



TAX PLAN YOUR RETIREMENT ACCOUNTS

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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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DIVERSIFY YOUR TAX SITUATION

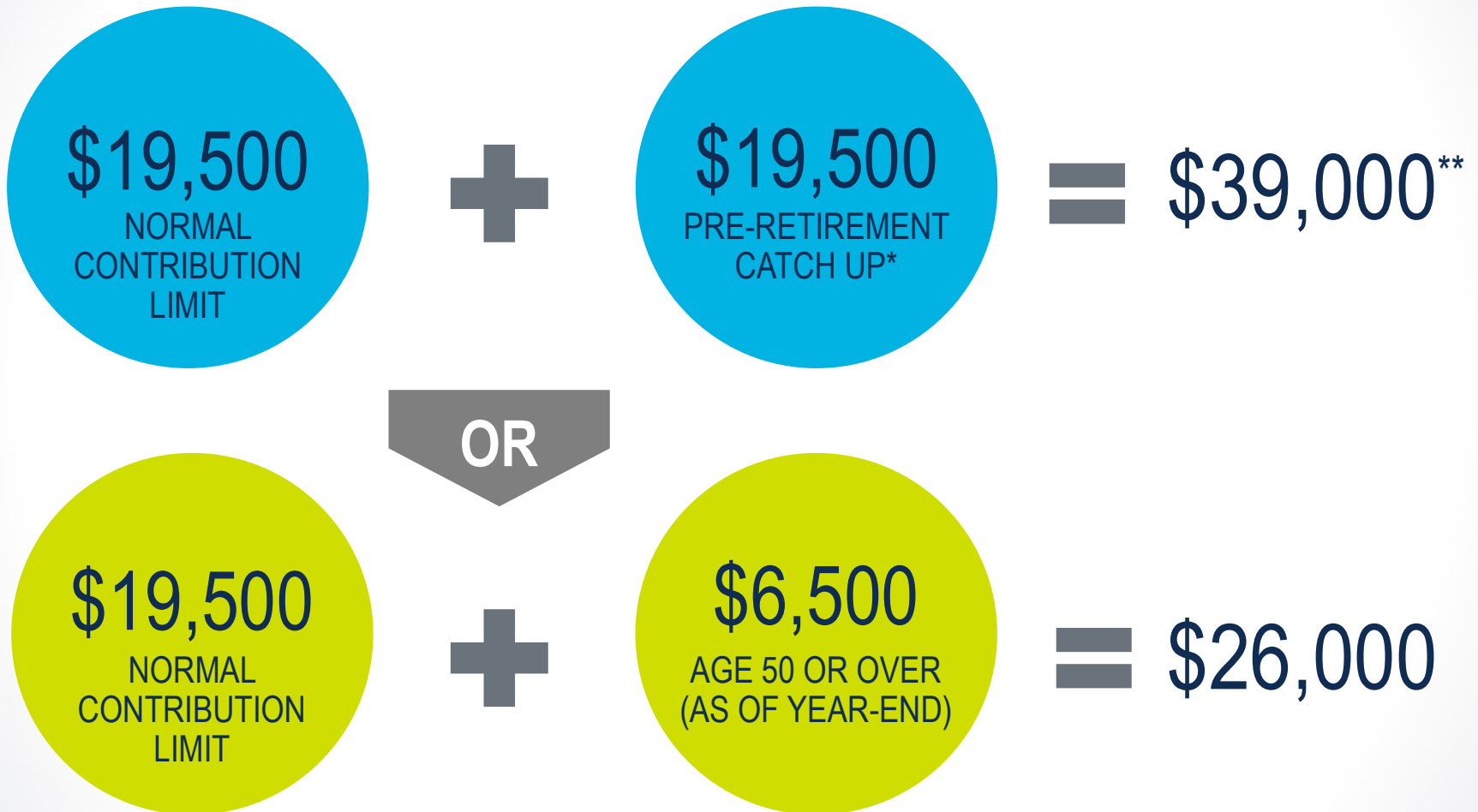
- ▶ Roth contributions are better if your tax rate is higher when you take withdrawals and vice-versa for tax contributions
- ▶ But the future and what Congress does is uncertain



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

2020 CONTRIBUTION LIMITS

457 PLAN



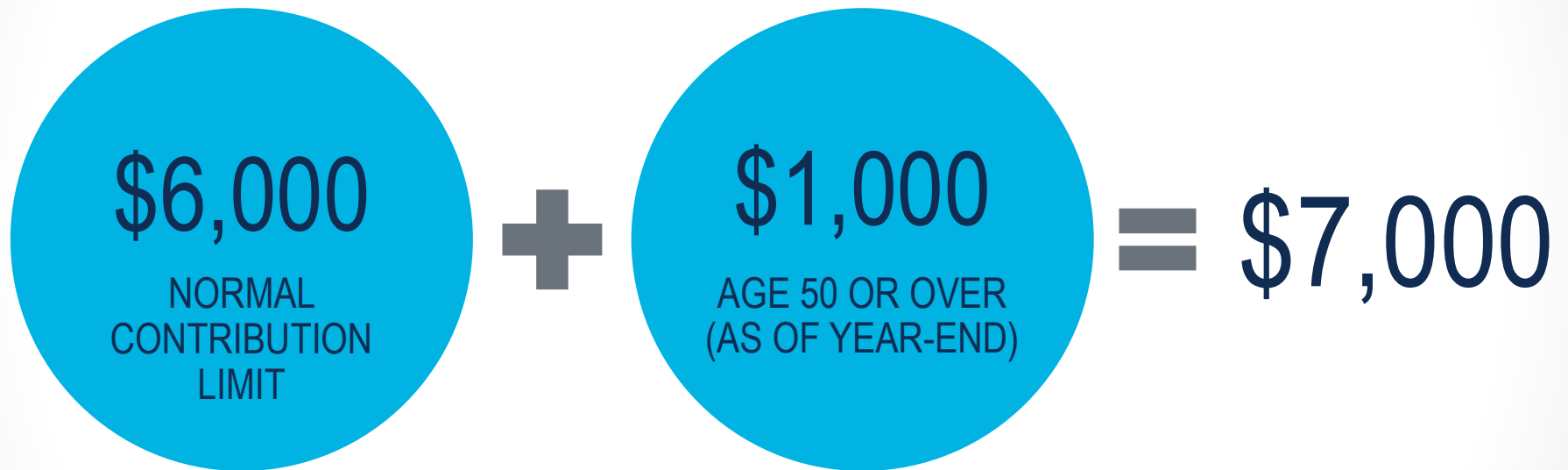
* During each of the three years prior to the year you reach your normal retirement age, as defined in the plan and based on extent to which maximum contributions not made in previous years.

** You May Be Able To Contribute Accrued Sick & Vacation Leave

Note: Catch-up provisions cannot be combined in the same plan year.

2019 & 2020 CONTRIBUTION LIMITS

IRA



*During each of the three years prior to the year you reach your normal retirement age, as defined in the plan and based on extent to which maximum contributions not made in previous years.

Note: Catch-up provisions cannot be combined in the same plan year.

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MANAGE YOUR TAX BRACKETS

Your income is taxed at different rates

2019 Tax Rates	Individual Taxpayers	Married Taxpayers Filing Jointly
Tax Rate of...	... applies to each \$ of applicable income that is between/ over...	
10%	Up to \$9,700	Up to \$19,400
12%	\$9,701 to \$39,475	\$19,401 to \$78,950
22%	\$39,476 to \$84,200	\$78,951 to \$168,400
24%	\$84,201 to \$160,725	\$168,401 to \$321,450
32%	\$160,726 to \$204,100	\$321,451 to \$408,200
35%	\$204,101 to \$510,300	\$408,201 to \$612,350
37%	over \$510,300	over \$612,350

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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AVOID PENALTY TAXES

May apply before age 59½

- ▶ 457 plan exception¹ – **but not if transfer to non-457 plan**
- ▶ Age 55 exception – 401 plans²
- ▶ 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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KNOW THE IMPACT ON SOCIAL SECURITY

Weigh the impact of taxable events on Social Security benefits

$\frac{1}{2}$ 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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KNOW THE IMPACT ON MEDICARE

Weigh impact of taxable events on Medicare premiums

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

\$87,000+ (single) or \$174,000+ (married)

Based on two years prior tax return

2020 premiums > look at 2018 tax year



www.ssa.gov/pubs – search for “Medicare Premiums”

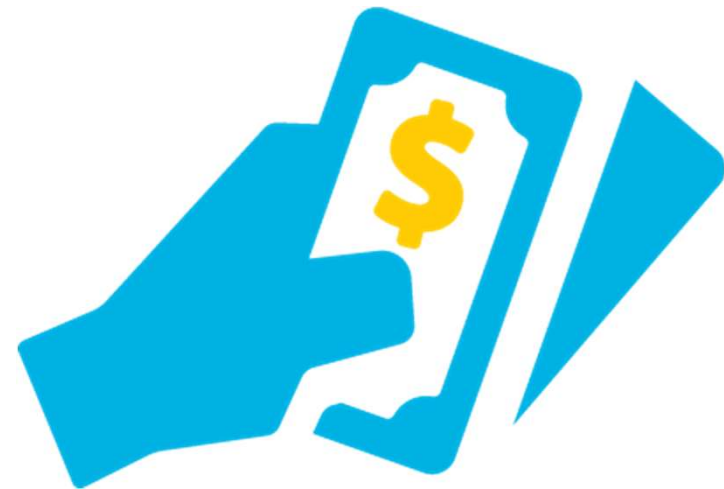
* Modified Adjusted Gross Income, which refers to total adjusted gross income and tax-exempt interest income.

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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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PLAN AROUND RMDS

Yearly, taxable withdrawals beginning in year you turn 72

- ▶ 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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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



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

11 EVALUATE ROTH CONVERSIONS

Pay taxes now for tax-free withdrawals later?



Tax-free income **later** that won't impact

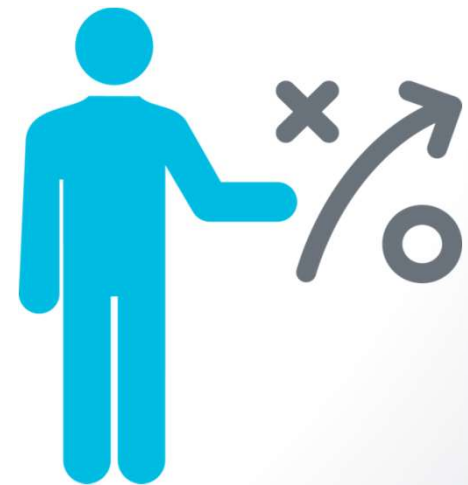
- ▶ Medicare premiums
- ▶ Social Security benefits
- ▶ AGI phase outs that reduce tax deductions

* 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.

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

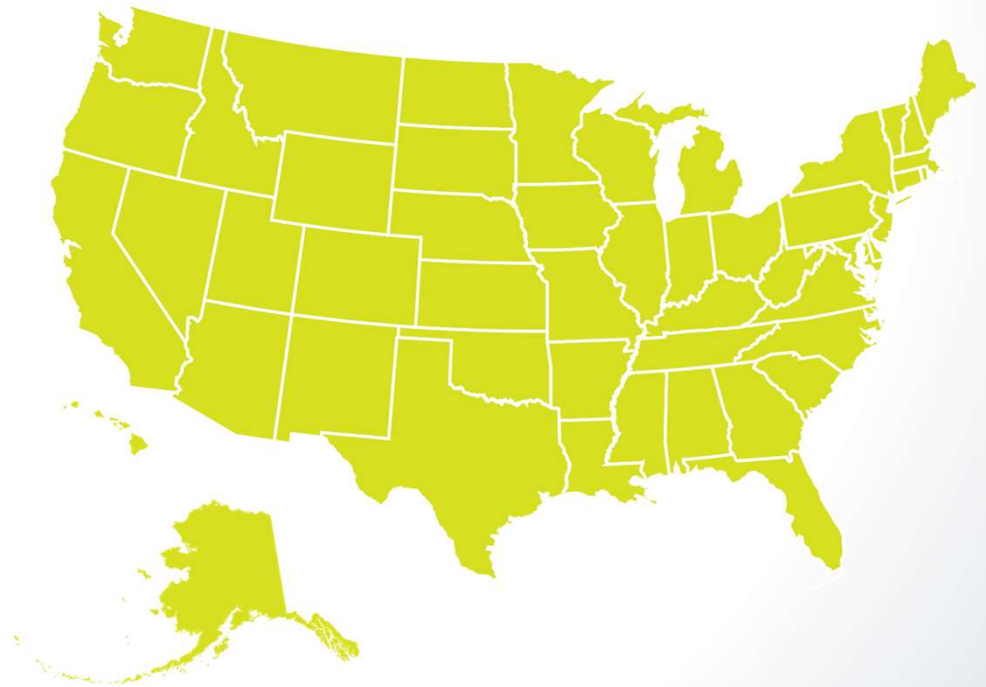


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CONSIDER STATE TAXES, TOO

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



CHECKLIST

- ✓ Look for ways to manage current **and future** taxes
- ✓ Consider federal, 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 38 times since 1913*
- ✓ Seek help as needed – a qualified tax professional

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

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/education

QUESTIONS



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