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Your Retirement Advisor

Presented by

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Your Retirement Advisor®

tax smart retiree™

Do Taxes in Retirement Matter?

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Do Taxes in Retirement Matter?

ABSOLUTELY!

Utilizing the *proper tax planning* ***strategy*** can potentially *add 5-10 years or more of life to your retirement portfolio* when withdrawing income.

How would you like to be tax smart and add more life to your portfolio? Answer in the chat window.

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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/income-taxes-follow-participants-retirement

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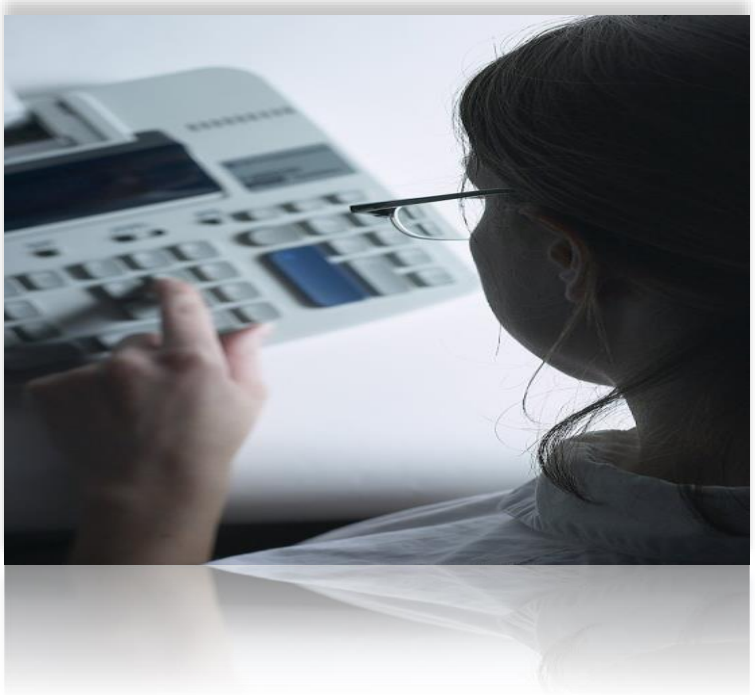
You DON'T Have to Be a Statistic

Let's find out how YOU can be tax smart & tax efficient.

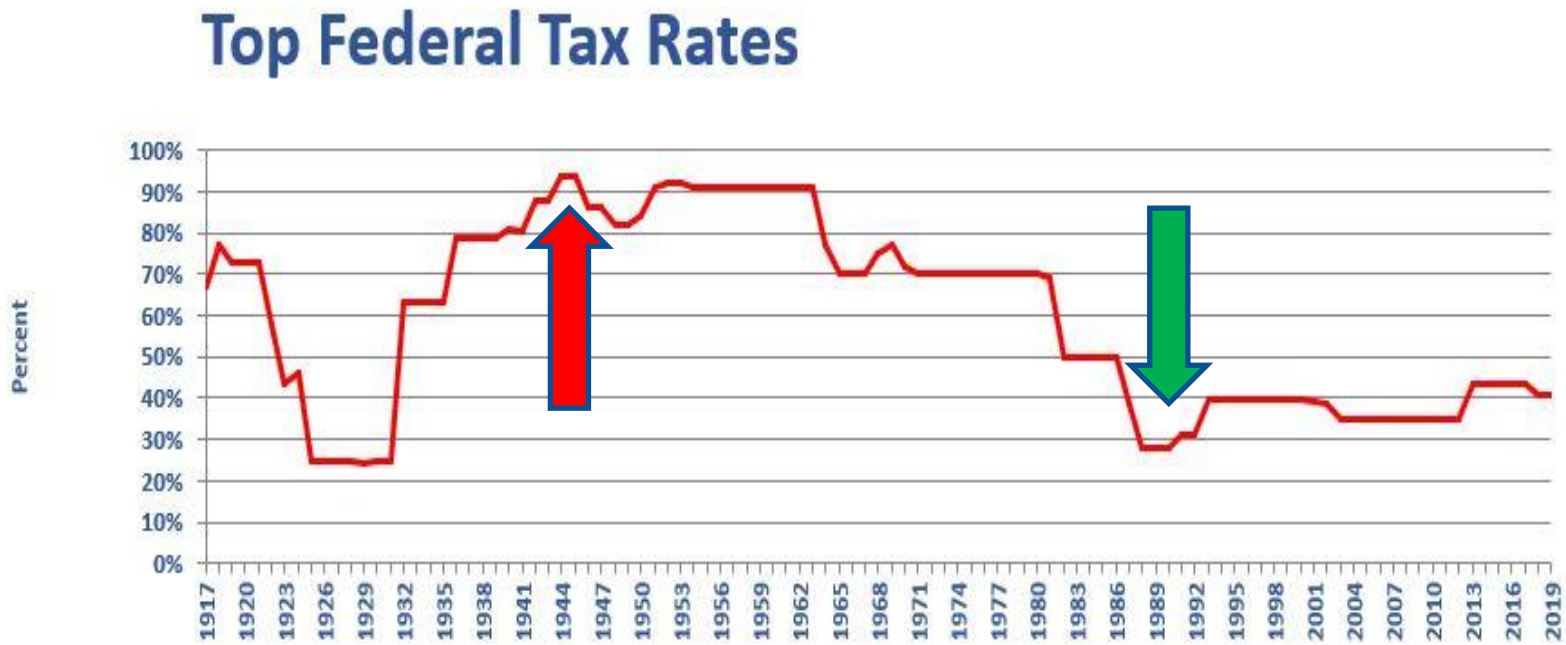
Tax Risk

Tax liability in retirement has an impact on portfolio survival rates…

Future tax rate increases may be the biggest challenge retirees face.



History of Federal Tax Brackets



1. http://www.usgovernmentdebt.us/
Source: http://www.macrotrends.net/2526/sp-500-historical-annual-returns/

The Future of Taxes – Federal Government Deficit

The Debt-to-GDP ratio - compares a country's sovereign debt to its total economic output for the year. Its output is measured by gross domestic product

- Used to gauge a country's ability to pay off its debt
  - **High ratio -** a country isn't producing enough to pay off its debt
  - **Low ratio -** there is plenty of economic output to make the payments

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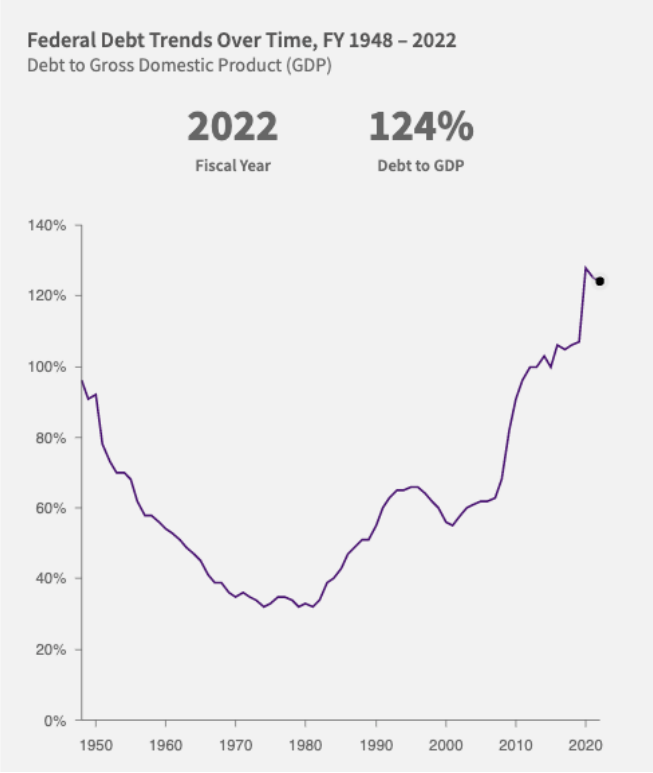
The Future of Taxes – Federal Government Deficit



US historical Debt-to-GDP ratio

2022: 124%
2021: 125%
2020: 128%
2019: 107%
2018: 106%
2017: 105%
2016: 106%
2015: 100%
2014: 103%
2013: 100%
2012: 100%
2011: 96%
2010: 91%

- When adjusted for inflation, the U.S. federal debt has steadily increased since 2001.
- Without adjusting for inflation, the U.S. federal debt has steadily increased since 1957.
- The U.S. debt to GDP ratio surpassed 100% in 2013 when both debt and GDP were approximately 16.7 trillion

Visit the Historical Debt Outstanding dataset to explore and download this data. The GDP data is sourced from the Bureau of Economic Analysis.
Last Updated: September 30, 2022

The Future of Taxes – Federal Government Deficit

Debt-to-GDP Ratio comparison (2022)

- Germany at 66%, as of September - Healthy Economy
- Greece at 178%, as of September - Unhealthy Economy

- US at 124% as of December 2022

Source: WorldPopulationReview.com

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The Future of Taxes – Federal Government Deficit ($30.4 trillion)

Potential tax rate increases make tax planning more important and more beneficial…

Where do you think tax rates are heading???

Comment in the chat.

_____ Decreased Tax Rates
_____ Increased Tax Rates
_____ Remain the Same

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Tax Basics

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Marginal Tax Brackets (Progressive Tax System)

2023-2024 Tax Rates

Tax Rate	Single	Married Filing Jointly	Married Filing Separately	Head of Household
10%	$0 to $11,000	$0 to $22,000	Up to $11,000	Up to $15,700
12%	$11,001 to $44,725	$22,001 to $89,450	$11,001 to $44,725	$15,701 to $59,850
22%	$44,726 to $95,375	$89,451 to $190,750	$44,726 to $95,375	$59,851 to $95,350
24%	$95,376 to $182,100	$190,751 to $364,200	$95,376 to $182,100	$95,351 to $182,100
32%	$182,101 to $231,250	$364,201 to $462,500	$182,101 to $231,250	$182,101 to $231,250
35%	$231,251 to $578,125	$462,501 to $693,750	$231,251 to $346,875	$231,251 to $578,100
37%	Over $578,125	Over $693,750	Over $346,875	Over $578,100

2023 Standard Deduction Amounts

Filing Status	Deduction Amount
Single	$13,850
Married Filing Jointly	$27,700
Head of Household	$20,800
Source: Internal Revenue Service.	

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How Are Taxes Calculated?
(2023)

Married Couple - Filing Joint Return

- Harry @ $67,000
- Joanne @ $78,000
  - Total Earned Income (gross): $145,000.

Deductions

- 401(k) Deductible Contributions: $22,700.
- Standard Marital Deduction: $27,700

Adjusted Gross Income (AGI) of $94,600

- $0 to $22,000 @ 10% = **$2,200 tax**
- $22,000 to $89,450 (the next $67,450) @ 12% = **$8,094 tax**
- $89,450 to $190,750 (the next $5,150) @ 22% = **$1,133 tax**

Income Tax Due …… $11,427 (7.88% effective tax rate)

Capital Gains Taxation

What is a Capital Gain?

Profits from the sale of an asset. The gain is not realized until the asset is sold (shares of stock, land, business).

- 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[2]

[2] 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%.

Note: State taxes are additional and vary by state. Consult your tax advisor.

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Capital Gains Tax Rates 2023

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 $44,625	Up to $44,625	Up to $59,750	Up to $89,250
15%	$44,626 to $492,300	$44,626 to $276,900	$59,751 to $523,050	$89,251 to $553,850
20%	Over $492,300	Over $276,900	Over $523,050	Over $553,850

[2] 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%.

Note: State taxes are additional and vary by state. Consult your tax advisor.

Capital Gain Tax Exclusion for Home Sales

If you sell your home for a profit, you may be able to exclude (not pay federal income tax on):

- Up to $250,000 of gains (single filers)
- Or up to $500,000 of gains for a married couple (filing jointly)
  - 2/5 Rule – Must have utilized the property as primary residence 2 out the past 5 years
  - As a general rule you may exclude Cap Gains more than one time --- Must wait 2 years from the previous sale

Filling the Gap

Required Minimum Distributions (RMDs)

Secure Act 2.0 December 2022 changes

Birth Date	Applicable RMD Age
Before July 1, 1949	70 1/2
July 1, 1949 - 1950	72
1951 - 1959	73
1960 or later	75

Required Minimum Distributions (RMDs)

RMD Calculation: Retiree Age 72

- $500,000 Value on 12/31/2022
  - $500,000 / 27.4 = $18,248 RMD (must be taken by 12/31/2023)
  - 3.65% withdrawal

REVISED UNIFORM LIFETIME TABLE – EFFECTIVE 2022

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
		80	20.2	90	12.2	100	6.4	110	3.5
		81	19.4	91	11.5	101	6.0	111	3.4
72	27.4	82	18.5	92	10.8	102	5.6	112	3.3
73	26.5	83	17.7	93	10.1	103	5.2	113	3.1
74	25.5	84	16.8	94	9.5	104	4.9	114	3.0
75	24.6	85	16.0	95	8.9	105	4.6	115	2.9
76	23.7	86	15.2	96	8.4	106	4.3	116	2.8
77	22.9	87	14.4	97	7.8	107	4.1	117	2.7
78	22.0	88	13.7	98	7.3	108	3.9	118	2.5
79	21.1	89	12.9	99	6.8	109	3.7	119	2.3
								120+	2.0

The RMD Problem

Age of IRA Owner or Plan Participant	Life Expectancy (in years)	% of Account Balance
72	27.4	3.65%
73	26.5	3.77%
74	25.5	3.92%
75	24.6	4.07%
76	23.7	4.22%
77	22.9	4.37%
78	22.0	4.55%
79	21.1	4.74%
80	20.2	4.95%
81	19.4	5.15%
82	18.5	5.41%
83	17.7	5.65%
84	16.8	5.95%
85	16.0	6.25%
86	15.2	6.58%

How Do RMDs Effect Retirement?

Age 72:
$500,000 IRA / 27.4 = $18,248 (3.65%)

Age 82:
$671,958* IRA / 18.5 = $36,322 (5.41%)

Age 86:
$756,294* IRA / 15.2 = $49,756 (6.58%)

* Hypothetical 3% net return after RMD withdrawal

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9 Tax Strategies that Can SAVE YOU A LOT!

Tax Strategies to Consider

Strategy #1: Consider Opening a Health Savings Account (HSA)

TRIPLE TAX FREE!

- Tax-deductible contributions
- Tax-free growth
- Tax-free withdrawals (for qualified health care expenses)

Tax Strategies to Consider

Health Savings Accounts

A 65-year-old couple who retired in 2022 will spend an average **$315,000** in health-care and medical expenses in their retirement, according to Fidelity Investments.

Tax Strategies to Consider

Health Savings Accounts

Tax-Deductible Contributions

- $3,650 max annual contribution (catch-up $1k age 55+) – Individual
- $7,300 max annual contribution (catch-up $1k age 55+) – Family

Tax-Free Accumulation

- Any funds in HSA accounts that are not used before the end of year are rolled over and accumulate tax-free

Tax-Free Distributions (if used for qualified medical expenses)

- **Not Subject to Provisional Income**
- **Not Subject to RMDs**
- Taxable distributions for non-qualified expenses

Consult your tax advisor pertaining to your specific situation.

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Tax Strategies to Consider

Strategy #2: Investments with Tax Advantages

- **Municipal Bonds/Funds**
  - Tax-Deferred Growth
  - Tax Free income (dividends and interest)
  - **Income included for provisional income calculation**
  - **No RMD**

- **Tax-Deferred Annuities (Non-Qualified)**
  - Tax-deferred Accumulation
  - Preferential tax treatment based upon the Exclusion Ratio (NQ Annuities)
    - **Percentage of income included for provisional income calculation**
    - **No RMD**

- **Life Insurance Retirement Plans (LIRP)**
  - Tax-Free Death Benefit
  - Tax deferred growth (Variable or Fixed returns)
  - Tax-Free Income (withdrawals to basis then loans)
  - **Not included in Provisional Income calculation**
  - **No RMD**

Note: There are many exceptions to all of these general rules. Certain items such as phase outs and alternative minimum tax can change your various scenarios. Consult your tax advisor pertaining to your specific situation.

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Tax Strategies to Consider

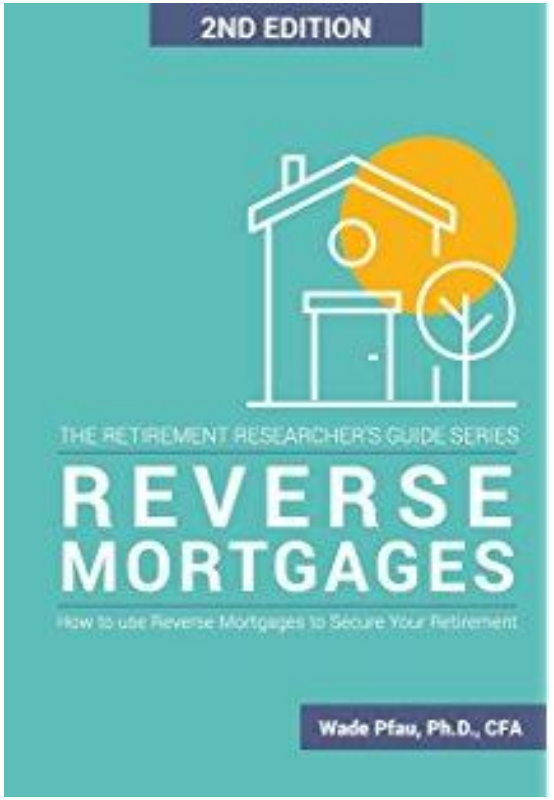
Strategy #3: Consider Reverse Mortgages for Tax-Free Income or a Tax-Free Safety Net

How to use Reverse Mortgages to Secure Your Retirement By Wade Pfau, Ph.D, CFA,February 27, 2017

"Though reverse mortgages have long held a bad reputation, research and Public policy in recent years are shedding a new light on their potential uses in retirement."

"Financial planning research has shown that coordinated use of a reverse Mortgage starting earlier in retirement outperforms waiting to open a reverse mortgage as a last resort option once all else has failed."

NOTE: It is imperative to calculate the effect of a reverse mortgage on each individuals personal situation to determine the negative or positive effect on the overall retirement outcome. Each retiree's situation and asset levels different and outcomes will vary based upon these nuances.



Tax Strategies to Consider

Strategy #4 - Consider Contributing to a Roth IRA or 401(k)

Overview

- **After tax contributions -** Contributions must be made using after-tax dollars
- **Tax-deferred growth -** Contributions and earnings compound tax-deferred
- **Tax-free withdrawals -** Contributions and earnings can be withdrawn tax free
  - Subject to five-year holding period plus age restriction
- **Tax planning flexibility**
  - No RMD's Required
  - NOT subject to Social Security Provisional Income calculation

Tax Strategies to Consider

Roth Contribution Limits

Roth IRA

- Roth IRA contribution limits are $6,500 annually in 2023 (people 50 or older can add $1,000 to those amounts).
- **Roth IRA contributions income phase-out ranges for 2023 are:**
  - $138,000 to $153,000 - Single taxpayers and heads of household
  - $218,000 to $228,000 - Married, filing jointly
  - $0 to $10,000 - Married, filing separately

Roth 401(K) or Roth 403(b)

- Maximum of $22,500 to a Roth 401(k) in 2023
- Aged 50 or older can contribute an extra $6,500 as a catch-up contribution

NOTE: Both Roth IRA & Roth 401(k) can be split with Traditional IRA & Traditional 401(k) contributions but cannot exceed the maximum aggregate noted above

Tax Strategies to Consider

Taking Money Out of a Roth Tax-Free

- Must satisfy two Triggering Events
  - Age 59 ½
  - Owned Roth for 5 years
- 10% penalty and tax on EARNINGS for withdrawals before satisfying BOTH triggering events
- Allowed to take CONTRIBUTIONS at any time
- Exception allowed - $10,000 withdrawal (including growth) for 1st time purchase of a home

Tax Strategies to Consider

Strategy #5 - Consider Intelligent Roth Conversions

To Convert of Not to Convert??

The Trade Off:

- Convert your Traditional IRA to a Roth IRA, you:
  - Pay income taxes at your current tax rate on conversion
  - Tax-free growth
  - Tax-free withdrawals during retirement
    - Must satisfy two triggering events
      - Age 59 ½
      - ***5-year wait on each conversion***

Tax Strategies to Consider

Strategy #5 - Consider Intelligent Roth Conversions

All or Nothing

- If you convert your Traditional IRA to a Roth IRA over the course of multiple years:
  - You may pay less total tax than if you convert during a single year
  - Future tax increases make conversion to Roth more advantageous

Additional Benefits

- Pass Roth assets to heirs income tax-free (subject to restrictions)
- Not Subject to SSI Provisional Income Calculation
- No RMDs

Tax Strategies to Consider

Strategy #6 – Manage Social Security Taxation

Social Security Taxation

Will Your Benefit Be Taxable?

NO!

Unless Your ***SSI Provisional Income*** Exceeds Certain Limits

Social Security Income

What is SSI Provisional Income???

SSI Provisional Income = adjusted gross income + nontaxable income (municipal bonds) + ½ of Social Security benefit income

Hypothetical Provisional Income Calculation:

- AGI = $45,000 IRA withdrawal (RMD)
  - $25,900 Standard Marital Deduction = $19,100 AGI
- Muni Bond Income = $10,000 earnings
- Social Security Income = $20,000 (1/2 of $40,000 SSI)

Total Provisional Income $49,100

Social Security Taxation

Will Your Benefit Be Taxable? Depends on your Provisional Income …

PERCENTAGE OF YOUR SOCIAL SECURITY BENEFITS THAT ARE TAXABLE	SINGLE, HEAD OF HOUSEHOLD, QUALIFYING WIDOW(ER), OR MARRIED FILING SEPARATELY	MARRIED, FILING JOINTLY
0%	Provisional income under $25,000	Provisional income under $32,000
Up to 50%	Provisional income between $25,000 and $34,000	Provisional income between $32,000 and $44,000
Up to 85%	Provisional income exceeding $34,000	Provisional income exceeding $44,000

Previous Example:

- **Total Provisional Income:** $49,100
- **Social Security Income:** $40,000 up to 85% may be included in federal income calculations

DATA SOURCE: SOCIAL SECURITY ADMINISTRATION

Tax Strategies to Consider

Strategy #7 – Use Cash Value Life Insurance

- **Whole Life / Universal Life** – Interest or dividend rate set by carrier to credit interest to the policy (similar to a CD)
- **Variable Life –** Cash Value invested in sub-accounts performance based on return of those accounts (similar to mutual funds)
- **Index Universal Life (IUL) –** Interest earning credited based upon an investible index such as the S&P 500 index. Receive a percentage of the index return with no risk of principle loss (similar to a Fixed Index Annuity).

Benefits of Life Insurance

- Ability to borrow or distribute cash value tax-free
  - LIFO Tax Rule
  - Withdraw tax-free withdrawal of basis, then revert to tax-free loans
- Tax-free transfer of wealth to your heirs via a death benefit

Tax Strategies to Consider

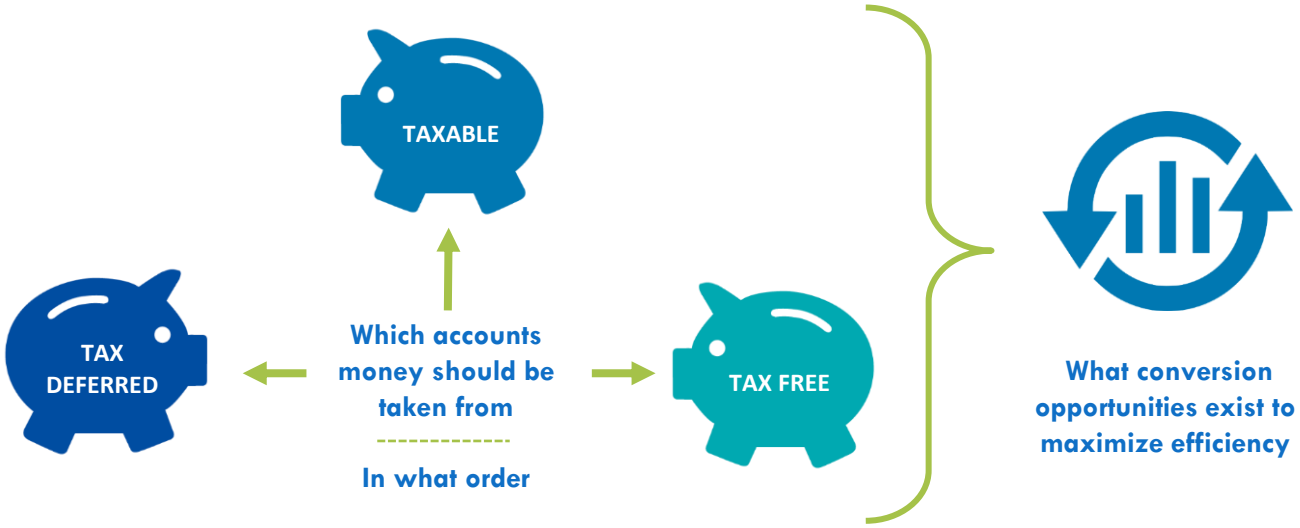
Strategy #8 – Tax Diversification

- *Create Your Buckets!*
- Tax Diversification - Having tax-free, taxable and tax-deferred investments in retirement offers the ability to create a *tax efficient income distribution strategy.*

Tax Strategies to Consider

Strategy #9 – Tax Efficient Income Distribution

Your strategy for **withdrawing** retirement assets is as important as your strategy for **accumulating** them… **BUT MUCH MORE COMPLEX!**



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Three Drawdown Strategies To Consider

PRO RATA STRATEGY

- Withdraw from taxable, tax deferred, and tax-free accounts proportionally
- **Not optimal in most cases**

SEQUENTIAL STRATEGY

- Withdraw from taxable accounts first; then tax deferred accounts; lastly tax free
- **The Traditional approach, but not the most efficient in most cases**

TAX-EFFICIENT WITHDRAWAL STARTEGY with CONVERSION STRATEGY

- Determine what buckets to withdraw from each year to reduce taxes
- Roth conversions are executed to take advantage of periods of lower tax brackets – typically early in retirement
- **Most Optimal in most cases**

Tax Efficient Retirement Distribution

Not all retirement savings assets are equal from a taxability standpoint:

- Taxable
- Tax deferred
- Tax free

An efficient retirement plan should illustrate:

- Which accounts money should be taken from
- In what order
- What conversion opportunities exist to maximize efficiency

A customized tax efficient distribution strategy could save you significant value and extend the time horizon of your retirement assets.

Before you implement any strategy to reduce your tax liability, make sure it complements your overall financial plan.

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Tax Planning

Case Study

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Meet the Brady's

Mike and Amanda — married

Current Ages — 56/54

Target Retirement Age — 65/65

Salary — $200K/$50K

Delated Social Security — 70

Monthly Expenses in Retirement — $9K

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

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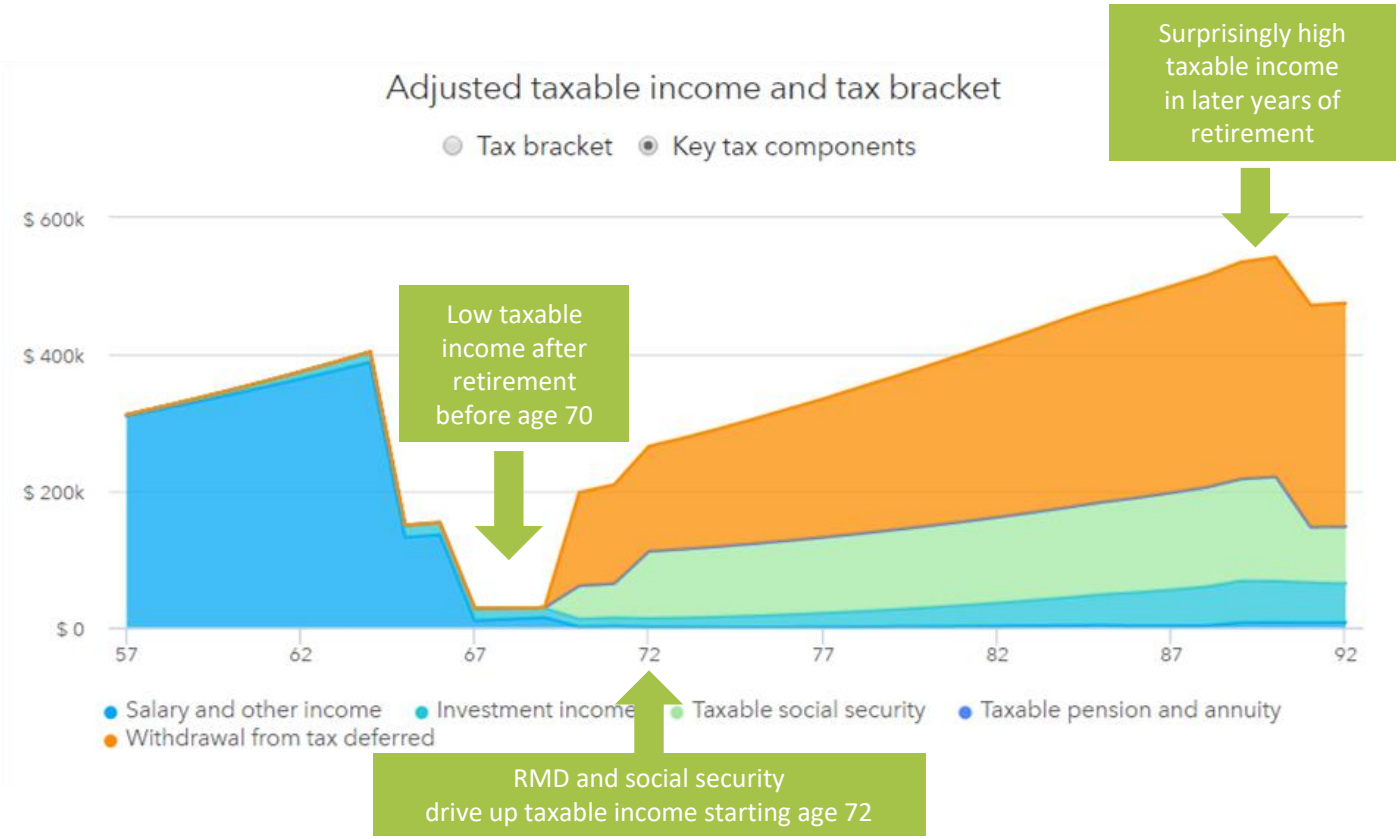
Tax Brackets During Retirement Can Be Surprising – Before Tax Planning



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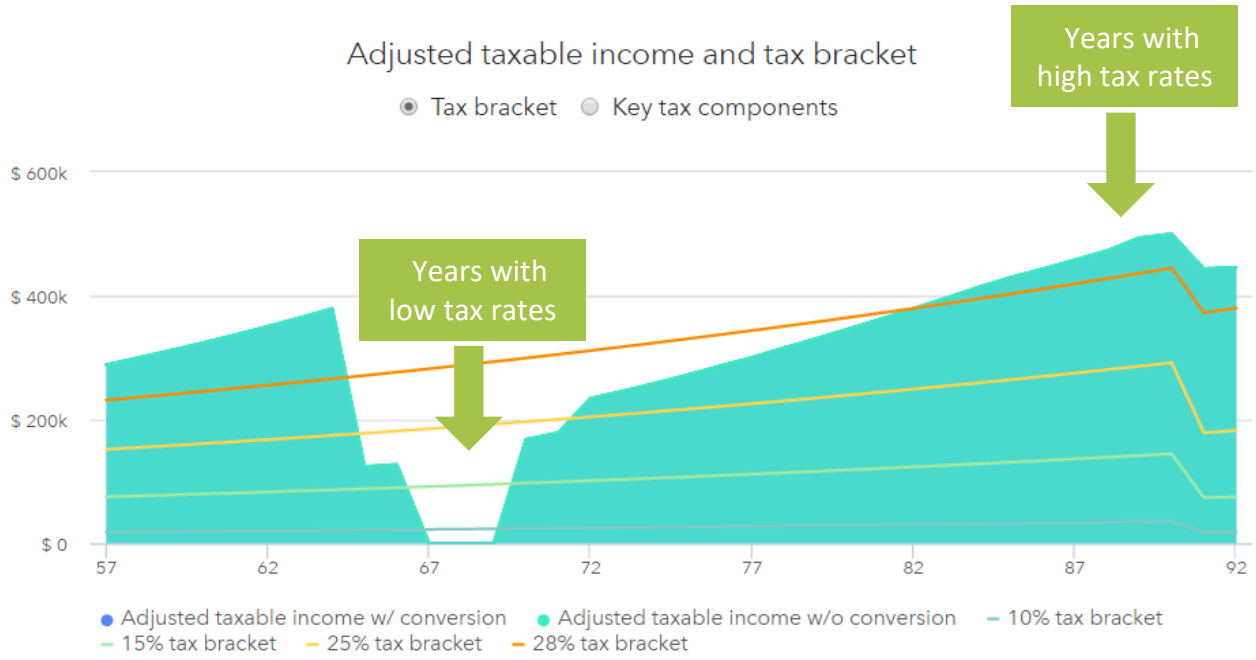
Large IRA RMD Distributions Drive Up Tax Brackets – Without Tax Planning



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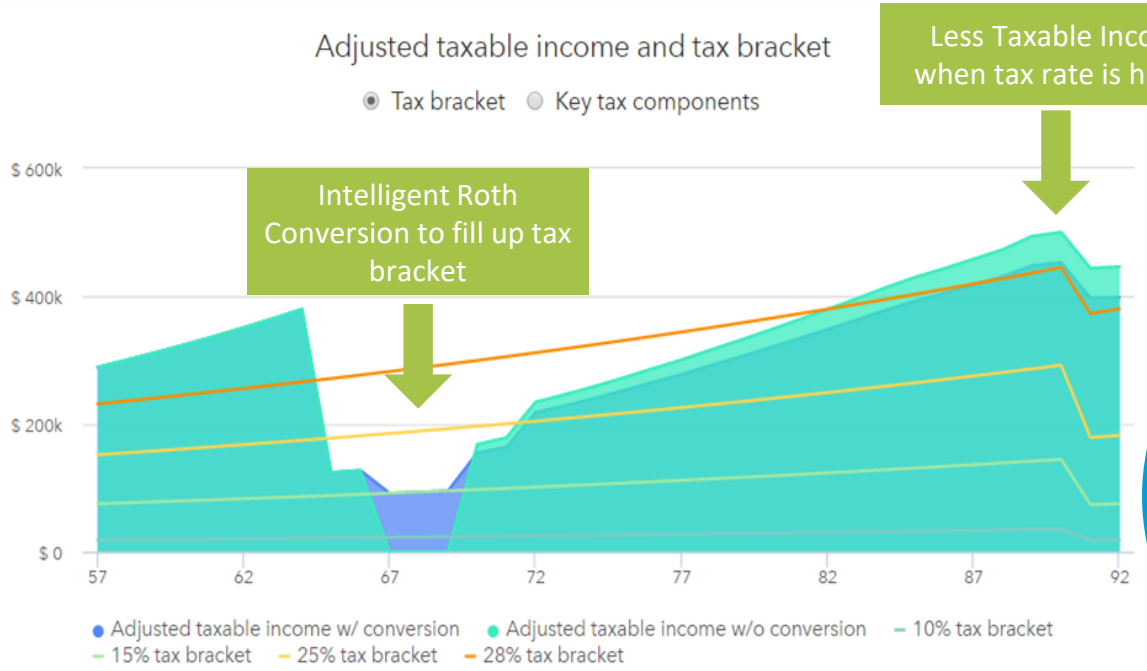
Smoothing Out The Tax Liability – With Tax Planning



PROPOSED STRATEGY:

$1,136,742 MORE

Tax-adjusted ending portfolio rather than a pro-rata withdrawal strategy w/o conversion

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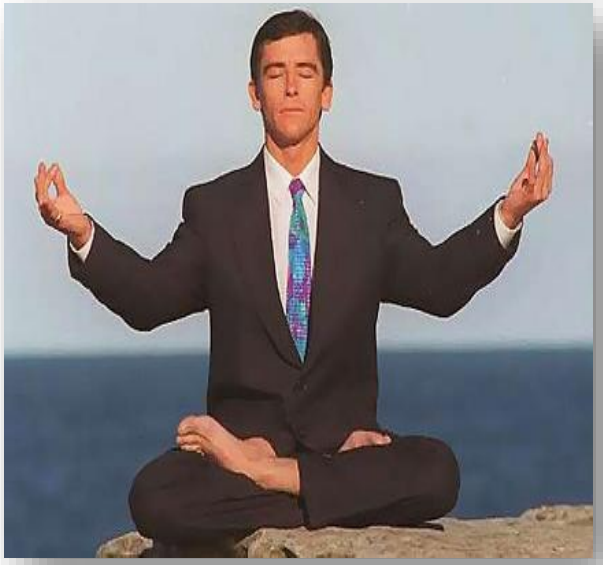
Taxes DO Matter in Retirement!

Key Takeaways

- ✓ Create your Buckets (tax-deferred, tax-free & taxable)
  - Tax diversification
- ✓ Utilize an HSA for triple tax advantages
- ✓ Implement Tax-Efficient Withdrawal Sequencing, coupled with Roth Conversions



Result

- Minimize RMD effect
- Reduced Social Security Provisional Income
- Reduced Medicare premiums with lower income
- Reduced taxes annually to increase net spendable income

Trivia Questions

Can you Name the Three Tax Buckets?

Trivia Questions

What is the Major Benefit of an HSA?

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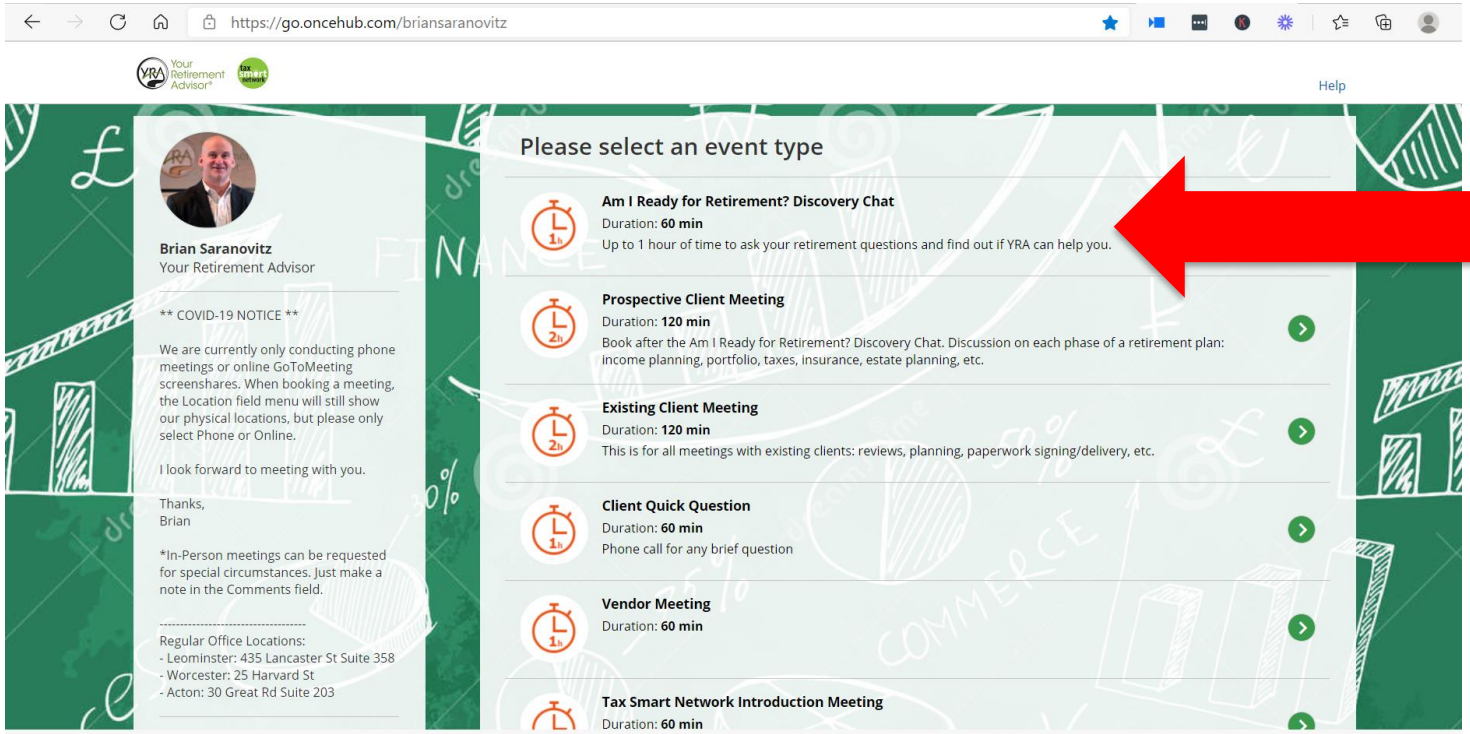

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Thanks for Watching & Learning!

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Visit: www.TaxSmartRetiree.com to Learn More or Request a Free Tax Assessment