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FOUNDATIONS FOR TAX PLANNING OF RETIREMENT ASSETS:

Are Your Employees Heading in the Right Direction?

February 2, 2017

1 TAKE ADVANTAGE OF TAX BENEFITS

- Lower your current year tax bill – pre-tax and tax-deductible contributions
- Then delay taxes until you take withdrawals
- Or make Roth contributions for TAX-FREE withdrawals

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2 DIVERSIFY YOUR TAX SITUATION

- Roth contributions are better if your tax rate is higher when you take withdrawals and vice-versa for Pre-Tax contributions
- But the future and what Congress does is uncertain

Diversify – aim to retire with a mix of pre-tax, Roth, and even taxable account assets

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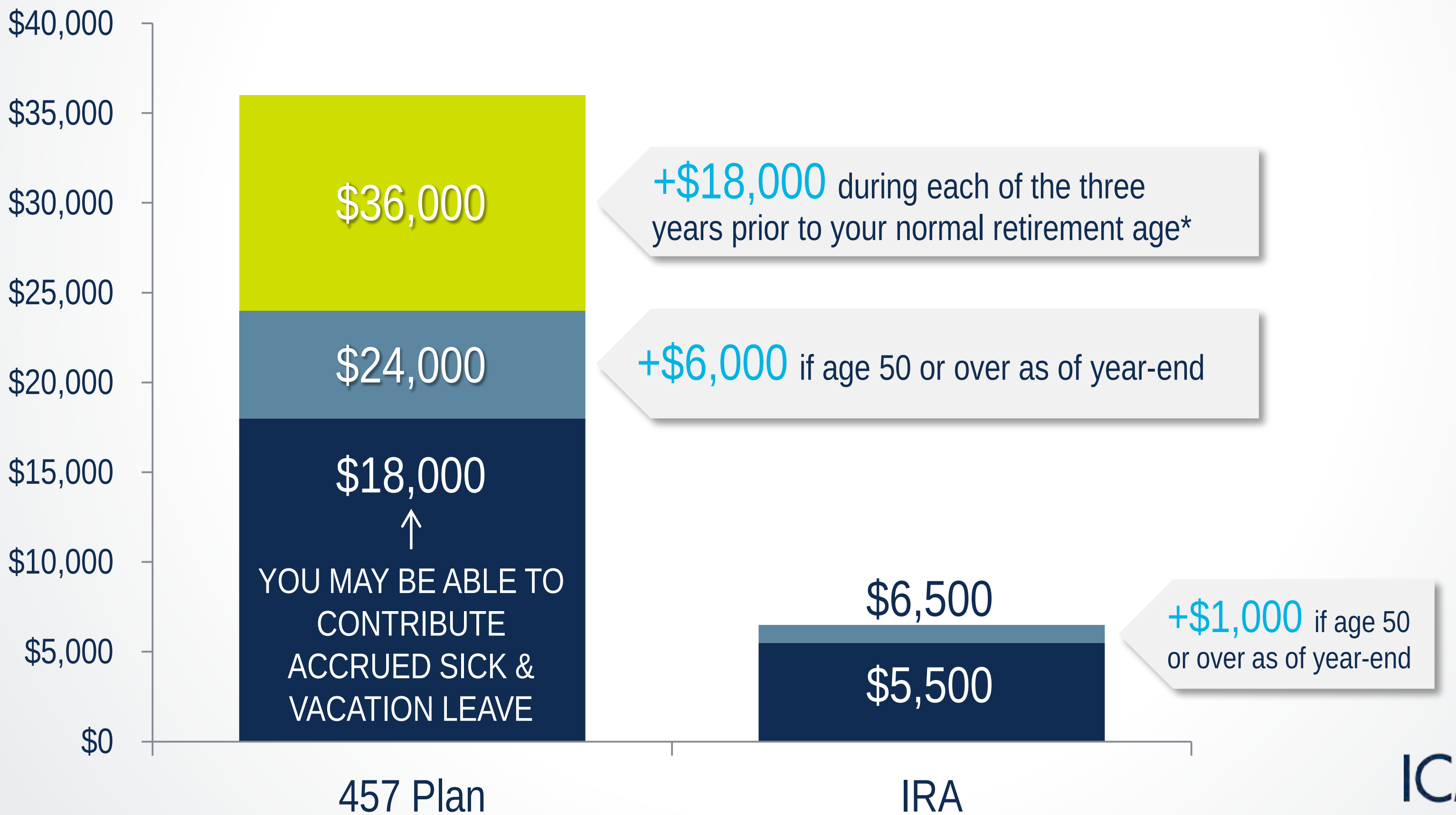
3 SEE IF YOU CAN MAX YOUR CONTRIBUTIONS

2016 LIMITS



* "Normal retirement age," as defined in the plan and based on extent to which maximum contributions not made in previous years. The two catch-up provisions cannot be combined in the same year.

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4 MANAGE YOUR TAX BRACKETS

Your income is taxed at different rates

2016 Tax Rates	Individual Taxpayers	Married Taxpayers Filing Jointly
Tax Rate of…	…applies to each $ of taxable income that is between/over…	
10%	$0 to $9,275	$0 to $18,550
15%	$9,275 to $37,650	$18,550 to $75,300
25%	$37,650 to $91,150	$75,300 to $151,900
28%	$91,150 to $190,150	$151,900 to $231,450
33%	$190,150 to $413,350	$231,450 to $413,350
35%	$413,350 to $415,050	$413,350 to $466,950
39.6%	$415,050+	$466,950+

TAXABLE INCOME
all your income subject to tax, MINUS DEDUCTIONS AND EXEMPTIONS

When making financial decisions, consider consequences of being bumped into higher brackets

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5 AVOID PENALTY TAXES

May apply before age 59½

- 457 plan exception[1] –
  but not if transfer to non-457 plan
- Age 55 exception – 401 plans[2]
- Other exceptions, too – visit www.irs.gov – search for Instructions for Form 5329

Early withdrawals should be last resort –
tax impact AND increased risk of outliving asset

[1] 10% penalty tax never applies to withdrawals of original 457 plan contributions and associated earnings. But penalty may apply to *non*-457 plan assets rolled into a 457 plan and subsequently withdrawn prior to age 59½.

[2] Does not apply to other previous employer-sponsored retirement plans

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6 KNOW THE IMPACT ON SOCIAL SECURITY

Weigh the impact of taxable events on Social Security benefits

½ Social Security Benefits + Other income = $___

SOCIAL SECURITY BENEFITS	SINGLE FILER	MARRIED JOINT
Up to 50% taxable	$25,000-$34,000	$32,000-$44,000
Up to 85% taxable	$34,000+	$44,000+

www.ssa.gov/planners/taxes.html

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7 KNOW THE IMPACT ON MEDICARE

Weigh impact of taxable events on Medicare premiums

- Part B & D premium surcharges if just $1 over income limits*

  $85,000+ (single) or $170,000+ (married)

- Based on 2 years prior tax return

  2016 premiums > look at 2014 tax year

www.ssa.gov/pubs –
search for "Medicare Premiums"

* Modified Adjusted Gross Income, which refers to total adjusted gross income and tax-exempt interest income.

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8 PLAN AROUND TAX WITHHOLDING

- If you need $10,000, 20% is generally withheld up front, per IRS rules
- So must request $12,500 to get $10,000 after taxes

20% is not the exact amount you OWE – you may end up owing more or less

For illustrative purposes only. Not applicable to qualified distributions of Roth assets.

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9 EVALUATE ROTH CONVERSIONS

Pay taxes now for tax-free withdrawals later?

TRADITIONAL IRA
or
EMPLOYER PLANS

CONVERT TO
(A Taxable Event*)

ROTH ASSETS
(Roth IRA or within 457 plan**)

Tax-free income LATER that won't impact

- Medicare premiums
- Social Security benefits
- AGI phase outs that reduce tax deductions

* Subject to taxes on the converted amount. If subsequently withdraw Roth assets within a 5-year period and you are under age 59½, also subject to a 10% penalty tax. Note: each conversion carries its own 5-year limit.

** Also available to 401(k) and 403(b) plans, if adopted by plan sponsor.

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ROTH CONVERSION STRATEGIES

- PARTIAL conversions of existing assets – to avoid bump to a higher tax rate
- Avoid paying taxes OUT OF the converted assets
- Consider impact of the CONVERSION TAX BILL on Social Security benefits, Medicare premiums
- Weigh Roth IRA vs. in-plan 457 conversions – including IRS RMD and recharacterization rules

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10 PLAN AROUND RMDS

Yearly, taxable withdrawals beginning in the year you turn 70½

- 457/401 plans, traditional IRAs
- Not applicable for
  - Roth IRAs
  - If still working (current employer's plans only)
- If fail to take, subject to 50% penalty
- Consider IRA charitable rollover rules

> Plan for – MAY make sense to take withdrawals before RMD age to smooth out tax bills

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11 HAVE A WITHDRAWAL STRATEGY

You could aim to defer taxes as long as possible

1. Withdraw just from taxable accounts + any RMDs
2. Withdraw from tax-deferred accounts only if need added funds
3. Delay Roth account withdrawals as long as possible

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WITHDRAWAL STRATEGIES

But different strategies may make more sense…

WITHDRAW SOONER FROM…

Roth assets to avoid HIGHER tax brackets

Tax-deferred assets in LOW tax-bracket years

WITHDRAW LATER FROM…

Taxable account assets with LARGE gains so heirs get stepped-up basis

May make sense to withdraw A MIX each year of pre-tax, Roth, and taxable assets based on your specific situation

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12 CONSIDER STATE TAXES, TOO

Where you live in retirement impacts your tax bill, too!

- Some states have preferential rules for pension income or retirement accounts
- Some have no income tax BUT higher other taxes
- Consider all taxes that may apply AND the cost of living

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CHECKLIST

- Look for ways to manage current AND FUTURE taxes
- Consider federal and state and local taxes
- Don't make a decision just to save taxes – it should make sense for your investment portfolio, too
- Review tax rules periodically
  - Top tax rate has changed 37 times since 1913*
- Seek help as needed – a qualified tax professional

* Source: Tax Policy Center. Refers to federal income taxes.

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LEARN MORE

- www.irs.gov
- www.icmarc.org/tax
- www.icmarc.org/taxplanning
- Qualified tax professional

For more tips and tools on these and related topics visit www.icmarc.org/realize

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QUESTIONS

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