
Taxes in Retirement

Disclaimer

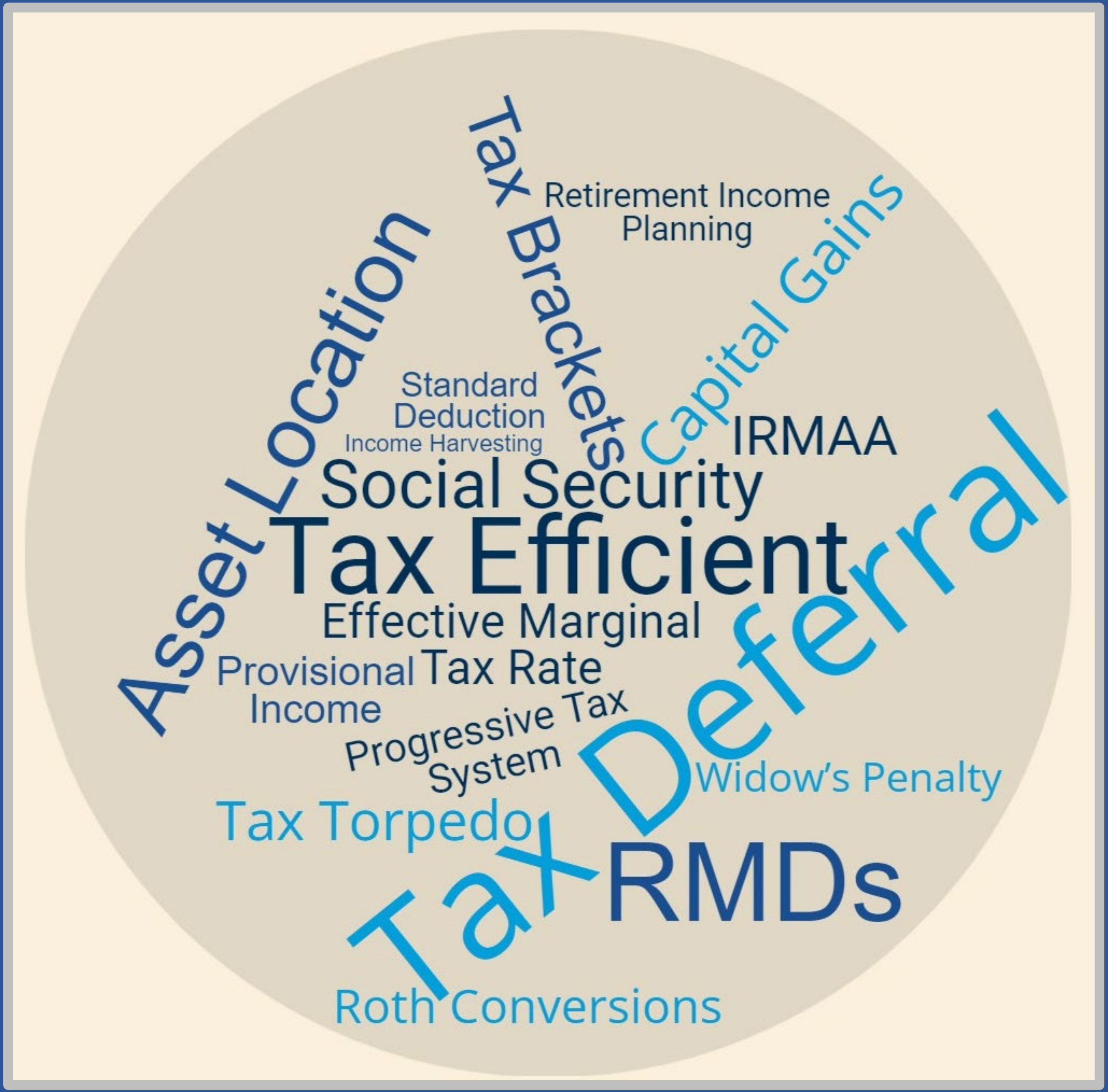
- This presentation is **for informational purposes only** and should not be treated as providing any kind of tax, legal, or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any strategies or transactions.
- Nothing in the presentation today **should be construed as tax advice or a complete discussion of federal and state income tax requirements**. Any question of tax liability or tax requirements under federal or state tax guidelines should be consulted by a licensed tax professional.
- This information cannot be relied on by any investor for “tax avoidance”, “tax evasion”, or to avoid any income tax penalties that may be imposed under the Internal Revenue Code.
- Tax law is subject to interpretation and legislative change.
- All Examples are hypothetical and for illustrative purposes only. Actual results will vary. No part of this presentation is intended to make an offer of sale or purchase of any specific security or insurance product.

Today’s Outcomes

1. Be knowledgeable of the basic tax rules during retirement
2. Identify some key terms and pitfalls to avoid
3. Help your clients be more tax efficient in retirement

Taxes are Different in Retirement

As your clients transition from employment to retirement, the nature of their income – and their taxes – changes.


Tax Brackets
Retirement Income Planning
Capital Gains
Asset Location
Standard Deduction
Income Harvesting
IRMAA
Social Security
Tax Efficient
Deferral
Effective Marginal Tax Rate
Provisional Income
Progressive Tax System
Widow’s Penalty
Tax Torpedo
Tax
RMDs
Roth Conversions

Today's Topics

- Asset Location
- Effective Marginal Tax Rate
- Progressive Tax System
- Tax Brackets
- Standard Deduction
- Tax Torpedo
- Social Security Taxation
- Provisional Income
- RMDs - Required Minimum Distributions
- Widow's Penalty
- Non-Qualified Assets
- Net Investment Income Tax
- Medicare Premium Surcharge – IRMAA
- Net Unrealized Appreciation (NUA)
- Roth Conversions
- Basis Step-Up
- Income Harvesting
- Strategies for Controlling Taxes in Retirement

Benefits of a Tax Efficient Income Plan

- Avoid potential pitfalls
- Minimize taxes
- Maximize spendable income
- Increase the longevity of your client's retirement savings
- Enhance the value of their estate

Asset Location

Many people don't have a retirement nest egg . . . they have a basket of many eggs.

Asset Location

Ordinary Income

- Employment / wages
- Pension income
- QP / IRA WDs
- Interest on savings, Money Markets and CD's
- Short-Term Capital Gains

Tax Favored

- Social Security
- Long-Term Capital Gains
- Qualified Dividends

Tax Free

(if certain conditions are met)

- Roth Accounts
- Cash Value Life Insurance
- Municipal Bonds
- Health Savings Accounts

Your Client's Retirement Account

- Where most people save for retirement
- One of the largest financial assets your clients may have
- $33.6 trillion dollars in retirement plan assets; 85 million+ plan participants
- Exposure to "tax-risk"

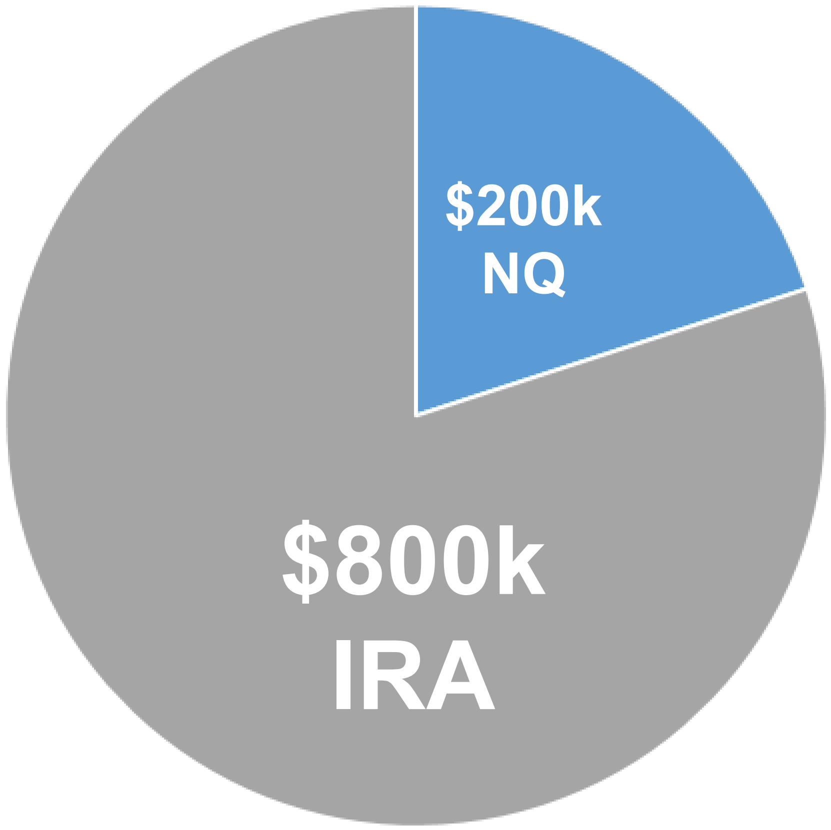
Tax Risk

- New laws can be passed
- Old laws can "sunset"
- Tax brackets can change
- Tax rates can go up
- Deductions can be eliminated
- Changes to family dynamics – widow's penalty or inherited assets

- **1963** – Jimmy was born
- **1988** – Jimmy's employer adopted a 401(k) tax-deferred retirement savings program.
- **1988 – 2023** – Jimmy faithfully contributed to his company's 401(k) plan.
- **2023** – Jimmy is now 60 and his retirement savings plan is over-weighted with tax-deferred savings accounts.
- **Future** – Withdrawals from Jimmy's 401(k) will be subject to income taxes.

Jimmy’s Portfolio

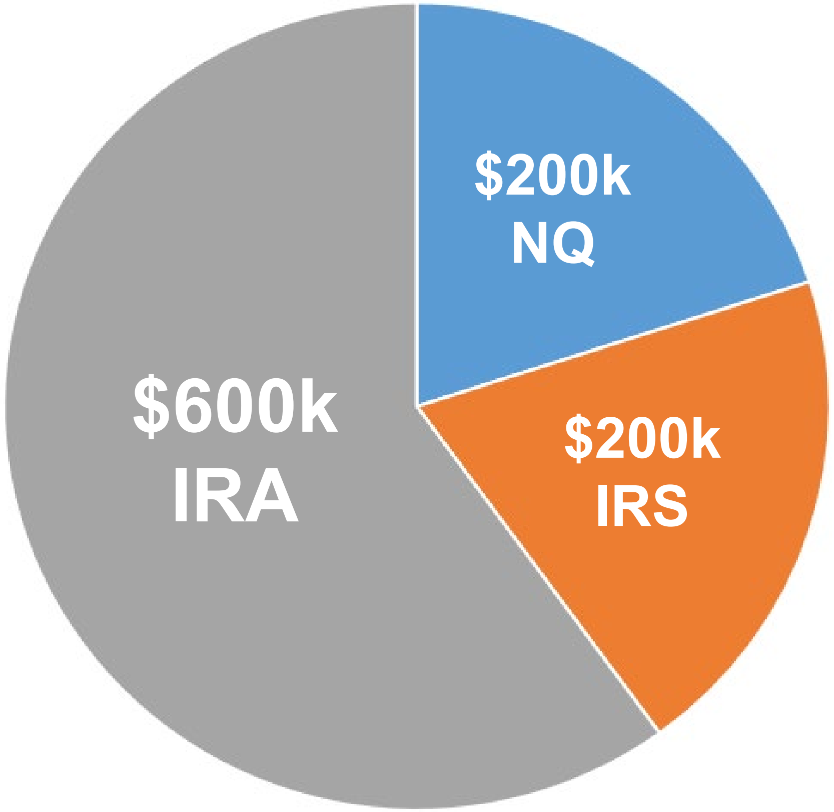
Jimmy’s Portfolio



- $1 million portfolio
  - $200,000 Non-Qualified
  - $800,000 Traditional IRA

This is a hypothetical example provided for illustrative purposes only. It does not represent a real life scenario, and should not be construed as advice designed to meet the particular needs of an individual’s situation. This presentation is not intended to offer tax, legal or investment advice. Your clients’ experience and needs will vary. For advisor use only. Not for use in a sales situation

Jimmy’s Portfolio



- $1 million portfolio
  - $200,000 Non-Qualified
  - $600,000 Traditional IRA
  - $200,000 Tax Bill
  - 25% Effective Marginal Tax Rate

This is a hypothetical example provided for illustrative purposes only. It does not represent a real life scenario, and should not be construed as advice designed to meet the particular needs of an individual’s situation. This presentation is not intended to offer tax, legal or investment advice. Your clients’ experience and needs will vary. For advisor use only. Not for use in a sales situation

Effective Marginal Tax Rate

How much of your next dollar of income do you actually lose to the IRS?

Progressive Tax System

The tax rate increases as the amount of taxable income increases.

In the United States, people with higher levels of taxable income pay a higher tax rate than those with lower levels of taxable income.

2023 Ordinary Income Brackets – Single

“Bracket Jumping”

Rate	Taxable Income
10%	$ 0 - $11,000
12%	$11,001 - $44,725
22%	$44,726 - $95,375
24%	$95,376 - $182,100
32%	$182,101 - $231,250
35%	$231,251 - $578,125
37%	$578,125 +

https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023

2023 Ordinary Income Brackets – MFJ

"Bracket Jumping"

Rate	Taxable Income
10%	$ 0 - $22,000
12%	$22,001 - $89,450
22%	$89,451 - $190,750
24%	$190,751 - $364,200
32%	$364,201 - $462,500
35%	$462,501 - $693,750
37%	$693,700 +

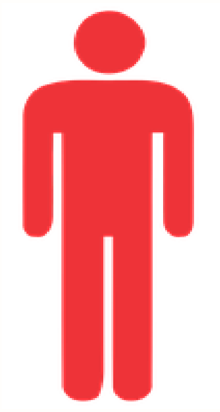
https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023

Long Term Capital Gains & Qualified Dividends

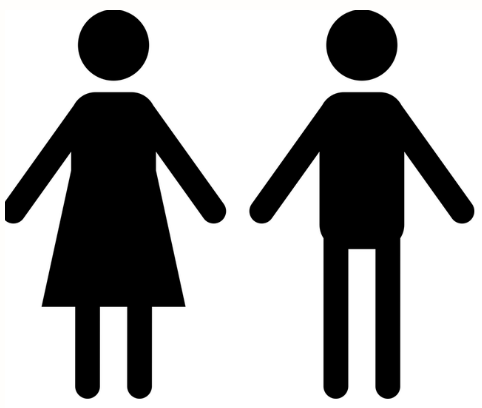
Tax Bracket / Rate	Single	Married Filing Jointly
0%	$0 - $44,624	$0 - $89,249
15%	$44,625 - $492,300	$89,250 - $553,850
20%	$492,300 +	$553,850 +

https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023

2023 Standard Deduction



$13,850 for a single filer

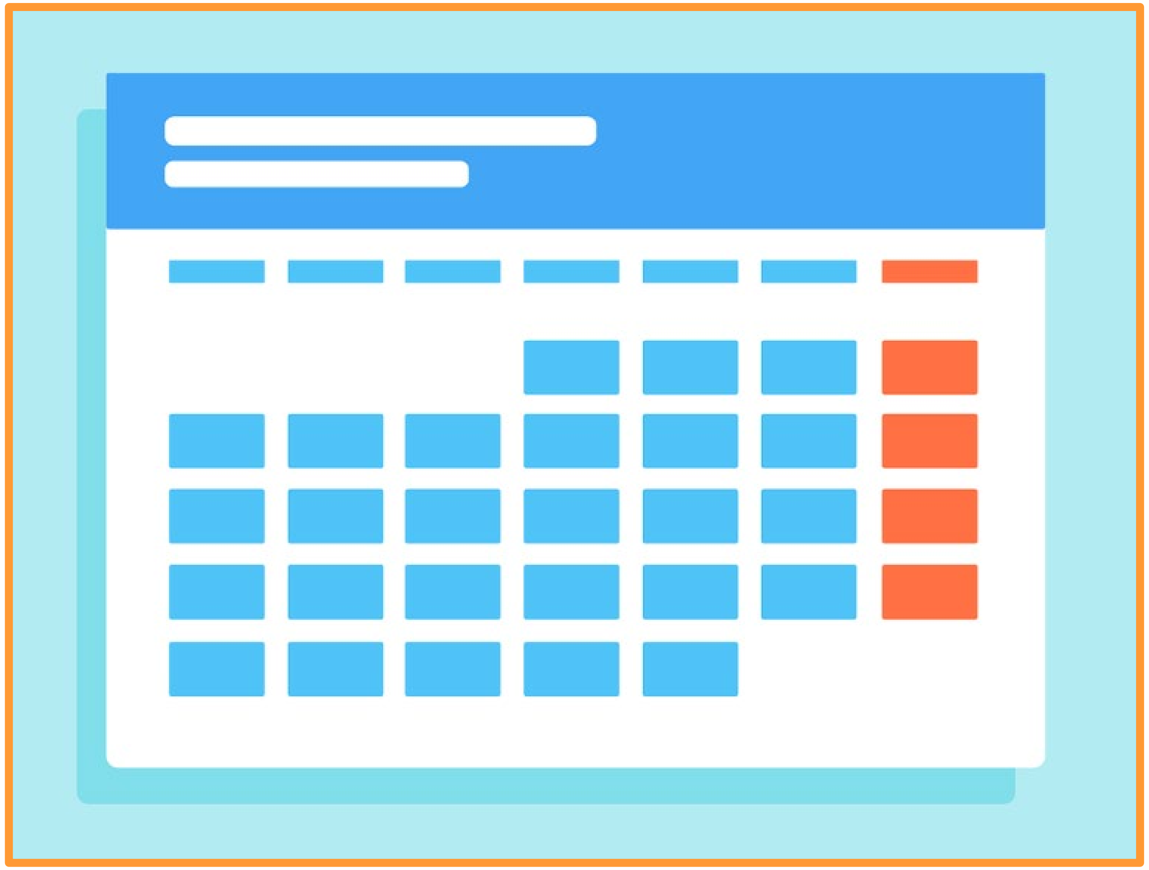


$27,700 for married filers

Age 65+

$1,850 for single &
$1,500 for married filers

Reminder



Tax Cuts and Jobs Act will sunset at the end of 2025.

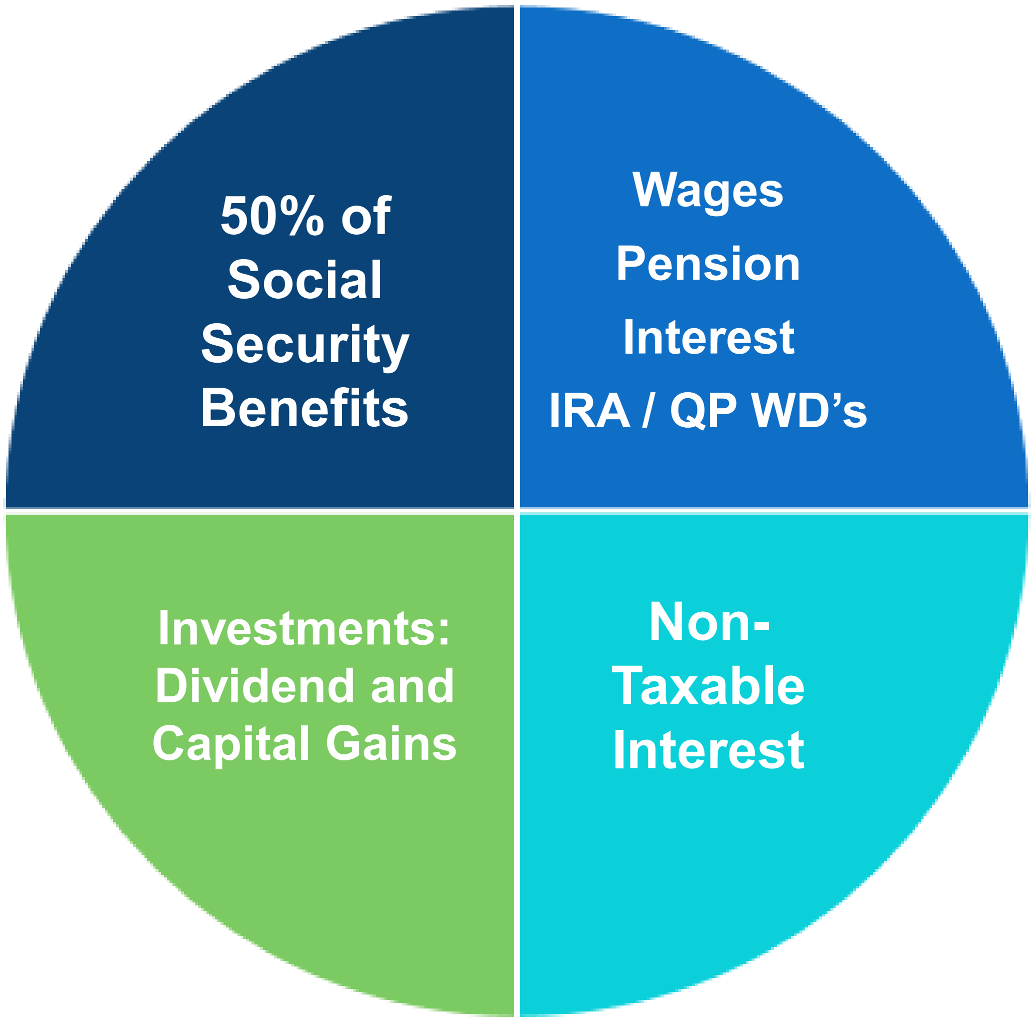
Tax Torpedo

Some types of retirement income, such as Social Security, are taxed based on how much other income you have.

The tax torpedo is an unexpected increase in your effective marginal based on the existence of other income.

Provisional Income

Social Security is taxed based on the amount of other income called "provisional income".



Social Security Taxation

Depending on your income, Social Security retirement benefits could be subject to taxation.

Provisional Income Level – Single Filers	Provisional Income Level – Joint Filers	% of Benefit Subject to Taxation
Less than $25,000	Less than $32,000	0%
$25,001 - $34,000	$32,001 - $44,000	50%
More than $34,000	More than $44,000	85%

Case Study

Retired Couple #1		Retired Couple #2	
• Social Security	$ 40,000	• Social Security	$ 24,000
• <u>IRA Withdrawal</u>	<u>$ 24,000</u>	• <u>IRA Withdrawal</u>	<u>$ 40,000</u>
• **Total Income**	**$ 64,000**	• **Total Income**	**$ 64,000**

This is a hypothetical example provided for illustrative purposes only. It does not represent a real life scenario, and should not be construed as advice designed to meet the particular needs of an individual's situation. This presentation is not intended to offer tax, legal or investment advice.

Required Minimum Distributions

Required Minimum Distributions (RMDs) are amounts that must be withdrawn annually from IRAs and qualified accounts each year after turning 73.

RMD Formula

÷

Account Balance ÷ **Life Expectancy Factor**

Age	Life Expectancy Factor	% of Balance	RMD Amount	Earnings (5%)	End of Year Account Balance
72					**$ 500,000**
73	26.5	3.78%	$ 18,868	$ 25,000	$ 506,132
74	25.5	3.93%	$ 19,848	$ 25,307	$ 511,590
75	24.6	4.07%	$ 20,796	$ 25,580	$ 516,374
76	23.7	4.22%	$ 21,788	$ 25,819	$ 520,404
77	22.9	4.37%	$ 22,725	$ 26,020	$ 523,699
78	22.0	4.55%	$ 23,805	$ 26,185	$ 526,080
79	21.1	4.74%	$ 24,933	$ 26,304	$ 527,451
80	20.2	4.96%	$ 26,111	$ 26,373	$ 527,712
85	16.0	6.25%	$ 32,274	$ 25,819	$ 509,391
90	12.2	8.20%	$ 38,326	$ 23,379	$ 452,627
95	8.9	11.24%	$ 42,129	$ 18,747	$ 351,565
100	6.4	15.63%	$ 38,862	$ 12,436	$ 222,290

What You Can Do With Your RMD

- Spend it
- Save or reinvest elsewhere
- Fund insurance premiums
- Qualified Charitable Distribution (QCD)
  - Up to $100,000 (indexed) annually direct to a charity to satisfy the RMD
  - A great tax benefit for those who don’t itemize their deductions
  - Can help with Social Security taxation or Medicare surcharge planning

RMD Reminders

- You don’t have to wait until age 73 to begin taking withdrawals.
- The penalty for not taking an RMD is 25%.
- You may withdraw an amount above the RMD, but the excess cannot be applied to future years’ RMDs.
- RMDs are taxed as ordinary income, but you can withhold taxes.
- RMD amounts will vary from year to year.
- You cannot combine RMDs between spouses – each must take their own.

Widow's Penalty

Widow’s Penalty

- When a surviving spouse ends up paying more **taxes on less income** after the death of their spouse.

- Caused by a **reduction in the standard deduction and a push into higher tax brackets** by filing single rather than married filing jointly.

Widow's Penalty Case Study

Married Filing Jointly – Age 65

- Standard Deduction (2023) - $ 30,700

- Social Security $ 60,000
- IRA RMD $ 40,000
- Total Income $100,000

- Federal Income Tax - **$4,048**

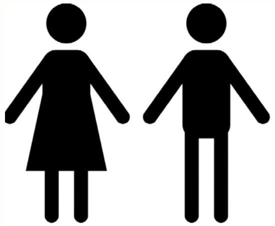
2023 Federal Income Tax Brackets and Rates

$ 0 - $ 22,000	**10%**	$ 0 - $11,000
$ 22,001 - $ 89,450	**12%**	$ 11,001 - $ 44,725
$ 89,451 - $ 190,750	**22%**	$ 44,726 - $ 95,375
$ 190,751 - $364,200	**24%**	$ 95,376 - $ 182,100

Non-Qualified Assets

Mutual Funds	Tax-Loss Harvesting
• Considered "pass through" entities • When a mutual fund sells a security or receives a dividend, the gain is passed on to the investors • Even during years when the value of the mutual fund has gone down	• Selling securities at a loss to claim a deduction • Common way to lower your tax bill • Maximum is $3,000 per year, buy may be carried forward to future years • Beware of the "wash-rule" sale

Net Investment Income Tax

Additional 3.8% Tax on:	
Adjusted Gross Income Over:	**Net Investment Income:**
 **$200,000**	• Capital Gains and Dividends • Interest and Annuity Payments • Passive Business Income • Rents
 **$250,000**	

Source: irs.gov

2023 Medicare Part B Monthly Premium

If your yearly income in 2021 (for what you pay in 2023) was		You pay
File Individual Tax Return	**File Joint Tax Return**	
$97,000 or less	$194,000 or less	$164.90
$97,001 - $123,000	$194,001 – $246,000	$230.80
$123,001 – $153,000	$246,001 – $306,000	$329.70
$153,001 – $183,000	$306,001 – $366,000	$428.60
$183,001 - $500,000	$366,001 - $750,000	$527.50
$500,000+	$750,000+	$560.50

Note: For 2023 the standard Part B premium amount is $164.50 (or higher depending on your income). Premiums are usually deducted from your Social Security benefit payment.

Source: Medicare.gov

Net Unrealized Appreciation

Special rules which may allow plan participants to be taxed at the more favorable capital gains rate (rather than ordinary income) on gains from employer stock held inside their qualified plan.

Roth Conversions

Benefits of a Roth Conversion

- Potential for tax-free income
- Hedge against future tax rate increases
- Tax diversification
- No RMDs during the account holder's lifetime
- No impact on Social Security taxation
- Tax-free legacy

The Process

Taxes!

Earnings grow tax deferred

WARNING!!!

Roth IRA Conversion are **<u>Permanent</u>**!!

Cannot "undo" them!!

If a Qualified Distribution

Evaluating the Decision to Convert

- Outlook on future tax rates
- Sources of funds to pay the taxes
- Time horizon
- Presence of undervalued assets within the IRA
- Current income tax situation – what is your effective marginal tax rate?

Step Up in Basis

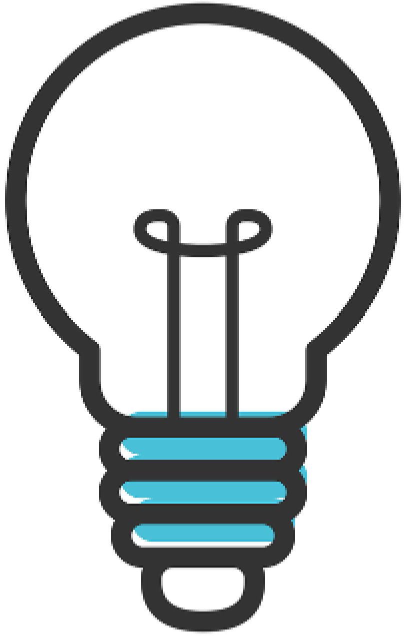
- An adjustment to the cost basis of an inherited asset upon the death of a benefactor.

- Beneficiaries may use the fair market value at death, rather than the original purchase price, as their cost basis when they inherit an appreciated asset.

- This can help the beneficiary save money on capital gains taxes when the asset is sold.

Step Up in Basis – Planning Tip

- Step-Up Assets → Kids
- Qualified Assets → Charity



Income Harvesting

- ✓ Which account?
- ✓ How much?
- ✓ Which tax year?

Tax Benefits of Cash Value Life Insurance

- **Tax-Free Legacy** – The death benefits received from a life insurance policy are generally received income tax-free by your beneficiaries.
- **Tax-Deferred Cash Value Growth** – The cash value within a life insurance accumulate on a tax-deferred basis.
- **Tax-Advantaged Withdrawals** – You have the ability to take tax-free withdrawals of your cash value when structured properly.
- **Living Benefit Riders** – Death benefits received via a living benefit rider are generally received free of income tax.

Tax Benefits of LTC Insurance

- **Tax Free Benefits** – The benefits received from a tax-qualified long-term care insurance policy are generally tax-free subject to daily limits.
- **State Tax Deductions** – A number of states offer tax deductions and/or credits for those who purchase tax-qualified long-term care policies.
- **Health Savings Accounts (HSA)** – You can use your HSA to pay for long-term care insurance premiums up to the annual limits.
- **Business Owner Clients** - LTC premiums may be deductible

Strategies for Controlling Taxes

- Optimize Social Security
- Diversify among account types with different tax treatment
- Use tax-deferred products when appropriate
- Blending of account withdrawals
- Roth IRA conversions
- Leverage the tax benefits of life insurance and long-term care insurance

Review

- Asset Location
- Effective Marginal Tax Rate
- Progressive Tax System
- Tax Brackets
- Standard Deduction
- Tax Torpedo
- Social Security Taxation
- Provisional Income
- RMDs - Required Minimum Distributions
- Widow’s Penalty
- Non-Qualified Assets
- Net Investment Income Tax
- Medicare Premium Surcharge – IRMAA
- Net Unrealized Appreciation (NUA)
- Roth Conversions
- Basis Step-Up
- Income Harvesting
- Strategies for Controlling Taxes in Retirement


Thank You