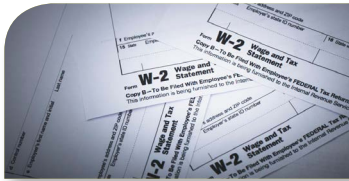


TAX PLANNING

Retirement Assets and Income



Taxes may be a significant expense during your working and retirement years. Review this information to help you better understand and manage taxes related to your retirement assets and income.

1 Start with the Basics

- ▶ **Plan for taxes** — When projecting expenses, including in retirement, don't forget taxes.
- ▶ **Understand income tax brackets** — Most of your taxable income is taxed as "ordinary income," with higher amounts taxed at higher rates.

Rate	Individuals	Married Filing Jointly
10%	Up to \$9,525	Up to \$19,050
12%	\$9,526 to \$38,700	\$19,051 to \$77,400
22%	38,701 to \$82,500	\$77,401 to \$165,000
24%	\$82,501 to \$157,500	\$165,001 to \$315,000
32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$200,001 to \$500,000	\$400,001 to \$600,000
37%	over \$500,000	over \$600,000

LEARN MORE: www.irs.gov

- ▶ **Don't make decisions based solely on taxes** — Investments and decisions that generate taxes may still make sense economically and from a personal standpoint.
- ▶ **Be wary of complex investments and strategies that claim to minimize or avoid taxes** — They may include high costs, restrictions, and illiquidity.

2 Take Advantage of Retirement Accounts

- ▶ **Enrolling in your employer's retirement plan and an IRA** during your working years can provide tax benefits that grow your savings. In a 457 plan, you may contribute up to \$18,500 for 2018 and even more in your late career years (catch-up contributions). You may also be able to contribute accrued sick and vacation leave.

Two 457 plan catch-up options might be available to you during 2018:

Option	You may be eligible if...	Save Up To	For a Total Limit
Age 50	You are age 50 or over as of the end of the year.	+ \$6,000	\$24,500
Pre-Retirement	You are within three years of the year in which you reach your plan's normal retirement age.	+ \$18,500	\$37,000

The two catch-up provisions cannot be combined in the same plan year.

LEARN MORE: www.icmarc.org/contributionlimits

- ▶ **Diversify your investments tax-wise with Roth assets.** It's hard to predict your exact tax situation in retirement — life is uncertain and tax laws change — evaluate Roth contributions and conversions for an IRA or your 457 or 401(k) plan. Tax-free Roth distributions can help you manage your overall tax bill when you begin taking distributions.

LEARN MORE: www.icmarc.org/ira | www.icmarc.org/rothconversion

3 Utilize Non-Retirement Accounts for Added Savings

- ▶ **Consider taxable account investments**, especially if you are able to max out your retirement account contributions. Understand their different tax treatment:
 - ▶ Profits on sales of investments held over a year are taxed at lower capital gains rates. The amount of your original purchase(s) is not taxable.
 - ▶ Many stock dividends are "qualified" and are taxed at the lower capital gains rates.
 - ▶ Municipal bond interest is typically not subject to federal taxes but may be subject to state taxes. Profits from the sale of municipal bonds are subject to capital gains taxes.
- ▶ **Minimize Tax Costs** — by aiming to own investments that tend to generate lower tax bills, like broadly diversified index and tax-managed stock mutual funds.
- ▶ **High-income individuals** may face an added 3.8% tax on various income, including taxable interest, dividends, and capital gains. Retirement account distributions are not included but could cause that other income to become subject to the tax.

4 State & Local Taxes

- ▶ **Consider all state and local taxes.** While some states have no income tax, other taxes such as sales, gas, and property may be relatively high.

LEARN MORE: www.kiplinger.com/tools/retiree_map

5 Social Security & Medicare

- ▶ **Know whether your Social Security benefits are taxable:** up to 50% or 85% of your benefits may be taxed as ordinary income.

50% Social Security Benefits + Other Income = \$

Social Security Benefits	Single Filer	Married Joint Filer
Up to 50% taxable	\$25,000 – \$34,000	\$32,000 – \$44,000
Up to 85% taxable	\$34,000+	\$44,000+

LEARN MORE: visit www.ssa.gov or view [IRS Publication 554](#)

- ▶ **Find out whether Medicare Part B and D premium surcharges apply to your plan.**
- ▶ **Ensure you are within the plan limits.** You have to pay higher premiums if your Adjusted Gross Income + tax-exempt interest income is just \$1 over the limits of \$170,000 (married filing jointly) or \$85,000 (all other filers).
- ▶ **Evaluate yearly and plan in advance** — the surcharge is typically based on tax returns from two years prior (For example, your 2015 tax return is used to determine 2017 premiums). Begin to evaluate around age 63, two years prior to Medicare eligibility at age 65.

LEARN MORE: visit www.medicare.gov

6 Withdrawing from Retirement Accounts

- ▶ **Know the basics about retirement account distributions.** Defined benefit pensions, 457/401 plans, and Traditional IRAs are all taxed as ordinary income.
Example: If you want to withdraw \$10,000, it is taxable to you at a combined federal/state rate of 30%. Therefore, you would have to withdraw \$14,285 to receive \$10,000 after taxes.

Exceptions:

- ▶ Qualified distributions of Roth assets, including earnings, are entirely tax-free!
- ▶ Distributions of after-tax and non-deductible contributions are not taxable.
- ▶ **Withholding is not what you owe.** The IRS requires 20% withholding for employer plans, but you'll owe more or less based on your tax situation that year. State tax withholding may also apply.
- ▶ **Avoid penalty taxes.** If you're under age 59½, a 10% penalty tax may apply, except for the following:
- ▶ **457 plans** — the penalty does not apply regardless of your age.*
- ▶ **401 plans** — no penalty applies for plans sponsored by an employer whom you left in the year you turned age 55 or older.
- ▶ **401 plans, IRAs — other exceptions may apply.**

LEARN MORE: view [IRS Form 5329 Instructions \(www.irs.gov\)](#)

- ▶ **Plan for yearly Required Minimum Distributions (RMDs)** from your 457/401 plans and Traditional IRAs (but not Roth IRAs) beginning the year you reach age 70½. If still working, you can delay RMDs from your employer's plan until the year you retire.

LEARN MORE: visit www.icmarc.org/rmd

7 Your Overall Investments Withdrawal Strategy

- ▶ **Develop your investments into buckets:**



Taxable account assets



Retirement account assets subject to tax



Roth assets

- ▶ **Lessen the tax bill as long as possible** by first drawing down all taxable accounts before tax-deferred retirement account assets (other than RMDs), and to delay withdrawals of Roth assets to maximize potential tax-free growth, including for heirs.
- ▶ **Take your tax bracket into account.** If you're in a relatively high or low tax bracket in a given year, it may make sense to draw heavily from a particular bucket; for example, withdrawing more tax-free Roth assets may be beneficial if you are in a high tax bracket.

Learn More

- ▶ Get help as necessary from a qualified tax professional.
- ▶ See detailed rules about your 457/401 retirement plan assets in ICMA-RC's Special Tax Notice Regarding Plan Payments: www.icmarc.org/taxplanning.
- ▶ ICMA-RC Premier and Retiree Premier participants are eligible to receive an annual Tax Planning Guide. To be eligible, you must have at least \$50,000 in assets with ICMA-RC.
- ▶ Consult your ICMA-RC CERTIFIED FINANCIAL PLANNER™ or Retirement Plans Specialist.

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

ICMA-RC does not provide tax advice. You are encouraged to consult a tax professional to review your specific tax situation.

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