

# HAVE YOU OVERLOOKED THE TAX-FREE BUCKET?

Failure to diversify tax liabilities at retirement can negatively impact your retirement income. If you currently maximize your qualified plan contributions, you may want to consider the options below to complement your existing financial portfolio. For example, cash value life insurance can provide financial protection against premature death and the potential to help supplement your retirement income on a tax-free basis.<sup>8</sup>

## Tax Rates Impacting Retirement Income<sup>1</sup>

Fiscal Year	Tax Rates for \$250,000 Taxable Income			Maximum Tax Rates <sup>2</sup>		
	2012	2013–2017 <sup>3</sup>	2018-2025 <sup>3</sup>	2012	2013–2017 <sup>3</sup>	2018-2025 <sup>3</sup> And Beyond
<b>Interest</b>	33%	36.8%	38.8%	35%	43.4%	40.8%
<b>Income</b>	33%	33.9%	35.9%	35%	40.5%	37.9% <sup>4</sup>
<b>Dividends</b>	15%	18.8%	18.8%	15%	23.8%	23.8%
<b>Capital Gains</b>	15%	18.8%	18.8%	15%	23.8%	23.8%

## Income-Producing Retirement Assets



<sup>1</sup>Sources: American Taxpayer Relief Act (ATRA) of 2012, Patient Protection and Affordable Care Act of 2010, and the Tax Cuts and Jobs Act (TCJA) of 2017.

<sup>2</sup>Maximum tax rates apply to individuals with the following adjusted gross incomes (AGI): over \$388,350 in 2012; over \$400,000 (single) and over \$450,000 (joint) adjusted annually for inflation from 2013–2017; over \$500,000 (single) and over \$600,000 (joint) from 2018–2020.

<sup>3</sup>In 2013–2020, the Patient Protection and Affordable Care Act of 2010 applied an additional 3.8% surtax on capital gains, dividends, and taxable interest and an additional 0.9% surtax on earned income for individuals with modified adjusted gross income (MAGI) over \$200,000 (single) or \$250,000 (joint); MAGIs indexed annually for inflation. Rates shown here are comprised of the tax rate for bracket shown plus these surtaxes.

<sup>4</sup>Income tax rates are supposed to return to pre-TCJA levels which is 39.6% at the maximum tax rates.

<sup>5</sup>Mutual funds may be subject to income tax and/or capital gains tax. Consult your tax advisor for more information.

<sup>6</sup>Roth IRA: A distribution from a Roth IRA generally is income tax-free if (a) it meets all the requirements for a qualified distribution (which include a 5-year waiting period and one of several additional requirements, one being that the distribution is made to a beneficiary on or after the death of the individual), or (b) it is a nonqualified distribution to the extent of after-tax contributions (basis) see IRC Sec. 408A.

<sup>7</sup>Municipal bonds: Generally, interest paid on municipal bonds is tax-free, but not all municipal bonds are exempt from federal and/or state income tax. Some bonds may be subject to capital gains tax at sale. Consult your tax advisor for more information.

<sup>8</sup>Life insurance: For federal income tax purposes, life insurance death benefit proceeds generally pay income tax-free to beneficiaries pursuant to IRC Sec. 101(a)(1).

In certain situations, however, life insurance death benefits may be partially or wholly taxable. Situations include, but are not limited to: the transfer of a life insurance policy for valuable consideration unless the transfer qualifies for an exception under IRC Sec. 101(a)(2)(i.e. the transfer-for-value rule); arrangements that lack an insurable interest based on state law; and an employer-owned policy unless the policy qualifies for an exception under IRC Sec. 101(j).

<sup>9</sup>Life insurance: For federal income tax purposes, tax-free income assumes, among other things: (1) withdrawals do not exceed tax basis (generally, premiums paid less prior withdrawals); (2) policy remains in force until death (any outstanding policy debt at time of lapse or surrender that exceeds the tax basis will be subject to tax); (3) withdrawals taken during the first 15 policy years do not cause, occur at the time of, or during the two years prior to, any reduction in benefits; and (4) the policy does not become a modified endowment contract. See IRC <sup>85</sup> 72, 7702(f)(7)(B), 7702A. Any policy withdrawals, loans, and loan interest will reduce policy values and may reduce benefits.

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Life insurance is subject to underwriting and approval of the application and will incur monthly policy charges.

**Is your retirement portfolio tax-diversified?  
Talk to your financial professional<sup>10</sup> to learn more.**

<sup>10</sup>In order to sell life insurance, a financial professional must be a properly licensed and appointed life insurance producer.



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