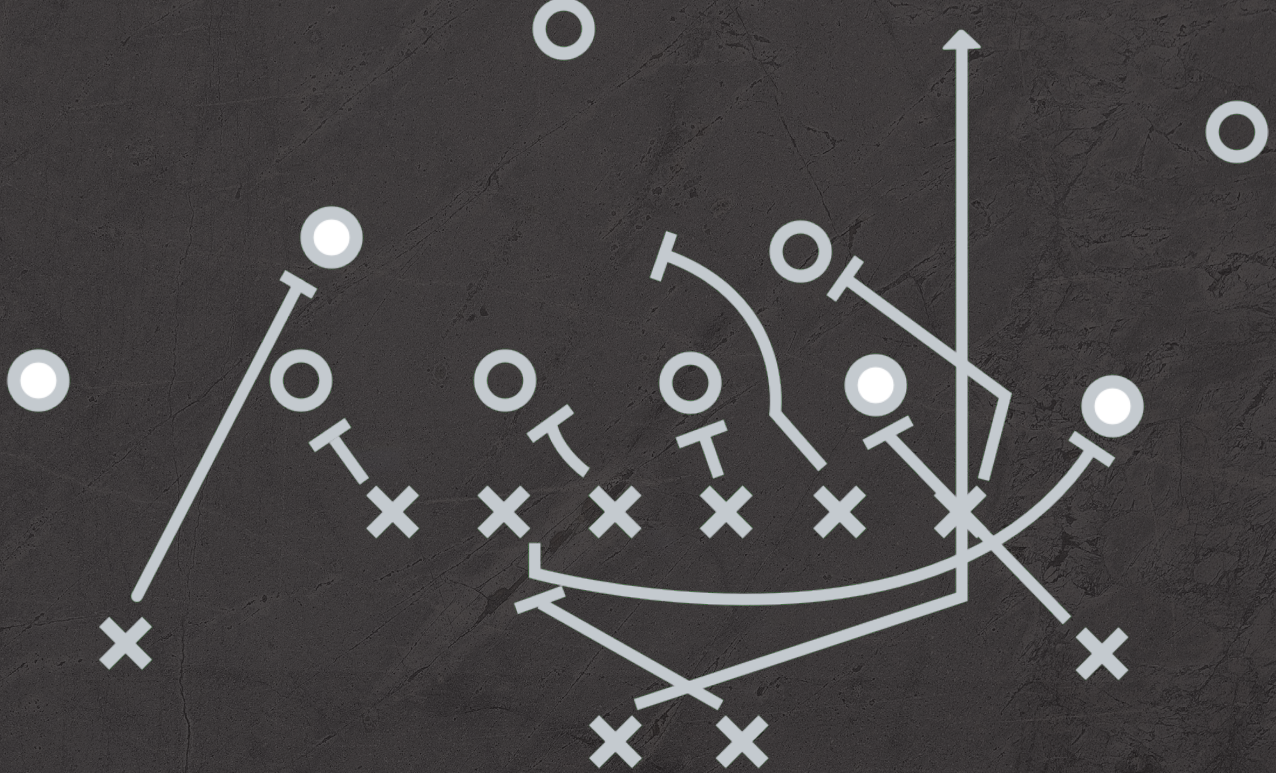
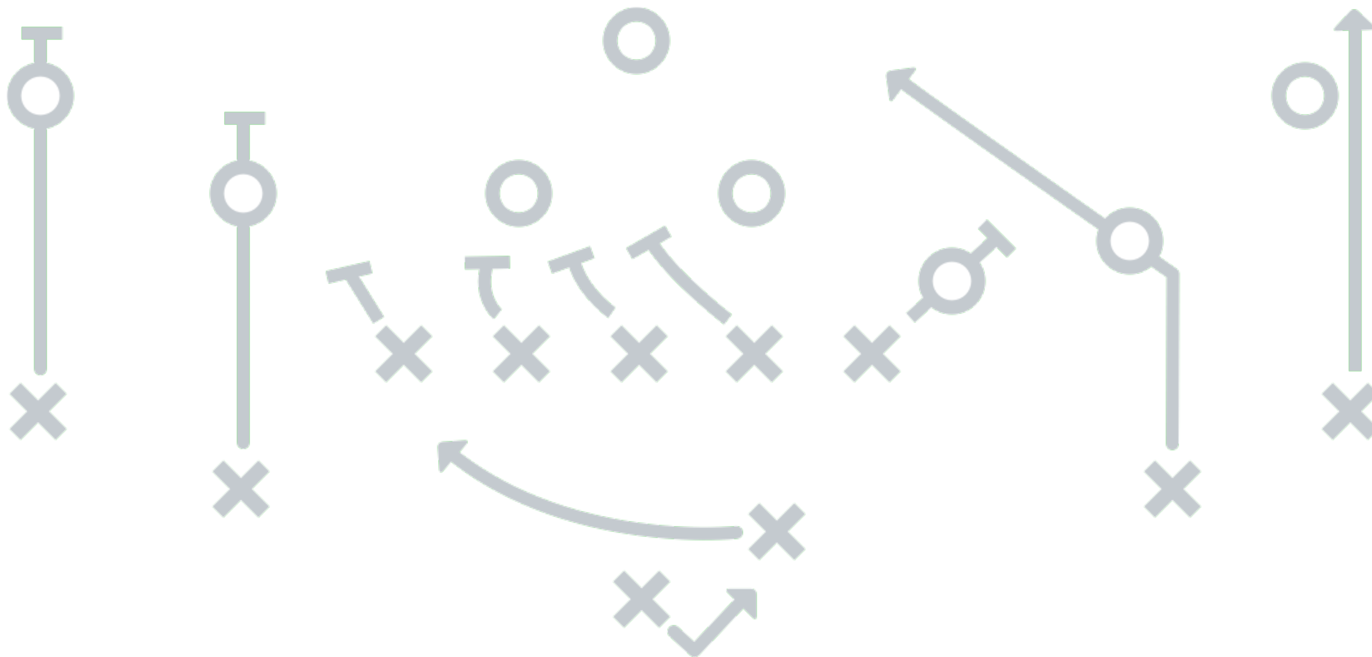


TAX STRATEGY PLAYBOOK

Benjamin Franklin said it best, “In this world, nothing can be said to be certain, except death and taxes.” Taxes are inescapable, even in retirement. While paying taxes may not be something you can avoid, there are plenty of ways to keep more money in your pocket and less in Uncle Sam’s.

We like to think of retirement as the “Big Game” and a customized retirement plan as the key to a sweet victory. With a good coach on your side and a few, well-executed tax strategies, you will be ready for the “Big Game” in no time. The following strategies will give you an idea of some of the customized “plays” you can execute to help you achieve your retirement goals.



STRATEGY #1 - TAX DIVERSIFIED INCOME

Income in retirement is all about what you get to keep and what you get to spend. To maximize your hard-earned resources, a careful evaluation of your portfolio should be completed before you start taking retirement income from your accounts. One of the best ways to set yourself up for retirement success is tax diversification. This includes having three “buckets” of money: a pre-tax bucket, such as a Traditional IRA; an after-tax bucket such as a brokerage account and a tax-free bucket such as a Roth IRA.

Depending on your tax bracket, pulling income from these “buckets” of money in different amounts can help you potentially pay less in taxes as opposed to pulling all retirement income from a pre-taxed source, such as a Traditional IRA or employer plan.

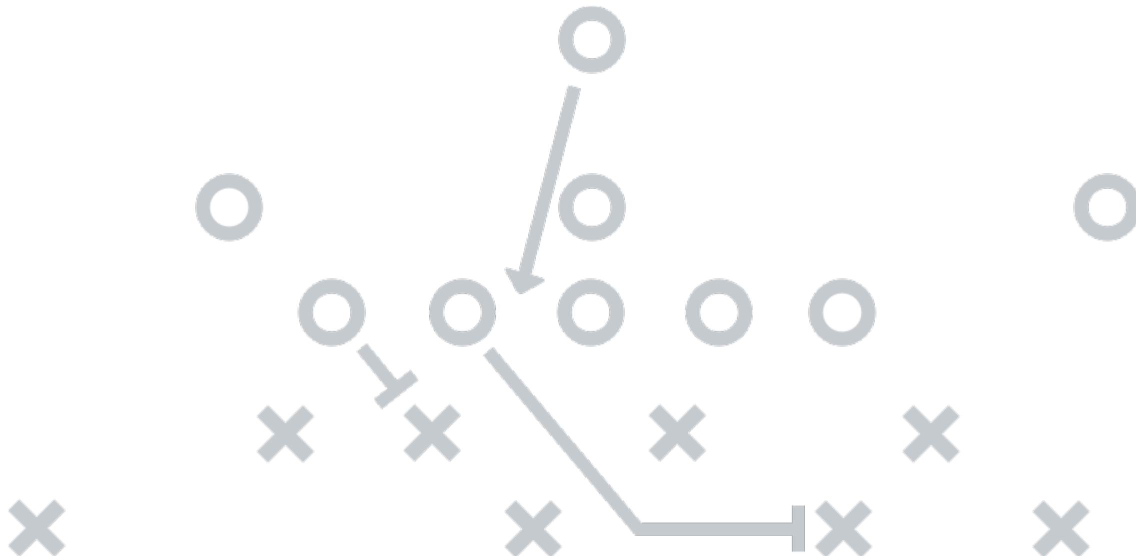
EXAMPLE PLAY

Joe needs $100,000 of retirement income. If he takes it all from his Traditional IRA, he will pay an estimated $22,000 in federal and state taxes, giving him an estimated $78,000 of total income

Vs.

If he takes $50,000 from a Traditional IRA and $50,000 from a Roth IRA, he will pay an estimated $7,000 in federal and state taxes, giving him an estimated $93,000 of total income

This example is used for hypothetical purposes only. Amounts are estimated to reflect 2019 deductions and tax brackets. Always consult with a tax professional before withdrawing from any investment account.



STRATEGY #2 - PURPOSEFUL CONTRIBUTIONS

Most pre-retirees save for retirement through automated contributions to a 401(k) or employer plan. These contributions are easy to set up and make saving for retirement a hands-off experience. However, taking a more intentional approach with your contributions can significantly impact potential taxes paid this year and your retirement income later on. Pre-retirees should re-evaluate their contributions every year as they get closer to retirement. Contributions to specific retirement accounts, depending on your current tax bracket, can give you the immediate tax benefit you might be looking for.

EXAMPLE PLAY

Joan is on the cusp of being pushed into the 22% tax bracket because of her annual income. Contributing to a Traditional IRA (if she is eligible) will give her an immediate tax deduction for the year and keep her in the 12% tax bracket. Additionally, the annual contribution she made will grow with the power of compound interest and one day, be used for income.

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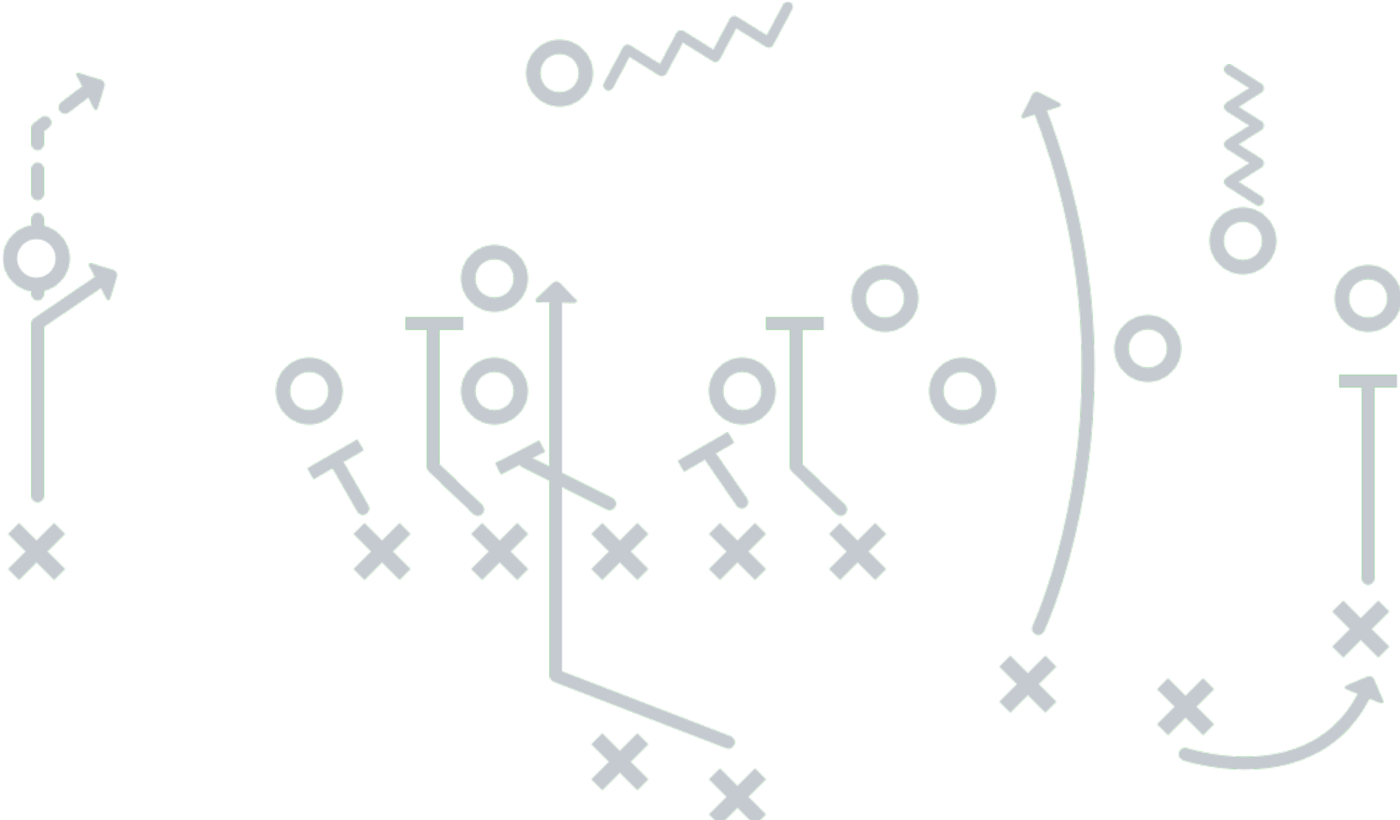

STRATEGY #3 - ROTH CONVERSIONS

A little behind in the Roth IRA game? No problem. Roth conversions can be an effective planning tool when trying to build wealth and save money on taxes in retirement. As of 2019, the limits to contribute to a Roth IRA are $7,000 if you are 50 and over and $6,000 if you are under age 50. By design, you are limited in the amount you can contribute annually, meaning wealth in this type of account can take a long time to accumulate. However, with a Roth conversion, you can convert all or some of your pre-tax IRA to a Roth IRA with no limits. The more you convert, the more time you are giving yourself to accumulate money at a tax-free rate. Required Minimum Distributions (RMDs) do not apply to Roth IRAs, making conversions an incredibly powerful step to take in order to decrease your RMDs at age 70.5 and beyond.

Conversions are complex and this play needs careful attention. If you feel like you may jump to a higher tax bracket down the road, now might be the time to consider this strategy. With tax rates currently on sale, you could have the opportunity to pay taxes now at a lower rate rather than later when tax brackets change and inevitably go up. Always consult a qualified tax and financial professional before using this strategy.

EXAMPLE PLAY

Bill decides to convert $10,000 to his Roth IRA from his Traditional IRA. When he takes the money from his Traditional IRA, he pays taxes on the $10,000 at his current federal and state tax brackets, and the money converted will grow tax-free forever in his Roth IRA.

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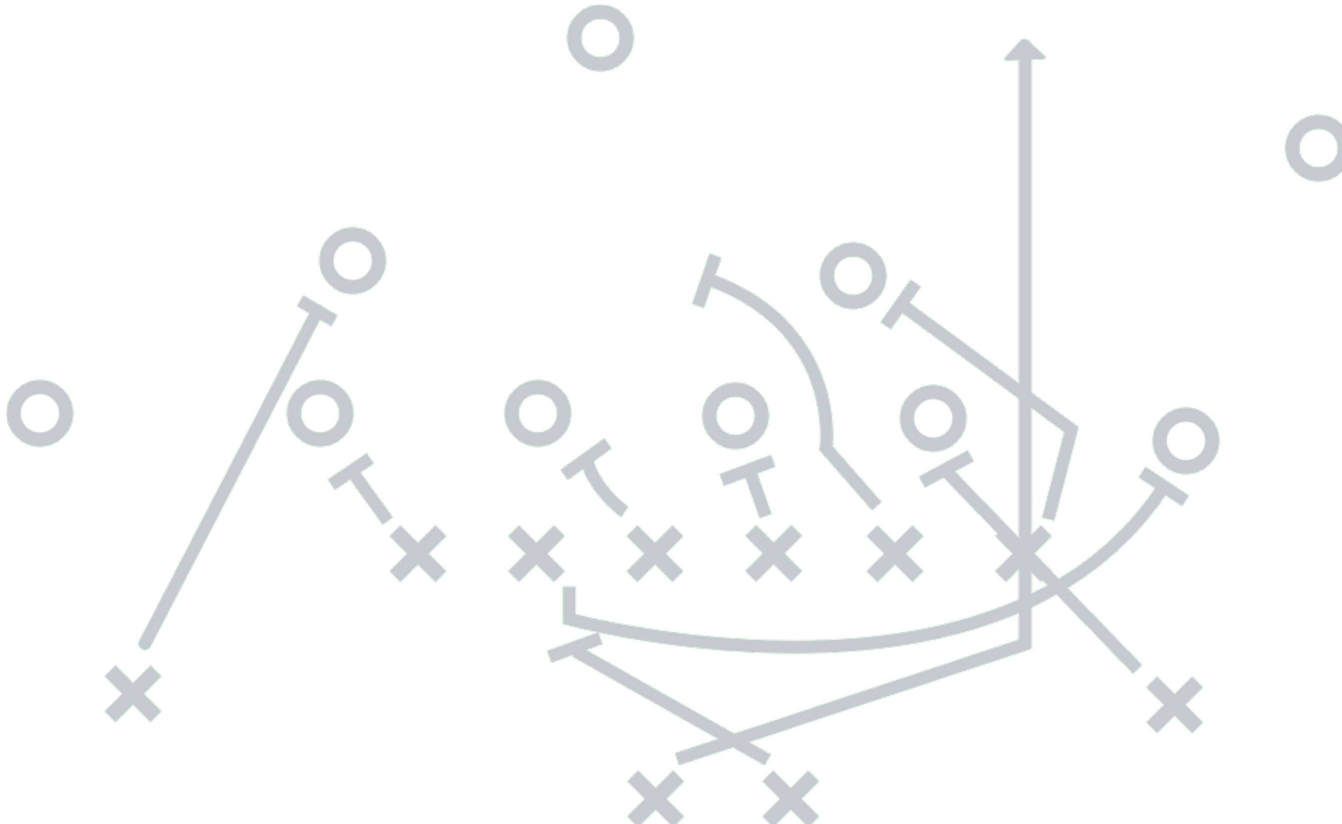

STRATEGY #4 - QUALIFIED CHARITABLE DISTRIBUTIONS

Think of this as your “double play” option when it comes to reaching your retirement goals. Qualified Charitable Distributions (QCDs) offer a tax-saving benefit by allowing you to use your RMD as a charitable giving donation. Both you and the charity receive a tax benefit, as the IRS does not include your QCD in your taxable income for that year. If you are concerned about the amount of RMDs you have to take each year and the effect that will have on your tax bracket, QCDs may be the right tax play for you. QCDs can be an amazingly effective way to reach your charitable giving goals, keep you in a lower tax bracket and satisfy your RMDs.

EXAMPLE PLAY

Sally must take $15,000 out of her pre-tax Traditional IRA to satisfy her RMD for the year. However, Sally had already planned on giving an annual donation of $10,000 to her church. By using a portion of her RMD as a QCD, she is able to gift $10,000 to church tax-free and only pay taxes on the remaining $5,000.

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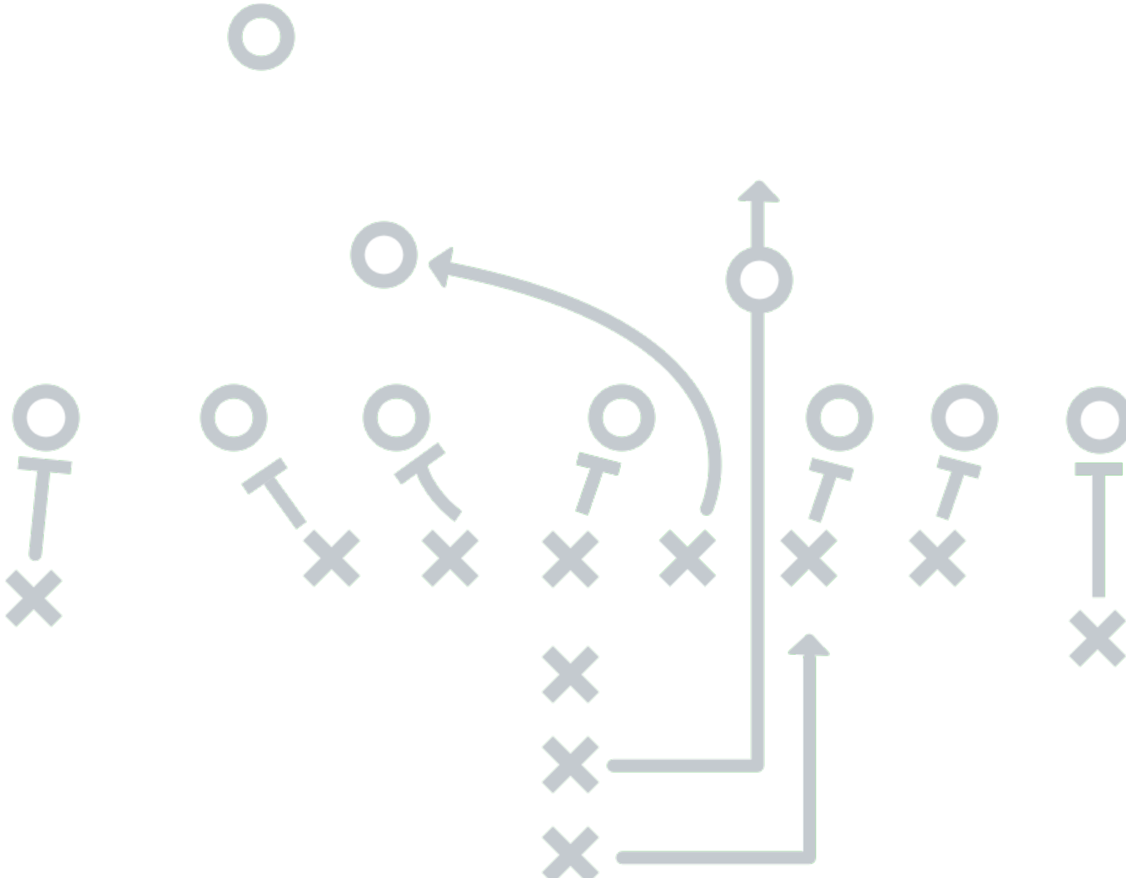

STRATEGY #5 - HEALTH SAVINGS ACCOUNT (HSA)

It is no surprise that the price of health care is one of the most stressful aspects about retirement for today's pre-retirees and retirees. One way to alleviate that stress is by contributing to a Health Savings Account (HSA). Contributions to this account have a triple tax benefit. Contributions go in pre-tax, growth is tax-free and qualified distributions come out tax-free. The real power of the HSA comes later in retirement. Tax-free distributions from an HSA can be used to pay for qualified medical expenses, a powerful option for retirees who find that their health care costs are not entirely covered by Medicare. You can also use an HSA for non-medical expenses after age 65, but you will be taxed at your ordinary income rate on those distributions.

EXAMPLE PLAY

Kevin is 10 years out from retirement. He has a high deductible health care plan, making him eligible to contribute to an HSA. Kevin maxes out his contribution every year, and this allows him to accumulate wealth in a tax-advantaged account as he approaches retirement. By the time he gets to retirement, he will have funds that allow him to pay for medical expenses at a tax-free rate, instead of taking any additional money from his other sources of retirement income.

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