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During his 35 year career with Foresters Financial Services, Inc. Paul has focused on retirement plans. In his current role, Paul provides our branches and Representatives with support and training related to retirement to better serve their existing clients as well as developing new markets.

## Building a Tax-Efficient Retirement Plan

Taxes don't just affect your income during your working years. They can also take a significant bite from your retirement income, if you're not careful.

Consider this: Two retirees—let's call them Jack and Jill—each need to withdraw \$20,000 a year from their savings to cover their expenses. Jack owes \$7,000 in taxes on that income, so he has to withdraw an extra \$7,000 from his savings each year. Jill only owes \$5,000 in taxes—\$2,000 less. Over a 30-year retirement, Jack could end up paying \$60,000 more in taxes than Jill, not to mention losing out on the potential investment growth of that savings.

Depending on Jack's situation, that future extra tax hit could affect how much spending money he has in retirement and increase the odds he'll run out of money during his lifetime.

What's the lesson here? How much you pay in taxes in retirement can greatly affect your financial future—as well as your quality of life. It makes sense to plan ahead. Your Foresters Financial adviser can help you evaluate how taxes will affect you in retirement and develop a plan for achieving tax efficiency.

Here are some strategies to discuss with your adviser:

### During your working years

Whether you're early in your career or approaching retirement age, there are several potential ways you can reduce your long-term tax obligations:

#### *Tax-advantaged accounts*

First, consider what type of retirement account you're saving in. Most people have access to a pre-tax retirement account at work that provides them with a tax deduction today, but requires them to pay income taxes on all withdrawals in retirement. However, you may be better off saving at least a portion of your income in a Roth account. Some employers offer a Roth retirement account option to their workers, or you may be able to contribute to a Roth individual retirement account (IRA) outside of your workplace. A Roth provides no upfront tax break, but allows your earnings to grow tax-free. You will also owe no taxes when you withdraw that savings in retirement.

Self-employed individuals can also set up a solo Roth 401(k) or a Roth IRA. (Keep in mind that Roth IRAs are subject to income limitations.)

Roth accounts may be a good option for people who think they will be in a higher tax bracket in retirement than they are today, or those who hope to leave an inheritance. One major benefit of a Roth is that you never have to take required minimum distributions (RMDs) starting at age 70-and-a-half as you do with a tax-deferred retirement account. This allows your savings to keep growing tax-free as long as you want it to. Moreover, your heirs won't need to take distributions either—allowing your Roth savings to potentially see decades of tax-free growth.

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### **Roth conversion**

If you already have the bulk of your retirement savings in tax-deferred accounts, you may want to convert a portion of that savings to a Roth. Your adviser can walk you through the considerations, such as evaluating your tax rate today versus your expected tax rate in retirement. It's also important to time any Roth conversion carefully, as it may make sense to convert a portion of your savings in certain years while not in others.

### **During retirement**

Once you've retired, you still have several opportunities to reduce your tax obligations on your income.

### **Drawing down accounts**

For one, you should consider how you generate income. You will want to consider the order in which you withdraw assets from your various accounts. For example, it often makes sense to withdraw assets from any tax-deferred savings—such as your Traditional IRA and tax-deferred annuities first—and delay taking withdrawals from your tax-free Roth accounts and nonretirement accounts as long as you can. But everyone has a different personal situation, so it's important to discuss your income strategy with your adviser and find one that works best for you.

### **Social Security**

Many people claim Social Security at the earliest possible age, which is currently 62. But waiting to claim Social Security until at least full retirement age can reduce your tax consequences. That's because your Social Security benefit will be reduced if you generate more than \$16,000 a year. (That threshold typically rises slightly every year.) If you wait until full retirement age, though, you can generate any amount of earned income and your Social Security benefit stays intact. If you're under full retirement age and need to generate income, it may make sense

to withdraw from your tax-deferred savings instead of claiming Social Security. Your adviser can help you determine the right age to claim Social Security based on your personal circumstances.

### **Tax-efficient investments**

Certain investments can reduce your taxable income. Municipal bonds, for example, generate tax-free income and thus can be a good choice for retirees in higher tax brackets.

### **Where you live**

The state you reside in during retirement affects how much you'll pay in taxes. Consider, for example, that California income tax rates can reach about 13 percent for those in the highest income brackets, while Florida and Washington have no income tax whatsoever. As a result, it may make sense to consider relocating to a low- or no-tax state in retirement, assuming you're interested in moving.

There are other strategies available to you for improving your tax situation, both while working and in retirement. Your Foresters Financial adviser can help you identify tax-saving opportunities. Consider meeting with your adviser at least once a year to review your financial situation and ensure that you're ready for the future.

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