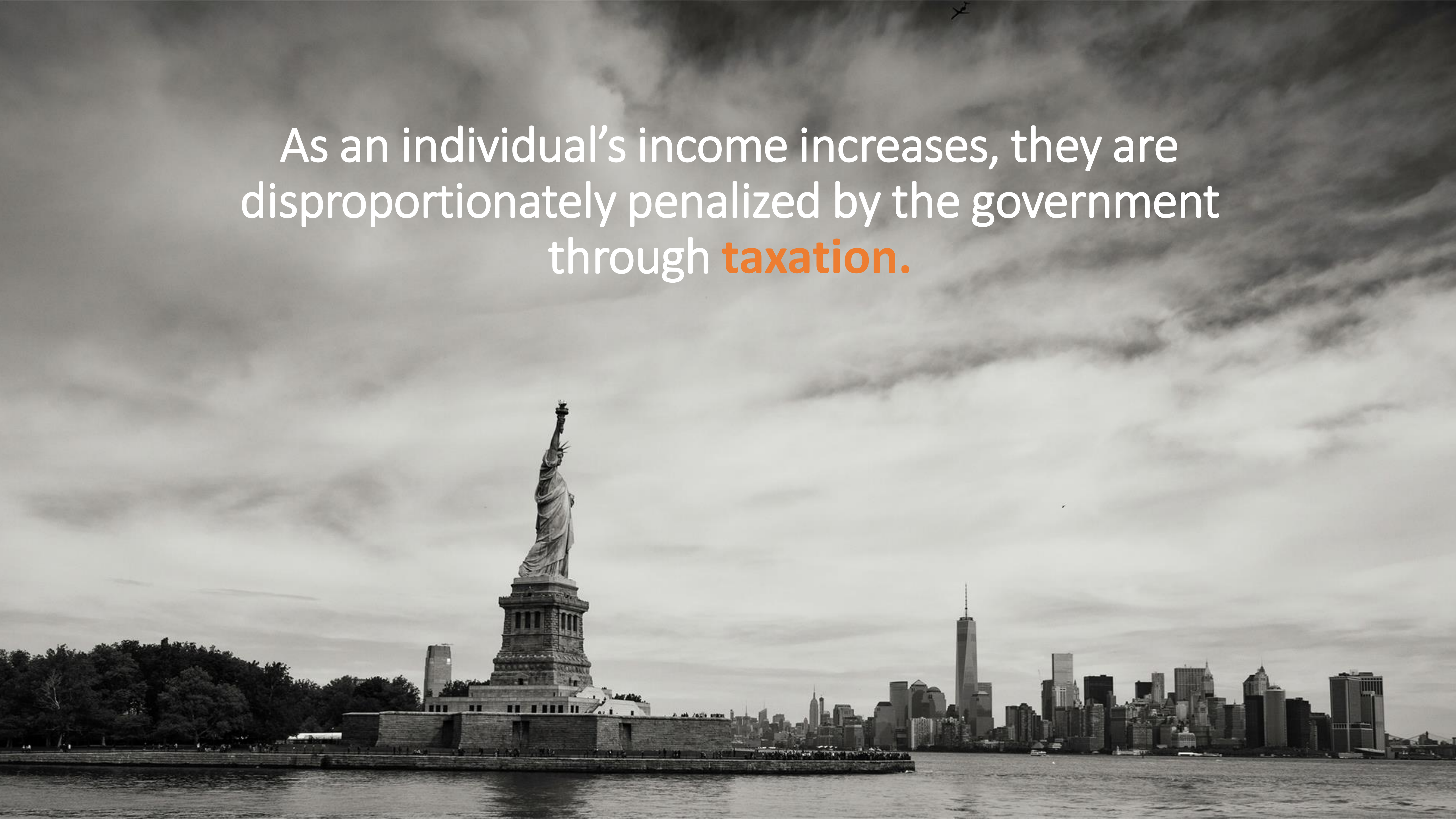
Taxation Doesn’t Retire When You Do

How To Prepare When Accumulating Assets

Discrimination:

The treatment or consideration of, or making a distinction in favor of or against, a person or thing based on the group, class, or category to which that person or thing belongs rather than on individual merit.


As an individual's income increases, they are
disproportionately penalized by the government
through taxation.

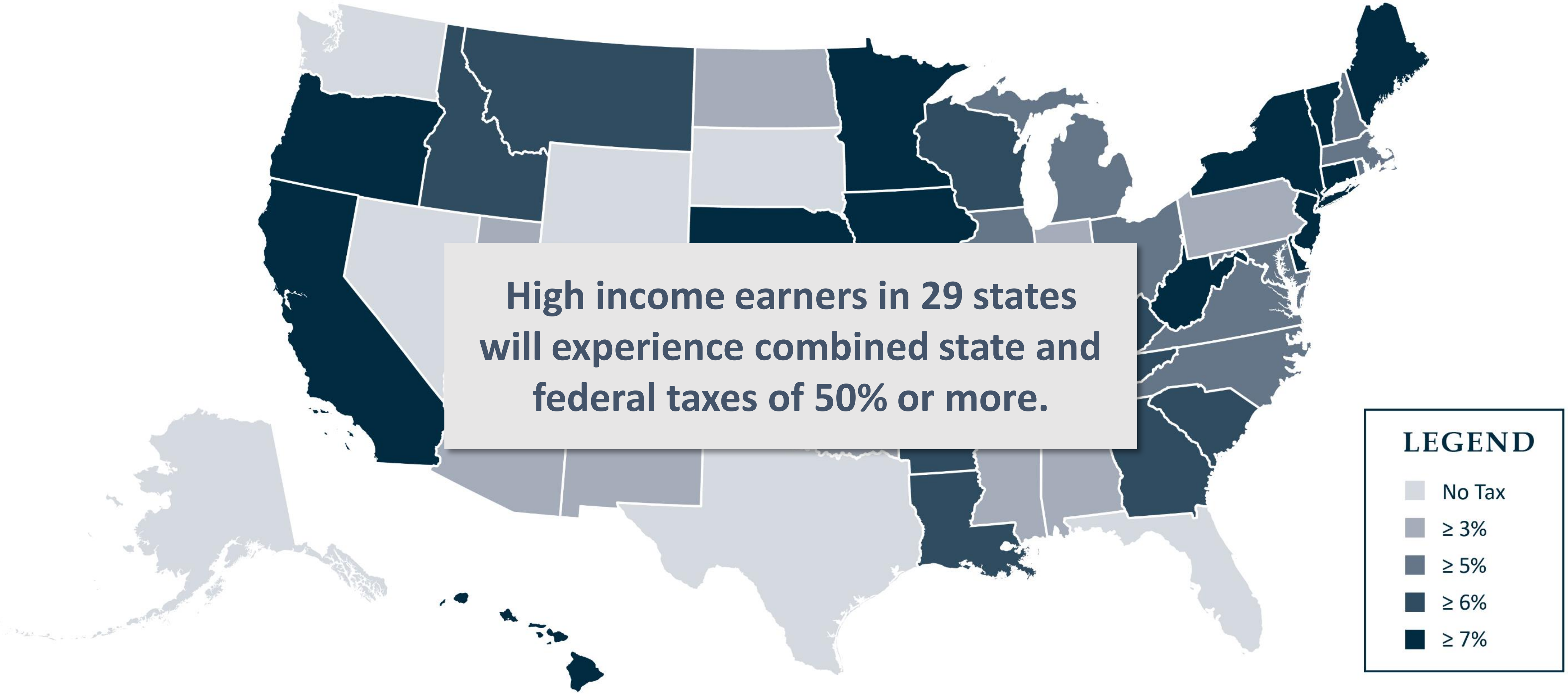
Ways the government **discriminates** against high income earners:

- Federal Taxes
- State Taxes
- Medicare Surtax (UIMCT)
- Medicare Contribution Premium

Federal Marginal Tax Brackets

2018 TAX BRACKETS		
Tax Rate	**Single**	**Married Filing Jointly**
10%	$0 - $9,525	$0-$19,050
12%	$9,526 - $38,700	$19,051 – $77,400
22%	$38,701 - $82,500	$77,401 - $165,000
24%	$82,501 - $157,500	$165,001 - $315,000
32%	$157,501 - $200,000	$315,001 - $400,000
35%	$200,001 - $500,000	$400,001 - $600,000
37%	$500,001+	$600,001+

Total Tax Bill



Medicare Surtax (UIMCT)

Filing Status	Additional 0.9% on Earned Income	Additional 3.8% on Unearned Income
Single	Exceeds $200,000 of Modified Adjust Gross Income (MAGI)	
Married Filing Jointly	Exceeds $250,000 of Modified Adjust Gross Income (MAGI)	
Married Filing Separately	Exceeds $125,000 of Modified Adjust Gross Income (MAGI)	

* Unearned Income Medicare Contribution Tax

Medicare Contribution Premiums

	Single		Married Filing Jointly	
MAGI Tier	2015 Tax Year - 2017 Premium Year	2016 Tax Year - 2018 Premium Year	2015 Tax Year - 2017 Premium Year	2016 Tax Year - 2018 Premium Year
1	$85,000 or less	$85,000 or less	$170,000 or less	$170,000 or less
2	$85,000 up to $107,000	$85,000 up to $107,000	$170,000 up to $214,000	$170,000 up to $214,000
3	$107,000 up to $160,000	$107,000 up to $133,500	$214,000 up to $320,000	$214,000 up to $267,000
4	$160,000 up to $214,000	$133,500 up to $160,000	$320,000 up to $428,000	$267,000 up to $320,000
5	above $214,000	above $160,000	above $428,000	above $320,000

To make matters worse, in April of 2015 the United States government passed a law which will increase Medicare Premiums for upper middle class individuals even further.

Medicare Contribution Premiums

MAGI Tier for MFJ	Medicare Part B Premium Monthly Per Person Premium	Medicare Part D Premium Monthly Per Person Premium	Medicare Supplement Premium Monthly Per Person Premium	Total Monthly Premiums Per Person	Annualized Cost for a Married Couple
$170,000 or less	$134	$80	$165	$379	$9,096
$170,000 up to $214,000	$188	$93	$165	$446	$10,692
$214,000 up to $267,000	$268	$114	$165	$547	$13,126
$267,000 up to $320,000	$348	$135	$165	$648	$15,559
above $320,000	$429	$156	$165	$750	$17,990

Total costs for health care increase 198% for high income earners for the same coverage

Medicare Part B Premium Tier 1 to Tier 5 = **320%** increase in premium for the same benefit

Medicare Part D Premium Tier 1 to Tier 5 = **195%** increase in premium for the same benefit


What can we do?

Solution – Diversification 2.0

- Accumulate savings among tax deferred, tax favored, and taxable accounts during one's working years to allow for flexibility and optimization of withdrawals for tax purposes in retirement.

Type	Taxability at Withdrawal	Attributes
Tax Deferred	Ordinary Income	Contributions can potentially be deducted in year of contribution, but are taxed as ordinary income upon withdrawal.
Tax Favored	Tax Exempt	Contributions are made with after-tax dollars, and withdrawals are generally tax free.
Taxable	Capital Gains/Dividends	Contributions made with after-tax dollars are subject to taxation during accumulation, and withdrawals may be taxed at a lower rate.

Solution – Diversification 2.0

Possible Sources of Funds in Retirement		
Ordinary Income	Tax Exempt	Capital Gains/Dividends
• Wages / Pension • Social Security (Up to 85%) • 401(k) Distributions • IRA Distributions • Annuity Distributions	• Roth IRA Distributions • Health Savings Account Distributions • Life Insurance Distributions • Municipal Bond Interest	• Brokerage Accounts • Non-Qualified Accounts • Trusts

The only incomes sources that have the potential to **not be included in MAGI** are Roth IRA Distributions, HSA Distributions, and Life Insurance Distributions; income from Municipal Bonds will be included.

How does this work in practice?

Case Study

- Two retired married couples, all age 65, are seeking $20,000 per month ($240,000 annually) after taxes and Medicare premiums.
  - Couple #1 – has only saved in tax-deferred accounts.
  - Couple #2 – used prudent tax diversification and saved in tax deferred, taxable, and tax favored accounts.
- What is the estimated tax savings of the couple that saved in various tax accounts compared to the couple that only saved in one?

* This case study is hypothetical in nature

Case Study – Year 1 (Ages 65/65)

	Couple #1	Couple #2
Ordinary Income	$362,658	$170,000
Tax Favored Distributions	$0	$116,975
Total	$362,658	$286,975

Couple #1 needed to withdraw $75,683 more (26%) than Couple #2 to achieve the same $240,000 net income.

Category	Amount Owed to Government	Amount Owed to Government	Percentage Difference
Federal	$79,430	$29,379	170%
State	$18,133	$8,500	113%
Medicare Premium*	$25,095	$9,096	176%
Total Amount Paid to Government	$122,658	$46,975	161%

Net Income	**$240,000**	**$240,000**	**0%**

* Medicare contribution premiums are assumed to be paid out of a tax deferred account for Couple #1. The calculated Medicare premium is grossed up for federal and state taxes. Couple #2 is assumed to have paid for their Medicare premiums out of a tax favored account and incurred no tax liability upon withdrawal.

Case Study – Medicare Premiums Throughout Retirement

Age	Couple #1	Couple #2
65/65	$25,095.48	$9,096.00
66/66	$25,848.35	$9,368.88
67/67	$26,623.80	$9,649.95
68/68	$27,422.51	$9,939.44
69/69	$28,245.19	$10,237.63
70/70	$29,092.54	$10,544.76
…	…	…
87/87	$48,085.54	$17,428.88
88/88	$49,528.11	$17,951.74
89/89	$51,013.95	$18,490.30
Cumulative Cost	$914,962.88	$331,633.47

- Retirement savings required in order to pay Medicare premiums are 276% more for Couple #1 than Couple #2 due to their lack of withdrawal flexibility having pushed them into MAGI tier 4 for Medicare contribution premiums.

- By having tax flexibility, Couple #2 was able to keep their MAGI at or below $170,000 (tier 1) by withdrawing from tax favored savings vehicles. This results in reduced Medicare premiums throughout retirement totaling $583,329 in cumulative savings.

Disclosures

Information on tax brackets, deductions, phase outs, etc. sources from IRS.gov

This study is hypothetical in nature and does not provide legal, tax, or account advice.

To calculate your modified adjusted gross income (MAGI), take your AGI and add back certain deductions. Many of these deductions are rare, so it's possible your AGI and MAGI can be identical. According to the IRS, your MAGI is your AGI with the addition of the following deductions, if applicable: student loan interest, half of self-employment tax, qualified tuition, passive loss/income, IRA Contributions, Taxable Social Security Payments, Rental Losses, Etc.

Assumed state tax rate of 5.00%

Any tax advice contained herein is of a general nature. Further, you should seek specific tax advice from your tax professional before pursuing any idea contemplated herein. This advice is being provided solely as an incidental service to our business as (insurance professionals, financial planner, investment advisor, securities broker)

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130 Springside Drive, Akron, Ohio 44333-2431 1-800-765-5201