansponsor.com/exclusives/incometaxes-follow-participants-retirement

A Tax Overview

Our tax dollars provide many social benefits and are simply a fact of life. However, proper planning can save you thousands of dollars and extend your retirement income for years. Some facts to think about when planning for your retirement:

- Tax dollars are not available for your financial needs
- Tax planning is a critical part of financial planning
- There are many financial strategies to keep more of what you earn
- Today's tax laws will likely be repealed or changed in the future
- Don't base your entire financial plan on current tax laws

Utilizing the proper tax planning strategy can add five to ten years or more of life to your retirement portfolio when withdrawing income

The History Behind Today's Tax System

Now that you have considered the absolute need for tax planning in preparation for retirement, we should consider where tax rates may be in the future. As the chart below indicates, the rates in the top marginal tax bracket have gone up and down from 1910 through 2015.

The chart starts out at 1910, three years before there was any systematized taxation system. In 1913, the 16th amendment to the Constitution made the income tax a permanent fixture in the U.S. tax system. The top marginal tax bracket jumped as high as 75% and was even as high as 94% in the 1940's. If we move ahead on the chart, we see that by the 1980's when Ronald Reagan was President, marginal tax brackets were at a significantly lower rate—in fact, they were at the lowest rates that had been seen since 1916.

While taxes over the past couple of decades have been at their lowest in nearly a century, we need to consider our national debt. In 1990, the debt was only $2 trillion.

The Future of Taxes – Federal Government Deficit

Debt-to-GDP Ratio comparison

- Germany at 56.93% - Healthy Economy
- Greece at 176.64% - Unhealthy Economy

- United States at 106.9% - ????
  - **$22.7 trillion U.S. debt** as of September 2019
  - **$27.0 trillion U.S. debt** as of October 2020

Statistica.com, Germany: National debt in relation to gross domestic product (GDP) 2014 to 2024
Statistica.com, Greece: National debt in relation to gross domestic product (GDP) 2014 to 2024

Today, less than 30 years later, our national debt has increased almost tenfold and stands close to $27 trillion.

With the current debt level and low interest rates, we need to consider the impact on future taxes. If we do the simple math, most likely we will face higher taxes at some point in the future!

While we usually think of taxes and national debt as national issues, individuals need to consider the effect of taxes and future tax rates on your retirement.

Importance of Diversification

When considering taxes, we need to look at the different ways retirees accumulate money and when it is available in retirement. We also need to take into account how savings are impacted by taxes when we make withdrawals.

We can better understand these matters by looking at three categories, or buckets, if you will. We can categorize assets by their characteristics, such as **qualified assets**, **capital assets** and **tax-free assets.**

- **Qualified assets** are made up of 401(K), traditional IRAs, and Pension plans.
- **Capital assets** consist of blocks, businesses, real estate, and mutual funds.
- **Tax-free assets** are made up of Roth IRAs, Municipal funds, 7702 plans, and Life insurance.

When thinking about where tax rates are headed in the future and your retirement, you need to consider each one of these buckets.

How do tax rates affect these various forms of assets in retirement? Let's take a look at each bucket**.**

Qualified Assets and Taxes

401(K)s, IRAs and Pension Plans all have tax-deferred options. However, even with these deferments, there are tax implications in the present and for the future.

Your tax rate may vary, but for simplicity sake let's use as an example a taxable income rate of 50 percent. In this scenario, if you were to withdraw $100,000 from your qualified assets, it would be taxed at a 50 percent tax rate, so your net after-tax withdrawal would be reduced to $50,000. In other words, due to taxation, your qualified asset withdrawals are essentially reduced by half.

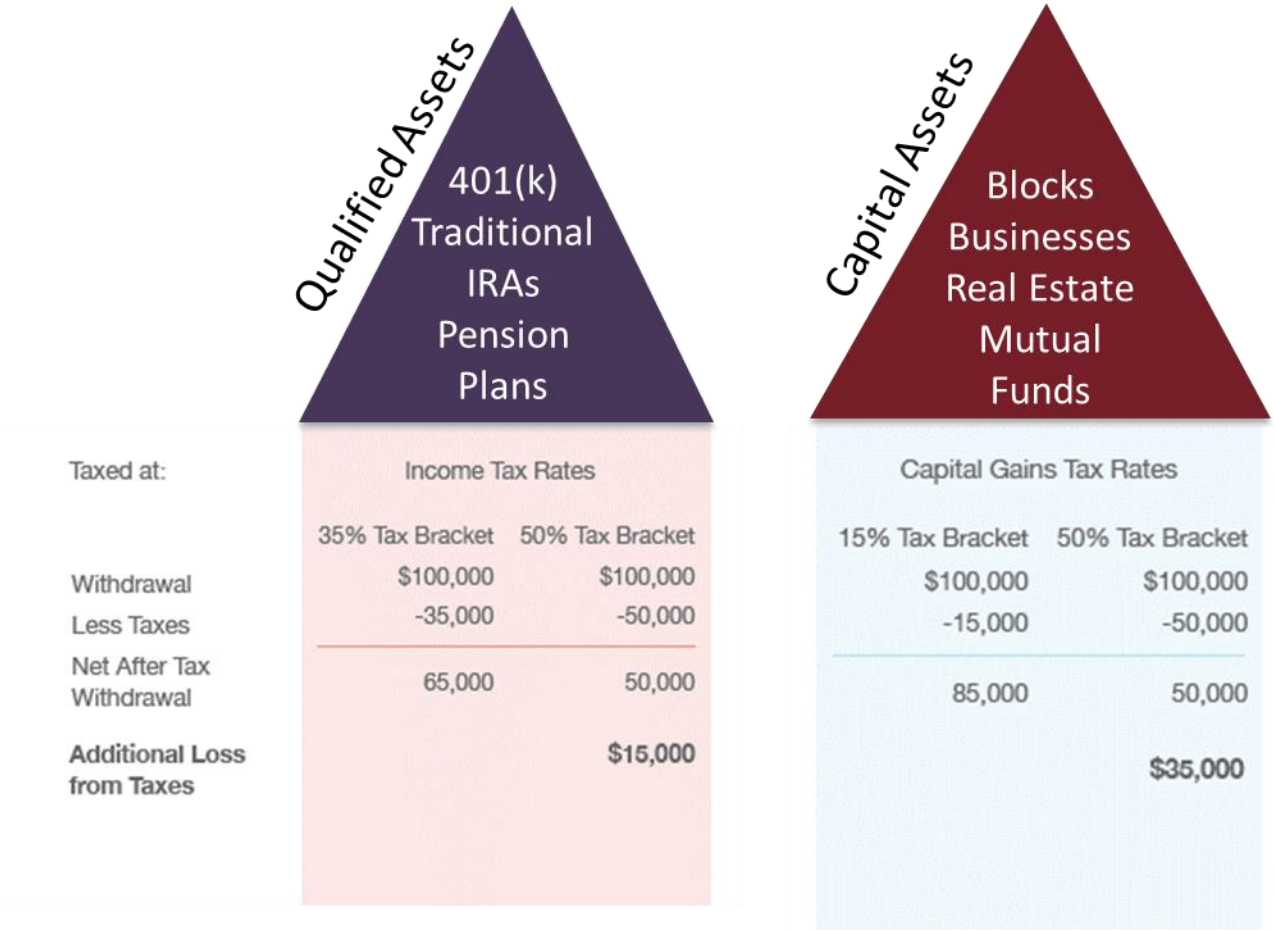
However, if you were just at the upper end of the next-lower 35% tax bracket, only a slight increase in taxable income could bump you up to the 50% tax bracket, which would sharply increase your taxes on the $100,000 by an additional $15,000. If you withdraw wisely in retirement, you could save this additional tax expenditure. If you are like most people, you might not have a good sense of what tax bracket you will be in during retirement? This could be costly.

Taxed at:	Income Tax Rates	
	35% Tax Bracket	50% Tax Bracket
Withdrawal	$100,000	$100,000
Less Taxes	-35,000	-50,000
Net After Tax Withdrawal	65,000	50,000
Additional Loss from Taxes		**$15,000**

Capital Assets and Taxes

Capital Assets are made up of stocks, mutual funds and the like. If we use the same example as above, where we start out with $100,000, and run it through capital gains tax exposure, the capital gains taxes here fall within the 50 percent bracket. Consequently, withdrawals would be reduced by 2 to 1.

However, here's where qualified assets differ from capital assets. The lower tax bracket for capital assets is at 15 percent. In other words, if you were in the 15 percent tax bracket, you would receive $85,000, rather than $50,0000, after taxes. Hence, if you withdraw without proper planning, you could see a loss of as much as a $35,000 net after-tax withdrawal.



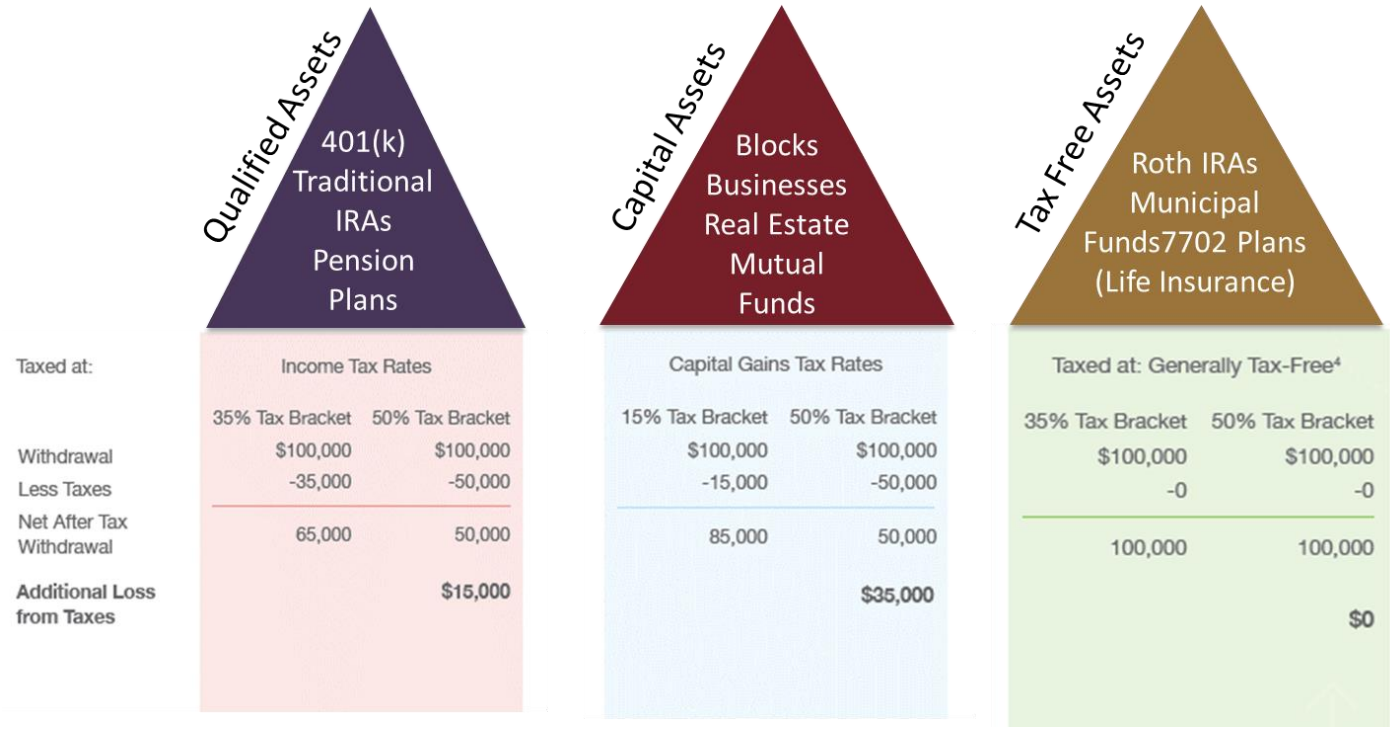
Not only are these taxes a real financial threat, they could impact your retirement when you need to access your assets!

Depending on the stock or real estate markets, withdrawing or selling your assets during a low period could dramatically impact your long-term retirement values. This could be a real timing challenge. Questions you need to ask yourself regarding capital assets include: Do you withdraw assets when the markets are good? What if the markets have a few underperforming years? Do you have alternative sources to access funds in the interim?

Tax-Free Assets and Taxes

The most common tax-free assets include Roth IRAs and municipal funds. These are after-tax assets that grow tax-free and can also be taken out tax-free. No matter which tax bracket you are in, you are sheltered from taxes in retirement. If we use the same example from above of a $100,000 withdrawal, we can see that whether you are in the 50 percent bracket or the 35 percent tax bracket, no taxes are

taken from your withdrawal. In other words, when you choose to make withdrawals from this bucket, you will receive dollar for dollar.



Why, when your funds are essentially sheltered, wouldn't you want to put all of your assets in the tax-free assets bucket? Why does it make sense to have funds in all three of these buckets?

Is the Tax-Free Option Overlooked?

Tax-Smart Strategies Help Protect Wealth!

In a perfect world, what would your ideal portfolio look like? You might have some improved tax strategies that include:

- Tax-deferred growth
- Tax-free income, non-reportable income
- Tax-free death benefit for loved ones
- Ability to save outside of Internal Revenue Service limitations

Let's look at the reasons why individuals use the tax-free assets to build retirement growth:

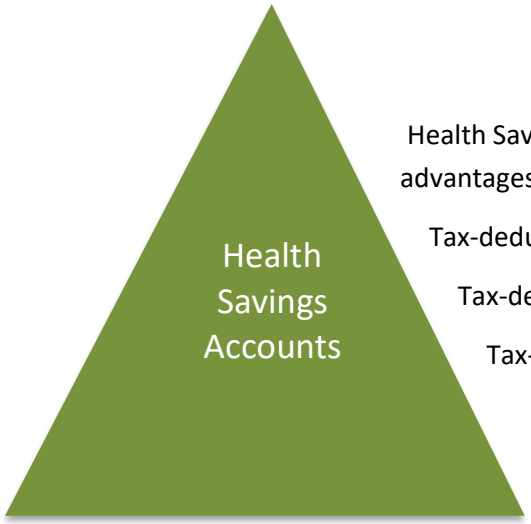
First, tax-free assets can be considered tax-deferred growth. Second, tax-free assets are non-reportable income, which means withdrawals from this bucket will not affect your aggregate gross income and cannot tip you into a higher tax bracket. Third, tax-free assets like the 7702(N)(1) can also offer a tax-

free death benefit, so if the unexpected happens, your loved ones could be taken care of—just to reiterate, tax free.

Finally, tax-free assets provide you the ability to **save outside of the Internal Revenue Service's limitations**. For instance, if we look at Roth IRA, which most would know, it is an incredible retirement tool. However, with a Roth IRA, you are limited to $5,500 or $6,000 in contributions per year (over 50 years old and you can contribute up to $7,000). While this amount can add up over the years, it won't really provide you with the kind of funds you will need in retirement, and in some cases, if you make too much money, you cannot contribute at all to a Roth IRA.

What you can do is to think about a life insurance retirement plan, which provides the tax benefits of a Roth IRA, without the restrictions.

Health Savings Accounts are a 4th bucket offering triple tax advantages:



Health Savings Accounts are a 4th bucket offering tremendous tax advantages:

Tax-deductible contributions

Tax-deferred growth

Tax-free withdrawals for qualified health care expenses

Tax Basics, Part 2

How are Income taxes calculated?

Marginal Tax Rate

Income tax in the USA is based on a marginal tax rate. The idea of a marginal tax rate is often misunderstood. Your marginal tax rate is the share of each extra dollar of income that will go to the IRS. Marginal tax rates apply different tax rates to different levels of income; as income rises, it is taxed at a higher rate.

The marginal rate is applied to income after deductions. For example, if you are a single person, whose gross earned income is $67,000 and you contribute $5000 to a 401(K) plan, your taxable income would

be $67,000 minus $5000, minus a $12,000 standard deduction on a 10450, or $50,000. On this $50,000 taxable income, the first $9,225 is taxed at 10%, earned dollars between $9225 and $37,450 is taxed at 15%; finally, your dollars between $37,450 and $50,000 will be taxed at 25%. In such a case, total taxes will be $952 plus $3500 plus $2485 for a total due of ^6927, or 10.35% effective tax.

Capital Gains Tax

Capital gains are profits from the sale of an asset (shares of stock, land, business). That is, a capital gain is an increase in value of a capital asset that gives it a higher value than the purchase price. However, this is gain is not realized until the asset is actually sold. "Realized gains" for assets held 12 months or less are taxed at the same rate as ordinary income. Assets held more than 12 months are usually taxed at a lower rate. This is the government's way of encouraging investors to "buy and hold," rather than sell for a quick profit.

The current maximum tax rate on long-term capital gains (excluding unrecaptured Section 1250 gain and gain from sales of collectables and qualifying small business stock) is 20%. State taxes may apply and are additional and vary by state.

Capital gains tax are assessed depending on filing status:

2021 Capital Gains Tax Rate Income Thresholds

Capital Gains Tax Rate	Taxable Income (Single)	Taxable Income (Married Filing Separate)	Taxable Income (Head of Household)	Taxable Income (Married Filing Jointly)
0%	Up to $40,400	Up to $40,400	Up to $54,100	Up to $80,800
15%	$40,401 to $445,850	$40,401 to $250,800	$54,101 to $473,750	$80,801 to $501,600
20%	Over $445,850	Over $250,800	Over $473,750	Over $501,600

Capital Gain Tax Exclusion for Home Sales

If you sell your home for a profit, you may be able to exclude, i.e., not pay federal income tax on a part of or all of the gains. The exclusion is up to $250,000 of gains for single filers and up to up to $500,000 of gains for a married couple (filing jointly).

However, there are several tests that must be passed to be eligible:

- **Ownership test:** During the five year period ending on the date of the sale, you must have owned the home for at least two years
- **Use test:** During the same five year period, you must have used the property as your primary residence for at least two years
- **Previous sale test:** During the two year period ending on the date of the sale, you did not exclude gains from the sale of another home
- **Joint-filer test:** To be eligible for the $500,000 joint-filer exclusion, at least one spouse must pass the ownership test and both spouses must pass the use test

Required Minimum Distributions (RMD) at age 72

Tax deductible and tax deferred retirement accounts (IRAs, 403bs, SEP IRAs , etc.) allow tax deductible contributions. These accumulated contributions are tax deferred until age 70 ½ at which time you must begin to withdraw funds. Mandatory withdrawals are based on age, life expectancy and the value of accounts each year. Withdrawals must be taken by December 31st of each year after age 70 ½, or there is a 50% penalty assessed on a missed RMD (assessed on amount that should have been distributed).

RMDs Effect on Retirement

RMDs are assessed according to the age of a retiree divided by the expected distribution period (life expectancy) for that given age.

Required Minimum Distributions (RMDs)

Must take required distributions from all qualified retirement accounts at age 72

- Mandatory withdrawals are based on age, an IRS life expectancy table and value of accounts each year
- Must take your first RMD by April 1st following the year you turned age 72
- Withdrawals must be taken by 12/31 of each year after age 72
- Missed RMD…50% penalty (assessed on amount that should have been distributed)

NOTE: RMDs were not required for 2020 due to the COVID-19 pandemic

Required Minimum Distributions (RMDs)

RMD Calculation: Retiree Age 72

- $500,000 Value on 12/31/2021
  - $500,000 / 25.6 = $19,531 RMD (must be taken by 12/31/2022)
  - 3.90% withdrawal

Table III (Uniform Lifetime)

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	82	17.1	94	9.1	106	4.2
71	26.5	83	16.3	95	8.6	107	3.9
72	25.6	84	15.5	96	8.1	108	3.7
73	24.7	85	14.8	97	7.6	109	3.4
74	23.8	86	14.1	98	7.1	110	3.1
75	22.9	87	13.4	99	6.7	111	2.9
76	22.0	88	12.7	100	6.3	112	2.6
77	21.2	89	12.0	101	5.9	113	2.4
78	20.3	90	11.4	102	5.5	114	2.1
79	19.5	91	10.8	103	5.2	115 and over	1.9
80	18.7	92	10.2	104	4.9		
81	17.9	93	9.6	105	4.5		

The RMD Problem

Uniform Lifetime Table

Age	Divisor Balance	% Account	Age	Divisor Balance	% Account
70	27.4	3.65	86	14.1	7.09
71	26.5	3.77	87	13.4	7.46
72	25.6	3.91	88	12.7	7.87
73	24.7	4.05	89	12.0	8.33
74	23.8	4.20	90	11.4	8.77
75	22.9	4.37	91	10.8	9.26
76	22.0	4.55	92	10.2	9.80
77	21.2	4.72	93	9.6	10.42
78	20.3	4.93	94	9.1	10.99
79	19.5	5.13	95	8.6	11.63
80	18.7	5.35	96	8.1	12.35
81	17.9	5.59	97	7.6	13.16
82	17.1	5.85	98	7.1	14.08
83	16.3	6.13	99	6.7	14.93
84	15.5	6.45	100	6.3	15.87
85	14.8	6.76	101	5.9	16.95

Source: IRS Publication 590

How Do RMDs Effect Retirement?

Age 72:
$500,000 IRA/ 25.6 = $19,531 / 3.90%

Age 80:
$500,000 IRA/ 18.7 = $26,738 / 5.35%

Age 90:
$500,000 IRA/ 11.4 = $43,850 / 8.77%

Age 100:
$500,000 IRA/ 6.3 = $79,365 / 15.87%

Social Security Benefits and Taxation

Many people assume that they have to begin receiving Social Security retirement benefits as soon as they retire and stop working. But that is not the case. Retiring and claiming Social Security benefits are two different things. You have options! Learning about them may help you make a well-informed decision about when to start receiving your benefits.

As you approach retirement, one of the largest financial decisions you will need to make is when to claim your Social Security retirement benefits. Should you begin receiving benefits at your full retirement age, which is 66 to 67, depending on the year of your birth? Or, should you begin receiving a smaller monthly benefit before your full retirement age, as early as age 62? Or, might you want to wait past full retirement age so you can receive a larger monthly benefit? (You can actually delay receiving benefits up to age 70).

Taxes may be a consideration for when to claim your Social Security benefits, depending on what income you have in addition to your Social Security benefits. Taxes will not be a big concern for everyone; if you have little or no income other than Social Security, then your Social Security income generally won't be taxable. However, if you have income from sources other than Social Security, you may end up having to pay federal income taxes on your benefits. As shown on the chart below, 50% to 85% of your Social Security benefit may be taxable, depending on your combined income from Social Security and other sources, together with your tax filing status.

Up to 50% of benefit may be taxable if your combined income* is:
$25,000 to $34,000 and you file as single
$32,000 to $44,000 and you file as married filing jointly
Up to 85% of benefit may be taxable if your combined income* is:
Over $34,000 and you file as single
Over $44,000 and you file as married filing jointly

***Provisional Income =** Adjusted Gross Income (AGI) + nontaxable income + ½ of Social Security benefit income

For example, if you are single and collect a Social Security benefit of $20,000 per year, and have $35,000 in earnings from a job, up to 85% of your benefit may be taxable because your adjusted gross income (after standard deductions) plus one-half of your Social Security income is greater than $34,000 per year.

The important point to remember is that when you're making your decision about when to begin receiving your Social Security benefits, federal and, in some cases, state income taxes may be a consideration if you have substantial taxable income such as earned income, taxable pension income, or investment income!

Social Security – What You Need to Know

As a starting point, if you haven't already done so, you should go to the Social Security website, where you have a couple of relatively easy ways to estimate what retirement benefits you might receive. First, you can sign up to access your Social Security Statement online so that you can view your actual earnings record and what you can expect to receive under current law if you apply at age 62, at full retirement age, and at age 70. If you are already age 60, you also have the option of receiving this statement in the mail every year, about three months before your birthday. The second way to estimate your Social Security benefit is to use the SSA's Retirement Estimator, which is also available at the SSA website. This calculator allows you to input various scenarios, based on current law, to estimate your future benefits.

As you near age 62, you should also contact the Social Security Administration to discuss your options. Representatives are not allowed to give you advice about when to start your benefits, but they will be happy to explain your options and the rules that apply. When it comes time to apply for Social Security benefits, you can do that online, by phone, or in person.

10 Tax Saving Strategies

Following are 10 strategies that you can use to save you money on this year's taxes. Before you implement any strategy to reduce your tax liability, make sure it complements your overall financial plan. Often, it is advisable to examine your tax situation two years at a time. The goal is to reduce your tax liability over both years.

1. Participate in your Employer-Sponsored Retirement Plan

In many employer-sponsored retirement plans, your contributions are pre-tax and therefore reduce your taxable income. Employer-sponsored retirement plans also provides long-term tax benefits since your principal and earnings grow tax-deferred until withdrawn.

2. Contribute to a Traditional IRA

If you do not have an employer-sponsored plan available to you, consider making contributions to a Traditional IRA. Depending upon your income, you may be able to deduct your contributions. Like a 401k, your IRA also provides the long-term benefit of tax-deferred growth. For 2015, individuals may contribute up to the lesser of $5,500 per year ($6,500 per year if over age 50) or 100% of earned income.

3. Contribute to a Health Savings Plan/Flexible Spending Account

According to the Fidelity Health Care Cost Estimate, an average retired couple age 65 in 2018 may need approximately $280,000 saved (after tax) to cover health care expenses in retirement.[1] With a Health Savings Plan, employees can set aside pre-tax dollars for qualified dependents or for health care expenses. In order to do so, an employee must be enrolled in a High Deductible Health Plan ($1,200 Individual Deductible Plan; 2,500 Family Deductible Plan).

Like a Health Savings Plan, sometimes employers provide Flexible Spending Accounts to enable their employees to set aside pre-tax dollars from their paychecks for qualified dependent or health care expenses throughout the year. There is a $3,450 maximum annual contribution for individuals and a $ 6,900 maximum annual contribution for families.

These contributions to a Flexible Spending Account also reduce your taxable income. However, you should plan carefully because any funds in certain types of Flexible Spending Accounts that are not used before the end of the year might be forfeited. For instance, many cafeteria plans used for expenses, e.g., child care, often require you to use all money in the account prior to the end of the year or else it is forfeited. On the other hand, unused contributions to plans including Health Savings Accounts (HSAs) may be rolled over for future years.

[1] Fidelity Investments, How to Plan for rising health care cost, Apr 18 2018

4. Itemize tax Deductions[2]

You might consider whether you would benefit from itemizing your deductions instead of taking the standard deduction. There are a variety of expenses that may be deductible when you itemize: Mortgage interest and points; property taxes; state and local income taxes or sales taxes; medical and dental expenses above a certain percentage of your adjusted gross income; charitable contributions; losses from casualty or theft (subject to restrictions); and miscellaneous itemized deductions which include un-reimbursed employee expenses and tax preparation fees that when combined exceed 2% of your adjusted gross income. A standard deduction for a single person is $12,000, a married couple is $24,000, and head of household is $18,000.

5. Consolidate Deductible Expenses

If you do not have enough deductions to itemize for each year, consider when to spend money on deductible expenses. Slight modifications in spending may allow you to save by itemizing one year and taking the standard deduction the following year. There are several ways to modify your spending to maximize your deductions. For instance, you could:

- have all non-essential dental or medical work performed in the same calendar year.
- Make charitable contributions in the same calendar year by giving next year's contribution at the end of this year.
- When making charitable contributions, consider donating appreciated long-term securities to get a full fair market value deduction and pay no tax on capital gains.
- Consider selling depreciated securities to receive the loss as a tax deduction then donate the cash to charity.
- Make your mortgage payment for January in the prior year. If you send your payment well in advance so that your payment will be reflected on the 1098 form sent to the IRS.
- Prepay your estimated state income tax balance due instead of waiting until next April.
- Prepay the second installment of your property tax (assuming you are not subject to the Alternative Minimum Tax).

6. Use Capital Loss Rules to Your Advantage

Capital losses (securities sold for less than their purchase price) may be used to offset capital gains as long as the securities are in a taxable account. If your capital losses exceed your capital gains during the tax year, you may use up to $3,000 ($1,500 for each married person filing separately) of losses to offset earned income and reduce your taxable income. Losses above $3,000 can be carried forward to offset gains in future years with no expiration date.

[2] For some higher income taxpayers, itemized deductions are partially phased out. Consult your tax advisor pertaining to your specific situation.

According to the Wash Sale Rule, a loss is not allowed for income tax purposes if you sell a security at a loss and buy back the same security within 30 days of the sale. If you do not want to be out of the market for a month, you may consider finding a similar (but different) investment (usually in the same asset class) to replace the security that was sold.

7. Position Assets in Different Types of Accounts

If you can save more money for retirement than you are allowed to contribute to tax-deferred accounts, consider positioning your more tax-efficient investments in taxable accounts and less tax-efficient investments in tax-deferred accounts.

8. Consider Investments with Tax Advantages

There are a number of investments that provide both short-term and long-term tax advantages. Municipal Bonds/Funds offer tax-deferred growth and the dividends and interest provide tax free income. However, keep in mind that the income generated is included in provisional income calculation.

Tax-Deferred Annuities provide tax-deferred accumulation and are a guaranteed income stream with preferential tax treatment. Tax-deferred annuities have partial provisional income exclusion.

Life Insurance Retirement Plans (LIRP) are little known on the tax code, but have multiple advantages. LIRPs provide tax-free death benefits, tax deferred growth on both variable or fixed returns, and provide tax-free income on withdrawals to basis and on loans on accumulated value. LIRPs are not included in provisional income calculations.

9. Roth Conversions

While traditional IRA contributions are tax-deductible for the year you make the contribution. withdrawals in retirement will be taxed at ordinary income tax rates. While Roth IRAs provide no tax break for contributions, earnings and withdrawals are generally tax-free in retirement. The question, then, is **to convert or not to convert**. If you convert a traditional IRA to a Roth IRA, you will pay income taxes at the current tax rate upon conversion, but receive tax-free growth and can make tax-free withdrawals during retirement. You can pass Roth assets to heirs, income tax in retirement is free as well and the income is not included in your provisional income calculation.

One option with a Roth is to convert your Traditional IRA to a Roth IRA over the course of multiple years, so you may pay less total tax than if you convert during a single year. Future tax increases make converting to a Roth more advantageous.

With a Roth, you will be able access funds tax free after satisfying 2 triggering events: You have reached age 59 1/2 and at least 5 years have passed after establishing your first Roth IRA.

10. Withdrawal Sequencing

Sequential Withdrawal Strategy refers to the proper withdrawal sequence for maximum tax benefits.

A recommended basic retirement withdrawal sequence would be made up of first withdrawing from RMDs (accounts with required minimum distribution). Next you should withdraw from taxable accounts, then tax-deferred accounts and finally tax-exempt accounts. [3]

Tax Optimization Strategy – A Case Study

The following case study illustrates the tax benefit of implementing just 1 of the 10 strategies.

Meet the Brady's

Mike and Amanda — married

Current Ages — 56/54

Target Retirement Age — 65/65

Salary — $200K/$50K

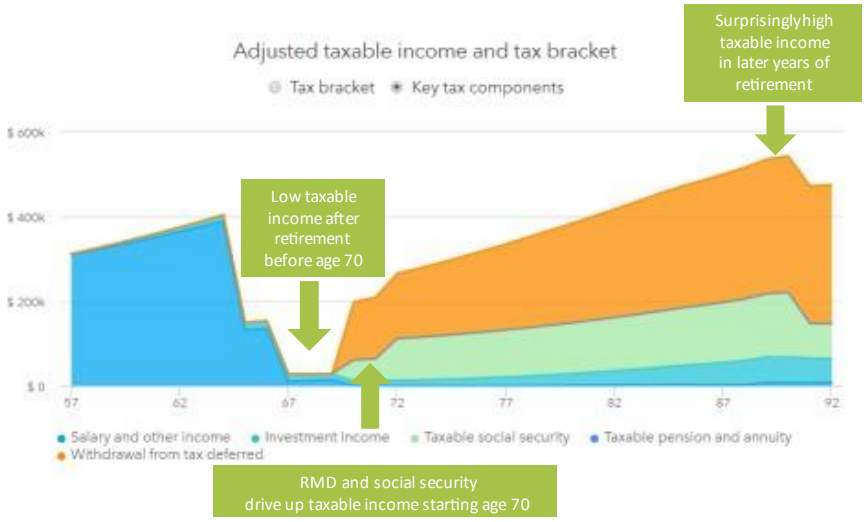
Social Security — 70

Monthly Expenses in Retirement — $9K

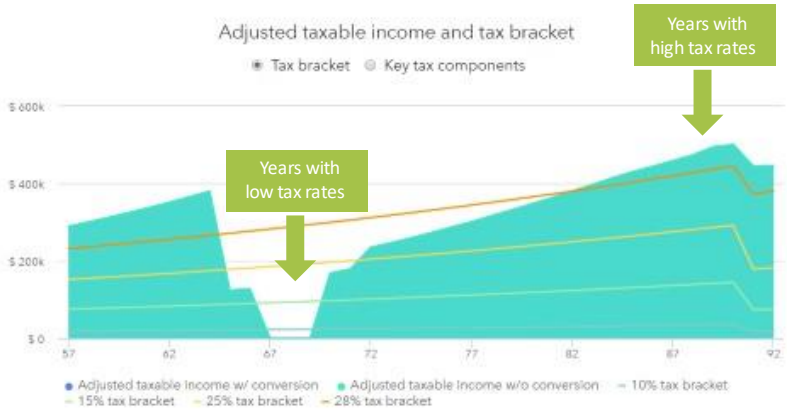
Invested Assets — $1.0 MM qualified & $100K non-qualified

[3] this withdrawal sequence is for illustrative purposes only, every individual will have an optimal sequence based upon his or her individual asset mix

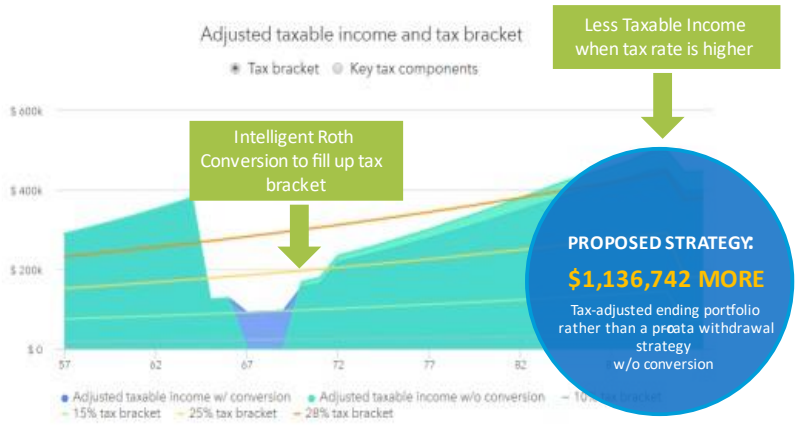
Tax Brackets During Retirement Can Be Surprising



Large IRA Distributions Drive Up Tax Brackets



Smoothing Out The Tax Liability



Proper tax optimization utilizing multiple strategies means better retirement outcomes and more confidence in retirement!

Conclusion: Retirement Planning Matters!

An efficient retirement plan incorporating tax optimization can save you thousands of dollars and in retirement and potentially create an income for life. Such a retirement plan includes a number of strategies, including:

- Income distribution planning
- Maximizing social security benefits
- Protecting against market loss
- Generating tax-free income
- Addressing and mitigating retirement risks

To recap, this guide looked at some general information how your social security retirement benefits work and implications that taxes have on your long-term planning. Remember, if you take Social Security early, your benefits may be reduced; if you take it later, your benefits may increase, depending on your full retirement age. Your longevity plays a key role in what makes the most sense.

This guide can help you potentially get the most out of your social security retirement benefits. As it suggests, there are tools available to help you time your social security payments and potentially enhance your overall retirement income.

When you look at your overall retirement income strategy, which is unique to every individual, you might find that maximizing social security benefit payments is not a strategy that meets your overall goals. This is the reason that planning for retirement income is so important! Each and every individual or couple has to understand how all the complex factors interrelate so that they can get an outcome which helps meet their specific goals!

Where Do You Go From Here?

One of the first steps is knowing where to find help!

"Efficient" retirement planning requires expertise in multiple disciplines. Many CPAs, Investment Advisors and Insurance Agents do not have the training in taxes or retirement optimized strategies.

YRA offers true, proactive tax planning to help you make the most of old and new tax laws, helping you catch up on opportunities you may have missed already.

What is the Process?

First, we start by sitting down with you for a **Retirement Efficiency Assessment**, where we review how efficient your current situation is.

Then we **suggest solutions**. Finally, we will **implement** changes. With some of the strategies, we will help you ourselves. With others, we will introduce you to a network of specialty vendors who offer other services.

Your Retirement Advisor cannot tell you how much can save until we sit down with you and review your assessment. However, we can tell you that most individuals and business owners waste thousands of dollars a year in taxes they simply didn't know they did not have to pay.

You owe it to yourself to make sure you are not one of them!

Congratulations on taking the first step toward a potentially tax-free retirement!