LIFETIME PARADIGM
A BETTER, SMARTER, SAFER WAY

What Tax Bracket Will You Be During Your Retirement?

What income tax bracket do you think you will be in when you retire?

Before you answer that question, let's take a look at the two key factors that could affect the answer.

1) Which State will you be living in when you retire? Some people will remain in the State in which they are currently living, and others will move to a new retirement destination. Below is a list of popular retirement States and their respective State income tax rates.

   Florida, Texas, Nevada 0%
   Arizona 4.54%
   California 13.3%

2) What Federal tax bracket will you be in retirement?
   - **Will you be married when you retire?**
   - **Will you remain married after you retire?**
   - **Someday, you will likely be on your own and your taxes will increase!**

What sources of income in retirement will drive your tax rate?

Social Security—for a single person may have to pay taxes ranging from to 50% of your Social Security benefits up to 85%.

Non-qualified Annuity—An NQ annuity allows your investment to grow and defer the taxes on your earning. However, when you take withdrawals from the annuity the investment gains are taxed as ordinary income tax rates.

401(k) Plans, IRAs, and other tax-deferred retirement accounts—almost of the withdrawals coming from these sources are treated as ordinary income and will be subject to income taxes.

Roth IRAs—Contributions to Roth IRAs are not deductible and those investment are allowed to grow tax-deferred. If you follow the rules and withdraw these investments correctly, you will not pay any taxes on the earnings.

Non-Qualified Brokerage accounts—Many people have money in non-qualified brokerage accounts, brokerage accounts that are not inside a retirement savings plan like an IRA or 401(k). These NQ accounts are subject to both short and long-term capital gains taxes, as well as income taxes on dividends.

Cash Value Life (CVL) insurance—Cash that is accumulating in a properly designed life insurance plan is allowed to grow tax-free and can be removed tax-free not only during retirement, but at any age without having any income taxes due.

What if you are already retired?

If you are reading this and you are in retirement, there are many you can do to reduce your income taxes. You need to talk with a qualified financial advisor that can discuss your options. Do NOT expect your tax preparer to help you. Most tax preparers do not provide much guidance in the area of tax planning. Their primary role is to ensure that your taxes are filed correctly and on time. If your tax preparer is not providing you with strategies to reduce your taxes, don't ditch them. Just find another advisor that specializes in this area and then work together as a team to reduce the taxes you pay.

Not yet in retirement—If you are still working and earning income you have many opportunities to reduce the taxes you currently pay.

- You can choose to stop contributing to tax-deferred plans like IRAs and 401(k) plans.
- Instead of contributing to a tax-deferred plan, you could allocate money to CVL or transition money from taxable brokerage accounts to a more tax-favorable source like CVL

Are income tax rates going up?

The honest answer is no one knows for certain what taxes will look like in the future. That said, our Country is facing an unprecedented amount of debt and there is interest due on all of it. In addition, our country continues to add to its deficit. Many people feel that income tax rates will certainly go up.

The Bottom Line

Most people do not know what their income tax rate will be during their retirement. Even the best laid plans are likely to change. What's the best strategy? Plan! The opposite, doing nothing, is a strategy that is likely to cost you a lot of unneeded pain by paying unnecessary income taxes today and throughout your retirement. Find an advisor who can help you design a tax plan to ensure that you are doing all your can to keep what you earn during your lifetime.