TAX PLANNING – THE BEST RETIREMENT STRATEGY

Taxes play a very important role in retirement planning. With the right tax planning strategy, tax reduction can help you save money and protect your assets. As I work closely with you, I will make recommendations on how to create a **distribution plan** that minimizes your taxes and **maximizes your annual net** income during retirement.

PROACTIVE TAX PLANNING

Planning for your taxes in advance keeps you in control for your money, and enables you to be in touch with all the factors that are at play when making decisions that will impact your tax return before you file. Having your distributions work together with your available deductions is smart tax planning. One dollar can end up being less than 25 cents when you factor in future inflation, tax rates, and market volatility.

QUALIFIED vs NON-QUALIFIED MONEY

- **Qualified** monies have not been taxed. The taxes are deferred until these monies along with earnings are withdrawn (IRA, 401k, 403b, pensions, etc.).
- **Non-qualified** monies are taxed in the year you earn them. The earnings on these monies are not eligible for tax deferral benefits and are taxed in the year they are realized.

REQUIRED MINIMUM DISTRIBUTION (RMD)

When you reach 70½ years of age, you will be required to draw a certain amount of money from your **qualified** accounts as income each year. The amount will depend on your age and the balance in your account. The RMD withdrawal rate **increases** each year after age 70½, creating an increase to your income which could place you into a **higher tax bracket**, subjecting you to a higher tax rate each year as you age.

When you retire, you are no longer in the earning and accumulation phase of your life have enter into the asset distribution phase. This is when you will be relying on pensions, Social Security and retirement funds for income. Almost all of these distributions will be considered income by the IRS and will be taxed accordingly.

This income will also come into play when the IRS is making its **"Provisional Income"** tax calculation to determine the taxes on your Social Security benefits. The improper planning of investment strategies could cause the interest earned too affect the Provisional Income tax calculation. This may force higher taxes on Social Security benefits.

There are three types of income to consider:

- **Taxable Income** – income reported and taxed on tax return.
- **Tax Free Income** – income reported but not taxed on tax return.
- **Tax Free Non-reportable Income** – income not reported on or taxed on your tax return.

Of the three, only <u>one will not affect</u> the Provisional Income tax calculation used for Social Security Taxes… **Tax Free Non-reportable** income. Using Tax Free Non-reportable Income is one of the most effective ways to minimize your taxes during retirement.

You will make more money reducing your taxes than you will by making more money.

BUILDING A TAX DIVERSIFIED PORTFOLIO

A tax-diversified portfolio that can be leveraged to balance the deductions, expenditures and incomes that affect you each year, such as:

- A portfolio balanced with qualified and non-qualified income for retirement.
- A plan to maximize your distributions in order to take advantage of your deductions when you retire.
- A portfolio that is tax-diversified enough to adapt to an ever-changing and increasing tax code, yet strong enough to meet your needs.

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