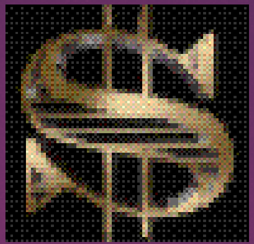

Taxing Retirement Workshop

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As you can see by my credentials, I can speak with you not only about your investments, but I can work with you in regards to tax efficiency.

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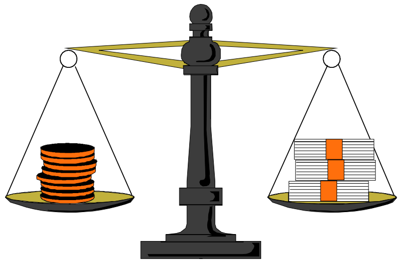
NOTE: The tax information that is being used for this illustration is based on tax year 2021

Income is determined by how much we share with the Federal Government



This includes Income Tax, Social Security, and Medicare. Although we plan to benefit from Social Security and Medicare during our retirement years, while we are working, it is an expense.
You can reduce the amount you owe in Federal Income taxes by investing in an investment plan that reduces your taxable income dollar for dollar as well as claiming either the Standard or Itemized Deduction on your tax return.

There are two phases for retirement income planning:

Accumulation & Distribution

There are several types of investments that are treated differently in these phases, and we will discuss how they can affect your income taxes

ACCUMULATION: Types of Investment Vehicles which can be established as a Retirement Plan or as a non-qualified savings plan

- Mutual Fund
- Stock
- Bonds
- UIT (Unit Investment Trust)
- ETF (Exchange Traded Funds)
- REIT (Real Estate Investment Trust)

- Variable Annuity*
- Index Annuity*
- Fixed Annuity*
- SPIA* (Single Premium Immediate Annuity)
- Life Insurance*

*See Florida Statute Title XV, Chapters 222.13, 222.14, 222.21 & 222.22

Investing involves risk, including the possible loss of principal

ACCUMULATION: Pre-tax Plans available through payroll deduction

401(k) **401(a)**

457 (b) **403(b)**

These plans are convenient, since you can usually start, stop or change the amounts fairly easily

ACCUMULATION: IRA – contributions are made with after tax money

NOTE: If you or your spouse are covered by an employer retirement plan, the deduction for an IRA decreases or is phased out based on your income.

Pre-tax plans through payroll deduction provide an immediate tax reduction in the paycheck and will be reflected on the W-2. Since IRA's are purchased with after-tax dollars, you will see the tax reduction when you complete your tax return.

SINGLE person* with gross income of $50,000 using the 2021 Standard Deduction of $12,550

Gross Income	$50,000	
Social Security	3,100**	
Medicare	725**	
Federal Taxes owed	4,298**	**11.47% of taxable income $37,450**
Net Income	**$41,877**	**(Net Monthly Pay = $3,489.75)**

*Single person's assumed age is 45 **this illustrates the annual amount

SINGLE person with gross income of $50,000 using the 2021 Standard Deduction of $12,550 and contributing $200/month ($2,400/year) using a pre-tax supplemental group retirement plan

Gross Income	$50,000	Gross Income	$47,600
Social Security	3,100	Social Security	3,100
Medicare	725	Medicare	725
Federal Taxes owed	4,298	Federal Taxes owed	4,010
(11.47% of $37,450)		**(11.44% of $35,050)**	
Net Income	**$41,877**	Net Income	**$39,765**
	(Monthly: $3,489.75)		**(Monthly: $3,313.75)**

The difference in the Net Income after investing $2,400 is $2,112. The $288 difference is due to a reduction in the amount of taxes that were paid.

This is a hypothetical example used for illustration purposes only

Assumptions:

- **YEAR 1** - Our Single person contributes $200/month with an annual tax savings of $288
- **YEAR 2** – Our Single person increases the contributions to $300/month with an annual tax savings of $432
- **YEARS 3 to 20** – Our Single person increases the contributions to $400/month with an annual tax savings of $576

Total Tax Savings for 20 years = $11,088

Distribution: Our SINGLE person retires at age 65 with a gross pension income of $50,000/year plus gross Social Security income of $19,200/year plus distribution of $12,000 from pre-tax investment

- Taxable/Gross Income $50,000
- Social Security 19,200
- Investment Income (taxable) 12,000
- Federal Taxes owed 9,845

- Net Income **$71,355**

(Monthly: $5,946.25)

NOTE: Total Gross income is $81,200

~ Using 2021 Standard Deduction of $14,250

~ $16,320 of Social Security is taxable which is the maximum of 85%

15.37% of taxable income of $64,070

NOTE: The accumulation value after 20 years with a total contribution of $92,400, assuming a 5% annual return for the entire 20 years, is **$153,790**. The distribution remains level at $12,000/year. We are assuming a 5% return. The distribution lasts approximately 19 years 4 months with a total payout of approximately **$232,000. Using 15.37%, taxes on $232,000 would be $35,658 over the 20 year Distribution Phase vs a tax savings of $11,088 in the Accumulation Phase.**

Another ACCUMULATION vehicle: Roth IRA*

Your Roth IRA contributions are not a tax deduction. If the Roth IRA is in place for five years, and you are at least 59 ½ when you begin distributions, then your distributions are not taxable

NOTE: Limits on Roth IRA contributions are based on modified AGI and your filing status

*** We are discussing a Roth IRA not a Designated Roth Account**

SINGLE person* with gross income of $50,000 using the 2021 Standard Deduction of $12,550 and contributing $200/month to a Roth IRA

Taxable/Gross Income	$50,000	
Social Security	3,100**	
Medicare	725**	
Federal Taxes owed	4,298**	**11.48% of taxable income $37,450**
Roth IRA	2,400	
Net Income	**$39,477**	**(Monthly: $3,289.75)**

NOTE: The Roth IRA does not provide any tax savings.

*Single person's assumed age is 45

**this illustrates the annual amount

Distribution: Our SINGLE person retires at age 65 with a gross retirement income of $50,000/year plus gross Social Security income of $19,200/year plus distribution from a Roth IRA

- Taxable/Gross Income $50,000
- Social Security 19,200
- Investment Income 12,000 (not taxable)
- Federal Taxes owed 7,205
- Net Income **$73,995 (Monthly: $6,166.25)**

($2,640 more with Roth IRA vs. pre-tax plan or IRA)

~ Using 2021 Standard Deduction of $14,250

~ $16,320 of Social Security is taxable which is the maximum of 85%

13.84% of taxable income of $52,070

NOTE: Assuming the Roth IRA investment amount in the 1st year is $200/month; increasing in the 2nd year to $300/month; increasing in the 3rd year to $400/month and staying at $400/month until retirement for a total of $92,400; averaging 5% return for the entire 20 years; the value at retirement is **$153,790**. Payout assumes 5% return and lasts approximately 19 years 4 months with a total payout of approximately $232,000

Another ACCUMULATION vehicle: Cash Value Life Insurance: Index Universal Life (IUL)

NOTE: Life insurance should only be considered if you have a need for life insurance

Sample Illustration is for a 45 year old male (preferred non-smoker) paying a monthly premium of $385 for 20 years (total $92,400) which provides a death benefit of $250,000. Then after 20 years, withdraws $12,000/year for 20 years. We are assuming that the death benefit will not go to zero in order to maintain the distributions as tax-free.

The life insurance illustration is subject to the age and health of the applicant and the rate of return based on current strategies of the Index Universal Life.

Distribution: Our SINGLE person retires at age 65 with a gross pension income of $50,000/year plus gross Social Security income of $19,200/year plus distribution from an Index Universal Life Insurance Policy

- Taxable/Gross Income $50,000
- Social Security 19,200
- Life Insurance Loan (not taxable) 12,000

- Federal Taxes owed 7,205
- Net Income **$73,995 (Monthly: $6,166.25)**

~ Using 2021 Standard Deduction of $14,250

~ $16,320 of Social Security is taxable which is the maximum of 85%

13.84% of taxable income of $52,070

($2,640 more with Index Universal Life Insurance vs. pre-tax plan or IRA)

Other ACCUMULATION non-qualified vehicles:

Mutual Funds, Stock, Bonds, Unit Investment Trust, Exchange Traded Funds, and Real Estate Investment Trust: These investments have the potential to be taxable every year even when there is no distribution. A 1099 is provided to show dividends, interest, and/or capital gains.

ANNUITIES: Individual Annuities are attractive due to their tax-sheltered growth. In the distribution phase, the earnings are distributed first, then the principle. The earnings are taxable as income. Also, if there is a distribution prior to age 59 ½, then there is a 10% penalty on the earnings that are distributed. NOTE: The early distribution penalty can be avoided by using the 72q distribution method.

If you are a retired Public Safety Officer

There is another program that provides a tax-free distribution

Section 845 of Pension Protection Act of 2006 - Insurance Premiums for Retired Public Safety Officers

If you are an eligible retired public safety officer (law enforcement officer, firefighter, chaplain, or member of a rescue squad or ambulance crew), you can elect to exclude from income distributions made from your eligible retirement plan that are used to pay the premiums for accident or health insurance or long-term care insurance. **The premiums can be for coverage for you, your spouse, or dependents. The distribution must be made directly from the plan to the insurance provider. You can exclude from income the smaller of the amount of the insurance premiums or $3,000**. You can only make this election for amounts that would otherwise be included in your income. The amount excluded from your income cannot be used to claim a medical expense deduction. An eligible retirement plan is a governmental plan that is: a qualified trust, a section 403(a) plan, a section 403(b) annuity, or a section 457(b) plan. If you make this election, reduce the otherwise taxable amount of your pension or annuity by the amount excluded.

Distribution for SINGLE Public Safety Officer who retires at age 65 with a gross retirement income of $50,000/year plus gross Social Security income of $19,200/year plus distribution of $12,000 from eligible retirement plan with $3,000 tax-free

Taxable/Gross Income	$50,000
Social Security	19,200
Investment Income (taxable)	9,000
Investment Income (not taxable)	3,000
Federal Taxes owed	9,185
Net Income	**$72,015**

~ Using 2021 Standard Deduction of $14,250

~ $16,320 of Social Security is taxable which is the maximum of 85%

15.04% of taxable income of $61,070

NOTE: With $3,000 not being taxable, tax savings is $660

Before or After Retirement

- In most cases, the majority of your income will be taxable:
- Pension
- Group Plan (457b, 401k, 403b)
- IRA's
- DROP

One of the ways that you can pre-plan is to convert taxable monies to a Roth IRA

Assumptions: Single person retiring at age 57
$100,000 in taxable investment

Retiree has no plans to use this money for 15 years. NOTE: At age 73, the retiree must withdraw the Required Minimum Distribution (RMD).

If we assume that the money averages a return of 5% each year for the next 15 years, the value at age 72 would be $207,893. If we also assume that the retiree would pay 15.37% in taxes on the full value over a period of years, the amount of the taxes would be $31,953.

Retiree decides to convert $20,000/year for 5 years to a Roth IRA.

Assumptions: Single person retiring at age 57 with a pension of $50,000 plus a taxable amount of $20,000 for a Roth IRA conversion

Taxable/Gross Income	$50,000
Social Security	NONE
Taxable Roth Conversion	20,000
Federal Taxes owed	8,393

~ Using 2021 Standard Deduction of $12,550

14.61% of taxable income of $57,450

At 14.61%, taxes on $20,000 = $2,922

5 Years = $14,610

Are you on target  for retirement?

- ✓ **Does it make sense to find ways to reduce your taxable income at retirement?**
- ✓ **Do your investment choices reflect your risk tolerance and time horizon?**

For your complimentary Personal Review

Call me to schedule a convenient time:

Carole Donohoo, CRPC

561-844-4543

RETIREMENT PLAN DESIGN

FOR TODAY AND YOUR TOMORROWS

Documents needed for your 1st appointment

1. Last year's Income Tax Return
2. List of expenses (Household, Transportation, Hobbies, Entertainment, Education, Insurance, Groceries, Eating Out, etc)
3. Last Paycheck Stub
4. Social Security Projection (Information is available at www.ssa.gov and click "My Social Security" to create an account. If you already have an account you should be able to download your most recent statement. If you have further questions please call the Social Security office toll-free at 800-772-1213
5. Pension Projection or value at Retirement
6. Most recent statements for Investments earmarked for Retirement
7. Insurance information or policies (Life, Disability, Long Term Care)