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February 23, 2022

Your Financial Golden Years

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All(2) My questions

AmyMay 18:00
Should I keep my savings on a different account?
2
Comment

Anonymous attendee 18:01
At what point should I consider investing my savings?
Comment

Presentation Format & Questions
email – FinancialWellness@nar.realtor



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Presenter: Heather C. Liston, CFP[®], E.A.

**Vice President & Advisor at Hargrave
Fiduciary Advisors, LLC**



Your Financial Golden Years: Managing Taxes Around Retirement

2022



"I should have bought more crap."

Overview

- ▶ Budgeting for Retirement
 - ▶ Where will your “income” come from?
- ▶ Key Ages
- ▶ Social Security
 - ▶ Choices
 - ▶ Taxes
- ▶ Medicare Taxation
- ▶ RMDs
- ▶ Roth Conversions
- ▶ Tax Smoothing



"It's not actually that much after taxes."

Overview

- ▶ Why is Retirement “Income” different from income at other times?

Why is Retirement Different?

- ▶ You may have many possible sources of income
- ▶ They're each taxed differently
- ▶ Managing withdrawals makes a big difference

General Principles

1. Paying less tax is good
2. Paying tax later is better than sooner
3. Sometimes paying sooner makes for less tax overall (smoothing)

WHAT YOU CANNOT CONTROL

- ▶ Getting Older
- ▶ RMDs
- ▶ Wishing you had more savings

WHAT YOU CAN CONTROL

- ▶ When you stop working
- ▶ What age you start taking Social Security retirement benefits
- ▶ How much you take out of tax-deferred accounts each year
 - ▶ Beyond and before RMDs
- ▶ When you realize capital gains and losses

Sources of Income in Retirement

- ▶ Pensions
- ▶ Social Security
- ▶ Tax-deferred Accounts: IRAs, 401(k)s, SEP-IRAs, 403(b)s, et al
- ▶ Roth Accounts
- ▶ Other Investments
- ▶ Rental and Royalty Income
- ▶ Work
- ▶ Term Life Insurance
- ▶ Gifts and Inheritances

Sources of Income in Retirement

- ▶ Work, including Self-Employment
 - ▶ Ordinary Income Rates + Payroll Taxes
- ▶ Pensions
 - ▶ Ordinary Income Rates, in the state you live while you receive the pension
- ▶ Tax-deferred Accounts: IRAs, 401(k)s, SEP-IRAs, 403(b)s, et al
 - ▶ Ordinary Income Rates on the full amount you take out
- ▶ Social Security
 - ▶ Ordinary Income Rates, but on only 0% , 50% or 85% of the SS you receive
- ▶ Roth Accounts
 - ▶ NO tax, if you've met the requirements
- ▶ Other Investments
 - ▶ Capital Gains Rates, if held for more than a year. Ordinary rates if a year or less.
- ▶ Rental and Royalty Income
 - ▶ Ordinary Income Rates
- ▶ Term Life Insurance
 - ▶ NO Tax
- ▶ Gifts and Inheritances
 - ▶ NO Tax

Type of Income by Tax Rate

Ordinary Income Tax

- ▶ Wages & Salaries
- ▶ Self-employment & business
- ▶ Short-term gains
- ▶ Withdrawals from Traditional IRAs and 401(k)s
- ▶ For California State Tax: Everything

Capital Gains Preferential Rate

- ▶ Gains on investments held more than one year
- ▶ Qualified Dividends
- ▶ Taxable gains on sale of your primary residence

EARNED INCOME

YES

- ▶ Wages & Salaries
- ▶ Self-employment income
- ▶ **Business Income**
- ▶ Royalties from intellectual property

NO

- ▶ Investment earnings
 - ▶ Interest, Dividends, Capital Gains
- ▶ **Rental income**
- ▶ Royalties from passive income (oil & gas leases)
- ▶ RMDs
- ▶ Retirement plan withdrawals
- ▶ Pensions
- ▶ Social Security
- ▶ Disability and Unemployment Benefits
- ▶ Prizes & Awards
- ▶ Inheritances and Gifts

Why does Earned Income Matter?

- ▶ You must have Earned Income to contribute to retirement plans
- ▶ You can't deduct business expenses unless you have earned income
- ▶ The QBI (Qualified Business Income Deduction)
- ▶ The Earned Income Tax Credit

ADJUSTED GROSS INCOME (AGI)

- ▶ Wages & Salaries
- ▶ Capital Gains
- ▶ Dividends & Interest
- ▶ Business Income (Schedule C)
- ▶ Rental Income (Schedule E)
- ▶ IRA Distributions
- ▶ Pensions & Annuities
- ▶ Unemployment Compensation
- ▶ Taxable Social Security Income

MINUS

- ▶ Traditional IRA contributions
- ▶ Health Savings Account contributions
- ▶ Educator Expenses
- ▶ Self-employed retirement savings
- ▶ Self-employed health insurance
- ▶ Student Loan Interest
- ▶ Tuition & Fees deduction
- ▶ CARES Act \$300 charitable contributions (2021)
- ▶ Capital losses up to \$3,000
- ▶ Qualified Charitable Deductions (QCDs)

For the year Jan. 1-Dec. 31, 2017, or other tax year beginning _____, 2017, ending _____, 20

Your first name and initial _____ Last name _____ Your social security number _____

If a joint return, spouse's first name and initial _____ Last name _____ Spouse's social security number _____

Home address (number and street). If you have a P.O. box, see instructions. _____ Apt. no. _____

City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). _____

Foreign country name _____ Foreign province/state/country _____ Foreign postal code _____

See separate instructions.

Make sure the SSN(s) above and on line 6c are correct.

Presidential Election Campaign
Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. You Spouse

Filing Status

1 Single
 2 Married filing jointly (even if only one had income)
 3 Married filing separately. Enter spouse's SSN above and full name here. ▶
 4 Head of household (with qualifying person). (See instructions.)
 5 Qualifying widow(er) (see instructions)

Check only one box.

If the qualifying person is a child but not your dependent, enter this child's name here. ▶ _____

Exemptions

6a Yourself. If someone can claim you as a dependent, do not check box 6a.
 b Spouse

c Dependents:		(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input checked="" type="checkbox"/> If child under age 17 qualifying for child tax credit (see instructions)
(1) First name	Last name			
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

If more than four dependents, see instructions and check here ▶

d Total number of exemptions claimed _____

Boxes checked on 6a and 6b
 No. of children on 6c who:
 • lived with you
 • did not live with you due to divorce or separation (see instructions)
 Dependents on 6c not entered above
 Add numbers on lines above ▶

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 7

8a Taxable interest. Attach Schedule B if required 8a

b Tax-exempt interest. Do not include on line 8a 8b

9a Ordinary dividends. Attach Schedule B if required 9a

b Qualified dividends 9b

10 Taxable refunds, credits, or offsets of state and local income taxes 10

11 Alimony received 11

12 Business income or (loss). Attach Schedule C or C-EZ 12

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ 13

14 Other gains or (losses). Attach Form 4797 14

15a IRA distributions 15a b Taxable amount 15b

16a Pensions and annuities 16a b Taxable amount 16b

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 17

18 Farm income or (loss). Attach Schedule F 18

19 Unemployment compensation 19

20a Social security benefits 20a b Taxable amount 20b

21 Other income. List type and amount 21

22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶ 22

Adjusted Gross Income

23 Educator expenses 23

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 24

25 Health savings account deduction. Attach Form 8889 25

26 Moving expenses. Attach Form 3903 26

27 Deductible part of self-employment tax. Attach Schedule SE 27

28 Self-employed SEP, SIMPLE, and qualified plans 28

29 Self-employed health insurance deduction 29

30 Penalty on early withdrawal of savings 30

31a Alimony paid b Recipient's SSN ▶ _____ 31a

32 IRA deduction 32

33 Student loan interest deduction 33

34 Tuition and fees. Attach Form 8917 34

35 Domestic production activities deduction. Attach Form 8903 35

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

YOUR AGI

Adjusted Gross Income	23	Educator expenses	23				
	24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24				
	25	Health savings account deduction. Attach Form 8889	25				
	26	Moving expenses. Attach Form 3903	26				
	27	Deductible part of self-employment tax. Attach Schedule SE	27				
	28	Self-employed SEP, SIMPLE, and qualified plans	28				
	29	Self-employed health insurance deduction	29				
	30	Penalty on early withdrawal of savings	30				
	31a	Alimony paid b Recipient's SSN ▶ <input type="text"/>	31a				
	32	IRA deduction	32				
	33	Student loan interest deduction	33				
	34	Tuition and fees. Attach Form 8917	34				
	35	Domestic production activities deduction. Attach Form 8903	35				
	36	Add lines 23 through 35	36				
37	Subtract line 36 from line 28. This is your adjusted gross income ▶	37					

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2016)

Why does AGI Matter?

- Loss of exemptions, deductions, credits and phase-outs
 - Medical expense itemized deduction (7.5% of AGI)
 - Limitations on your **Contributions to Traditional Deductible IRAs and Roth IRAs**
 - Rental Real Estate Losses (\$100,000-\$150,000)
 - Education tax credits: LLC, AOTC, EE Bonds, Coverdell
 - Student Loan interest deduction (\$70,000-\$85,000 or \$145,000-\$175,000)
 - more . . .
- Alternative minimum tax
- Income tax on your Social Security benefits (0%, 50%, or 85%)
- The 3.8% surtax on net investment income (Medicare Tax)
- **Increase in premiums for Medicare Part B and Part D**

How to Lower Your AGI

- ▶ Contribute to your retirement plans
- ▶ Give \$300 to charity (2021 but not 2022)
- ▶ Use QCDs for larger contributions
- ▶ Sell securities with losses
- ▶ Report all your business expenses
- ▶ And all your rental property expenses

- ▶ Pay attention to everything else on the previous list

How to Lower Your Taxable Income

- ▶ Take more itemized deductions on Schedule A
 - ▶ Medical
 - ▶ State and Local Income Tax & Property Tax
 - ▶ Mortgage Interest on Your Primary Home
 - ▶ Charitable Gifts
 - ▶ Gambling Losses

Key Ages

- ▶ 59.5
- ▶ 62
- ▶ 65
- ▶ 67
- ▶ 70
- ▶ 70.5
- ▶ 72

2021 Single

Individual Taxpayers

If Taxable Income Is Between:	The Tax Due Is:
0 - \$9,950	10% of taxable income
\$9,951 - \$40,525	\$995 + 12% of the amount over \$9,950
\$40,526 - \$86,375	\$4,664 + 22% of the amount over \$40,525
\$86,376 - \$164,925	\$14,751 + 24% of the amount over \$86,375
\$164,926 - \$209,425	\$33,603 + 32% of the amount over \$164,925
\$209,426 - \$523,600	\$47,843 + 35% of the amount over \$209,425
\$523,601	\$157,804.25 + 37% of the amount over \$523,600

2021 Married Filing Jointly

Married Individuals Filing Joint Returns and Surviving Spouses

If Taxable Income Is Between:	The Tax Due Is:
0 - \$19,900	10% of taxable income
\$19,901 - \$81,050	\$1,990 + 12% of the amount over \$19,900
\$81,051 - \$172,750	\$9,328 + 22% of the amount over \$81,050
\$172,751 - \$329,850	\$29,502 + 24% of the amount over \$172,750
\$329,851 - \$418,850	\$67,206 + 32% of the amount over \$329,850
\$418,851 - \$628,300	\$95,686 + 35% of the amount over \$418,850
\$628,301	\$168,993.50 + 37% of the amount over \$628,300

2021 Married Filing Separately

Married Filing Separately

If Taxable Income Is Between:	The Tax Due Is:
\$0 - \$9,950	10% of taxable income
\$9,951 - \$40,525	\$995 + 12% of the amount over \$9,950
\$40,526 - \$86,375	\$4,664 + 22% of the amount over \$40,525
\$86,376 - \$164,925	\$14,751 + 24% of the amount over \$86,375
\$164,926 - \$209,425	\$33,603 + 32% of the amount over \$164,925
\$209,426 - \$314,150	\$47,843 + 35% of the amount over \$209,425
\$314,151	\$84,496.75 + 37% of the amount over \$314,150

2021 Head of Household

Heads of Household

If Taxable Income Is Between:	The Tax Due Is:
0 - \$14,200	10% of taxable income
\$14,201 - \$54,200	\$1,420 + 12% of the amount over \$14,200
\$54,201 - \$86,350	\$6,220 + 22% of the amount over \$54,200
\$86,351 - \$164,900	\$13,293 + 24% of the amount over \$86,350
\$164,901 - \$209,400	\$32,145 + 32% of the amount over \$164,900
\$209,401 - \$523,600	\$46,385 + 35% of the amount over \$209,400
\$523,601	\$156,355 + 37% of the amount over \$523,600

2021 LTCG Rates

LTCG RATES BASED ON TAXABLE INCOME			
<i>Filing Status</i>	<i>0% rate</i>	<i>15% rate</i>	<i>20% rate</i>
Single	up to \$40,400	\$40,401-\$445,850	over \$445,850
Head of household	up to \$54,100	\$54,101-\$473,750	over \$473,750
Married filing jointly	up to \$80,800	\$80,801-\$501,600	over \$501,600
Married filing separately	up to \$40,400	\$40,401-\$250,800	over \$250,800
Estates and trusts	up to \$2,700	\$2,701-\$13,250	over \$13,250

Other Things to Remember about LTCG

- These rates are for gains on securities held **more than one year**.
- Gains on things held for one year or less are taxed at ordinary income rates.
- For single people with AGI above \$200,000 and married couples with AGI above \$250,000, there is an additional 3.8% Net Investment Income Tax on the sale of appreciated securities.
 - That means the 15% rate is often really 18.8%, and the 20% rate is nearly always 23.8%.
- California has no preferential rate for LTCG, so gains are subject to ordinary state tax rates. (Usually, that's 9.3%)
- These rates are on marginal income; in other words, the *first* \$83,350 of gains (for MFJ in 2022) is still taxed at 0%; amounts above that are subject to the higher rates.
- The income levels here refer to ALL your income; not just your capital gains. (For example, if you earn \$83,350 from your job, and then have capital gains on top of that, those gains would be in the 15% bracket.)
- When you make a gift to someone during your lifetime, the recipient takes on your basis (what you paid for the stock or fund), and your holding period.
- If you leave someone securities through your estate, they get a step-up in basis to the FMV at the date of your death, and it's automatically considered long-term, regardless of when you purchased it.

Social Security

Timing and Taxes

A monthly check to you -

FOR THE REST
OF YOUR LIFE
•• BEGINNING
WHEN YOU ARE
65

GET YOUR
SOCIAL SECURITY
ACCOUNT NUMBER
promptly

APPLICATIONS ARE BEING
DISTRIBUTED AT ALL WORK PLACES



WHO IS ELIGIBLE: •• EVERYBODY WORKING FOR SALARY OR WAGES (WITH ONLY A FEW EXCEPTIONS, SUCH AS AGRICULTURE, DOMESTIC SERVICE, AND GOVERNMENT WORK). APPLICATIONS FOR SOCIAL SECURITY ACCOUNTS ARE AVAILABLE THROUGH EMPLOYERS. IF YOU DO NOT GET ONE FROM YOUR EMPLOYER, ASK FOR ONE AT THE POST OFFICE.



HOW TO RETURN APPLICATION

1. HAND IT BACK TO YOUR EMPLOYER, IF
2. HAND IT TO ANY LABOR ORGANIZATION OF WHICH YOU ARE A MEMBER, IF
3. HAND IT TO YOUR LETTER CARRIER, IF
4. DELIVER IT TO LOCAL POST OFFICE, IF
5. MAIL IT IN A SEALED ENVELOPE, ADDRESS: POSTMASTER, LOCAL OFFICE, WASHINGTON, D.C. IF NO POSTAGE NEEDED.

- Social Security Board

INFORMATION *may be obtained here*

Two Goals: **Timing** and Taxes

- ▶ **Timing:** Maximize your lifetime Social Security income
 - ▶ Wait till 70 if you can
- ▶ **Taxes:** Minimize income tax on Social Security income
 - ▶ Keep your other taxable income as low as possible, to reduce % of SS taxed
 - ▶ Try to spread your other income so SS doesn't spike large tax bills all at once

Normal Retirement Age (FRA or NRA)

Birth Year	NRA	Birth Year	NRA
≤ 1937	65	1955	66 & 2 mo.
1938	65 & 2 mo.	1956	66 & 4 mo.
1939	65 & 4 mo.	1957	66 & 6 mo.
1940	65 & 6 mo.	1958	66 & 8 mo.
1941	65 & 8 mo.	1959	66 & 10 mo.
1942	65 & 10 mo.	≥ 1960	67
1943-54	66 <small>(people who are 65-76 in 2019)</small>		

TIMING

- ▶ You can apply for Social Security retirement benefits any time between age 62 and 70.

Early Retirement Benefits: Fun Facts

- 1956: the option of taking early benefits (at age 62) was introduced
- **But--from 1956 to 1961 only women had this option**

Why Wait?

Delayed Benefits

- SSA claims benefits are actuarially equivalent, no matter when you start
- But there are significant exceptions, partly because of longevity
- Longevity varies greatly, and correlates to income and education levels
- 2012 study says the system is *not* balanced and **definitely favors people who delay benefits**

Delayed Benefits = Insurance

- ▶ Social Security provides insurance against the worst-case scenario:
 - ▶ Living Too Long.
- ▶ This insurance is safe against inflation and against default.
- ▶ It's also dirt cheap.
- ▶ There is no close substitute for it in the market.

- Laurence Kotlikoff, in “Get What’s Yours”

SS: Early or Late Benefits

- After Full Retirement Age (FRA), your benefit goes **up 8%** per year.
- Before FRA, your benefit is **reduced** by about **6.67%** per year.
- http://www.socialsecurity.gov/OACT/ProgData/ar_drc.html

SS: Reduced Benefits

- ▶ In the case of *early retirement*, a benefit is reduced $\frac{5}{9}$ of one percent for each month before normal retirement age, up to 36 months. (6.67%/year)
- ▶ If the number of months exceeds 36, then the benefit is further reduced $\frac{5}{12}$ of one percent per month. (5%/year)
- ▶ For example, if the number of reduction months is 60 (the maximum number for retirement at 62 when normal retirement age is 67), then the benefit is reduced by 30 percent. This maximum reduction is calculated as 36 months times $\frac{5}{9}$ of 1 percent *plus* 24 months times $\frac{5}{12}$ of 1 percent.

SS: Early or Late Calculator

To estimate how much difference it will make for YOU to wait longer, or take Social Security earlier:

- ▶ http://www.socialsecurity.gov/OACT/quickcalc/early_late.html#late

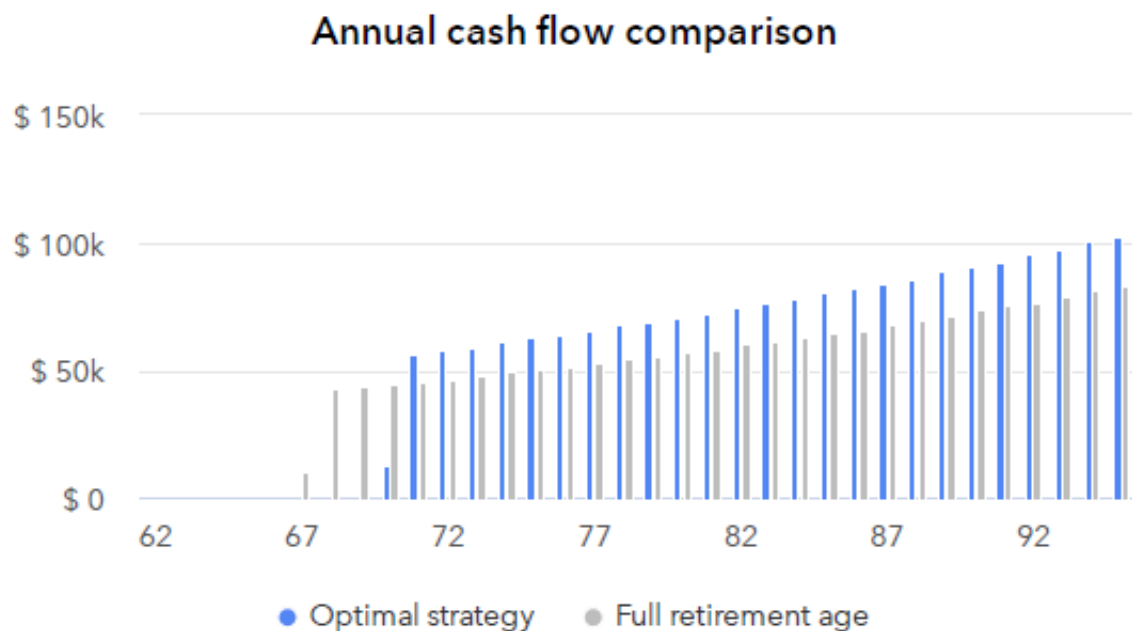
Social Security Cost-of-Living Increases

▶ Dec. 2013	1.5%
▶ Dec. 2014	1.7%
▶ Dec. 2015	None
▶ Dec. 2016	.3%
▶ Dec. 2017	2.0%
▶ Dec. 2018	2.8%
▶ Dec. 2019	1.6%
▶ Dec. 2020	1.3%
▶ Dec. 2021	5.9%

Social Security Case Study

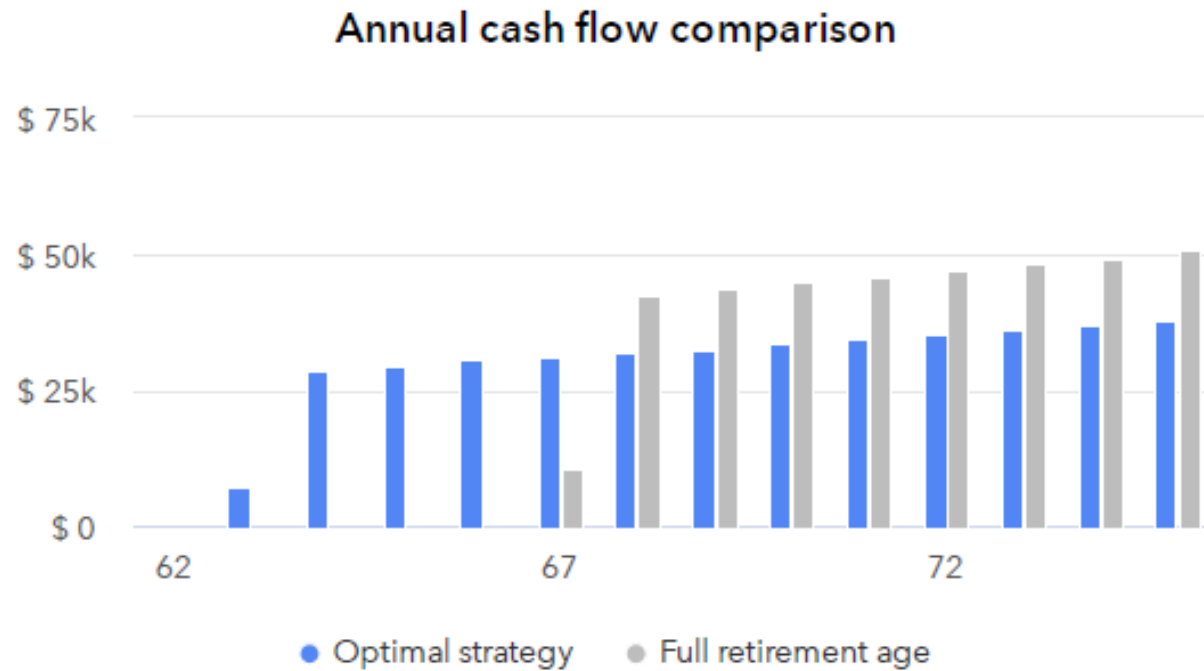
- ▶ Bathsheba is 60 years old. Born 1/15/1961.
- ▶ She stops working at age 61.
- ▶ Her Full Retirement Age (FRA) is 67.
- ▶ Her “Primary Insurance Amount” (PIA) is \$3,000.
- ▶ She’s going to live to be 95.

Bathsheba's Social Security Retirement Age 67 (FRA) vs. 70 (Living to 95)



\$ 249,667 more
from the optimal
Social Security filing
strategy
than Full retirement
age

Bathsheba's Social Security Retirement Age 67 (FRA) vs. 70 (Living to 75)



\$ 23,933 more
from the optimal
Social Security filing
strategy
than Full retirement
age

Taxation of Social Security

2022

Taxability of Social Security

Your adjusted gross income (AGI)
+ Non-taxable income (MUNI bond interest & foreign income)
+ 1/2 of your Social Security benefits
= Your "***combined income***"

aka "Provisional Income"

Taxability of Social Security

- ▶ **Single Taxpayer**
- ▶ Less than \$25,000: None
- ▶ \$25,000 to \$34,000: 50% of benefits
- ▶ Over \$34,000: 85% of benefits

- ▶ **Married Taxpayer**
- ▶ Less than \$32,000 None
- ▶ \$32,000 to \$44,000: 50% of benefits
- ▶ Over \$44,000: 85% of benefits

- ▶ **Note: These amounts are NOT adjusted for inflation.**

Federal Income Taxation of Social Security Benefits

50 percent taxable

If income plus 1/2 Social Security > base amount, up to 50% of benefits included in gross income

Base amount:

- ▶ \$32,000 for married filing jointly
- ▶ \$0 for married filing separately, lived together during year
- ▶ \$25,000 for all other taxpayers

Federal Income Taxation of Social Security Benefits

85 percent taxable

If income plus 1/2 Social Security > base amount, up to 85% of benefits included in gross income

Base amount:

- ▶ \$44,000 for married filing jointly
- ▶ \$0 for married filing separately, lived together during year
- ▶ \$34,000 for all other taxpayers

Taxability of Social Security

- ▶ In other words, no matter what, at least 15% of your Social Security income is tax-free.
- ▶ Another reason to maximize this income.

Income Tax

- ▶ About 1/3 of the people who receive Social Security payments pay income tax on them. - *Rob Pepper, Bay Area Public Affairs Specialist, Social Security Administration, 2015*

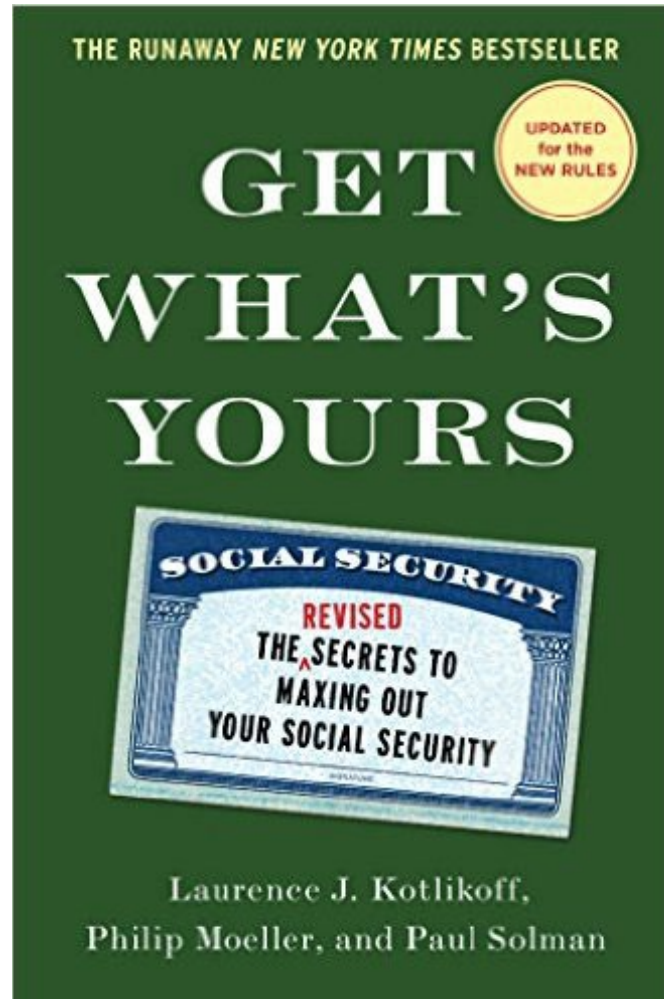
Example

- ▶ Jane is Single and receiving Social Security benefits of \$22,000 per year.
- ▶ She also has investment income of \$14,000.
- ▶ Her Provisional Income is: $\$14,000 + 11,000 = \$28,000$
 - ▶ So 50% of her SS benefits are taxable.
 - ▶ That's \$11,000, taxed at her marginal rate for ordinary income, which is 12%

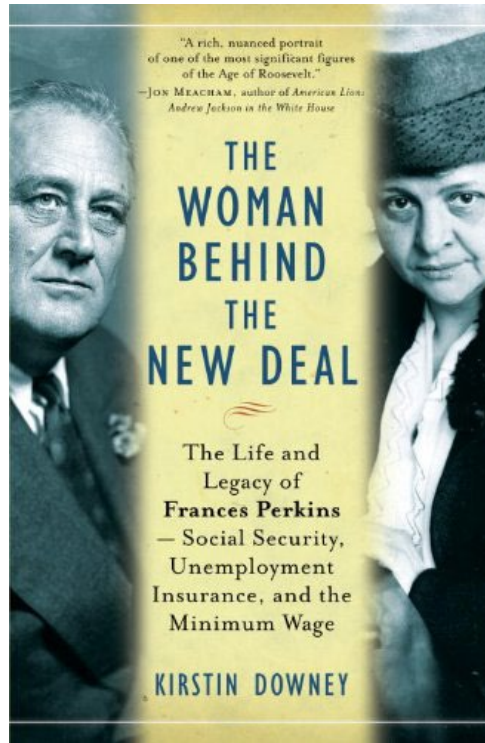
Your Benefit

- ▶ Calculated by averaging the earnings from your **35** highest-income years.

If this wasn't enough for you . . .



Or go deeper . . .

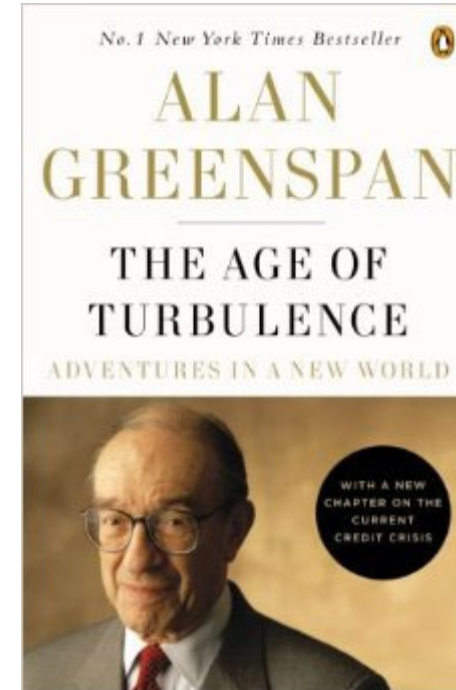


THE BATTLE FOR SOCIAL SECURITY

From FDR's Vision to Bush's Gamble



NANCY J. ALTMAN



Medicare

Managing Costs

Your Influence on Medicare Costs

- ▶ The higher your AGI in a given year, the higher your Medicare costs will be **two** years later.

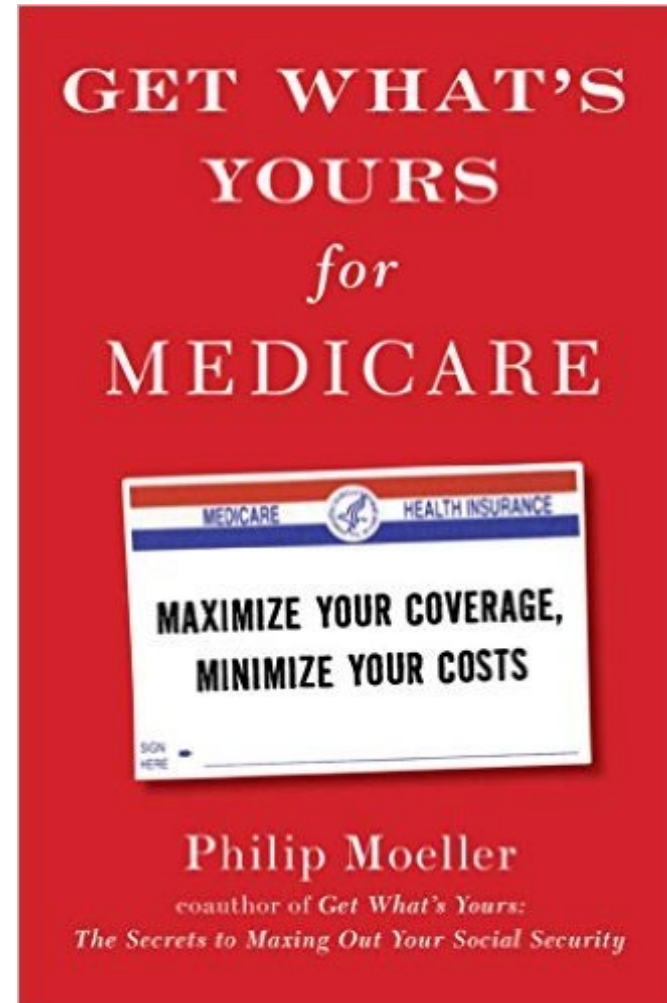
Part B: 2022 Cost

If your yearly income in 2020 (for what you pay in 2022) was			You pay each month (in 2022)
File individual tax return	File joint tax return	File married & separate tax return	
\$91,000 or less	\$182,000 or less	\$91,000 or less	\$170.10
above \$91,000 up to \$114,000	above \$182,000 up to \$228,000	Not applicable	\$238.10
above \$114,000 up to \$142,000	above \$228,000 up to \$284,000	Not applicable	\$340.20
above \$142,000 up to \$170,000	above \$284,000 up to \$340,000	Not applicable	\$442.30
above \$170,000 and less than \$500,000	above \$340,000 and less than \$750,000	above \$91,000 and less than \$409,000	\$544.30
\$500,000 or above	\$750,000 or above	\$409,000 or above	\$578.30

Part D: 2022 Cost

If your filing status and yearly income in 2020 was			
File individual tax return	File joint tax return	File married & separate tax return	You pay each month (in 2022)
\$91,000 or less	\$182,000 or less	\$91,000 or less	your plan premium
above \$91,000 up to \$114,000	above \$182,000 up to \$228,000	not applicable	\$12.40 + your plan premium
above \$114,000 up to \$142,000	above \$228,000 up to \$284,000	not applicable	\$32.10 + your plan premium
above \$142,000 up to \$170,000	above \$284,000 up to \$340,000	not applicable	\$51.70 + your plan premium
above \$170,000 and less than \$500,000	above \$340,000 and less than \$750,000	above \$91,000 and less than \$409,000	\$71.30 + your plan premium
\$500,000 or above	\$750,000 or above	\$409,000 or above	\$77.90 + your plan premium

Also Good. . .



RMDs and Your Taxes

Required Minimum Distributions

Minimum Distribution Rules Apply to:

- Traditional IRAs
- SEP IRAs
- SIMPLE IRAs
- 401(k) plans
- 403(b) plans
- 457(b) plans
- Profit-sharing plans
- Other defined contribution plans
- Roth 401(k) plans
- Inherited IRA accounts
- Inherited Roth IRA accounts

Accounts you do NOT have to take RMDs from

- ▶ 1. From a Roth IRA, if you are the original owner and you're alive
- ▶ 2. From an employer-based plan (401k, 403b, 457), if you are still working for that employer.
 - ▶ Exception: If you own 5% or more of the company, and you are 72, then you do have to take RMDs even if you still work there
 - ▶ For this purpose, SIMPLE and SEP-IRAs behave like IRAs; not like employer plans. So you DO have to take RMDs from them even if you are still working
- 3. Investments that are not in any tax-advantaged account

How RMDs are Calculated

- ▶ Your balance in tax-deferred accounts at 12/31 in the year you turn 70.5 (or 72)
- ▶ Divided by your life expectancy, as determined by the IRS

- ▶ Every year after that, your balance at 12/31
- ▶ Divided by your previous year's life expectancy minus 1

Recent Change

- ▶ **The SECURE Act**
 - ▶ Passed 12/19/2019. Effective (mostly) 1/1/2020
- **Changed RMD age from 70.5 to 72**

RMDs

- ▶ What is “on time”?
- December 31 of the year for which the RMD is due.
- ❖ Except the first year:
 - The first year you are subject to RMDs, you can wait as late as April 1 of the year following the year you turn 72.

How RMDs are Taxed

- ▶ When you withdraw money from a tax-deferred retirement account (Traditional IRA, 401-k, 403-b) it is taxed at your marginal **Ordinary Income** rate.

How Can You Manage Taxation of RMDs?

- ▶ Make your RMDs smaller, by withdrawing money sooner
- ▶ Age 59.5, you can withdraw from tax-deferred accounts without penalty
- ▶ Age 72, you HAVE to start withdrawing

- ▶ **Between 59.5 and 72, what you withdraw is UP TO YOU**

Managing RMD Taxation

- ▶ Try to reduce your tax-deferred balances before you turn 70 and start getting Social Security
- ▶ After 59.5, withdraw extra any time you're in a low-income year
- ▶ If you don't need the money to spend, then do Roth conversions
- ▶ In the year of conversion **you pay tax on the full amount you convert**—but after that, no tax on the converted amount ever again.
- ▶ AND it reduces your tax-deferred balance; therefore reduces your RMDs
- ▶ You do NOT have to be 59.5 to convert.
- ▶ **You can do Roth conversions any time, in any amount.**

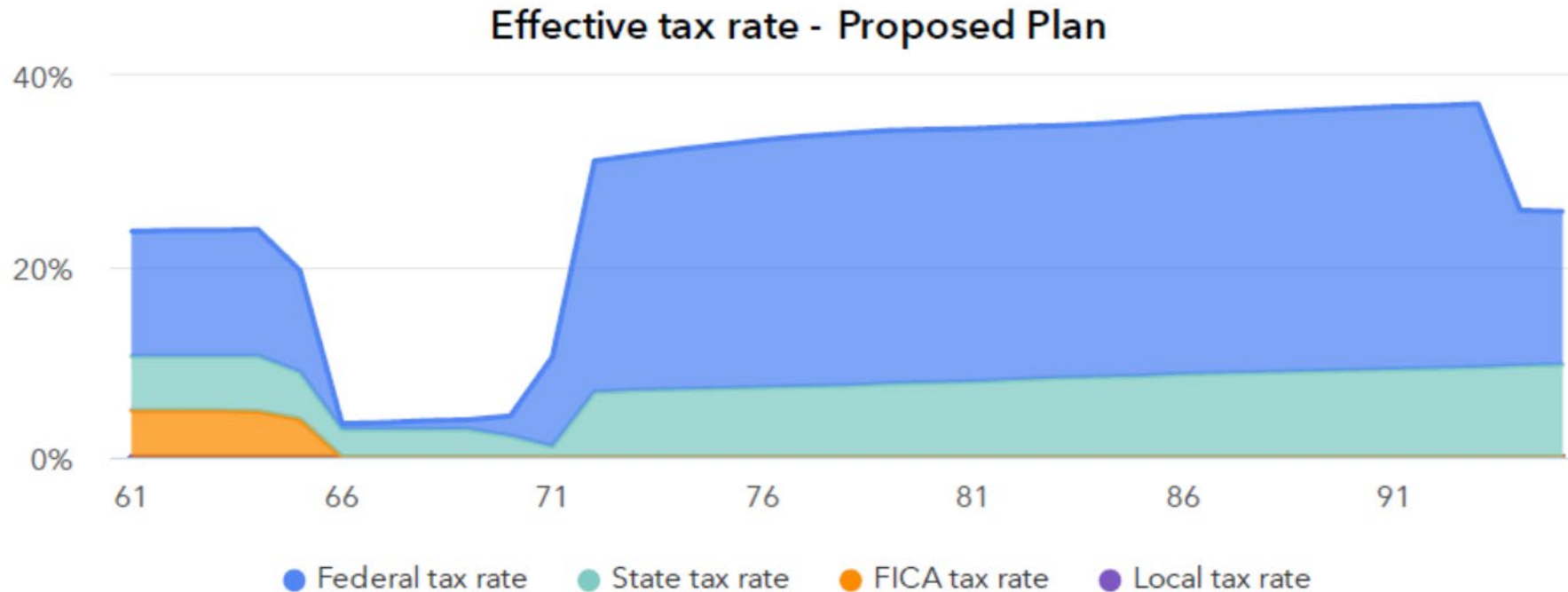
Case Study

Cecile

Cecile's Situation

- ▶ 60 years old
- ▶ Retiring at 65
- ▶ Earns \$67,000/year at her job
- ▶ Owns her home outright
- ▶ \$145,000 in cash
- ▶ \$3,500,000 in a Traditional IRA
- ▶ \$487,000 in taxable investments
- ▶ Social Security Primary Insurance Amount is \$2,700
- ▶ Starts taking Social Security at age 70

Cecile's Tax Picture - If she leaves her IRA till RMDs

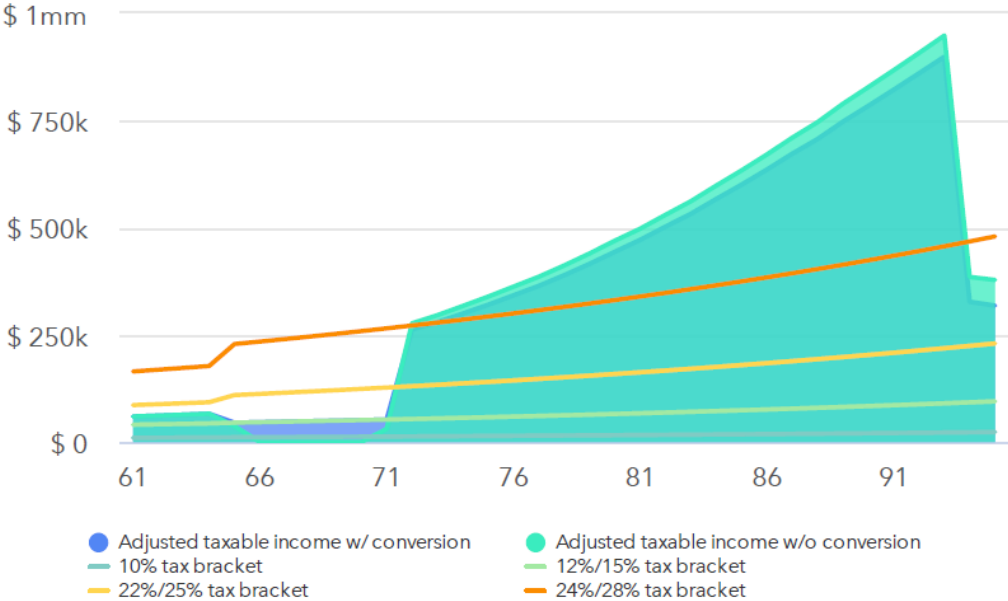


Scenario A: with no work income & no conversions or withdrawals from 66 to 70

- ▶ From age 66 to 70, her Long-Term Capital Gains Rate is 0%
- ▶ Her Ordinary Income Tax Rate is 10%
- ▶ At age 70, her federal Ordinary Income Rate is 33%

Strategy B: Fill the 12% Bracket with Roth Conversions

Ordinary income tax bracket



Proposed Strategy
\$ 1,714,024
more

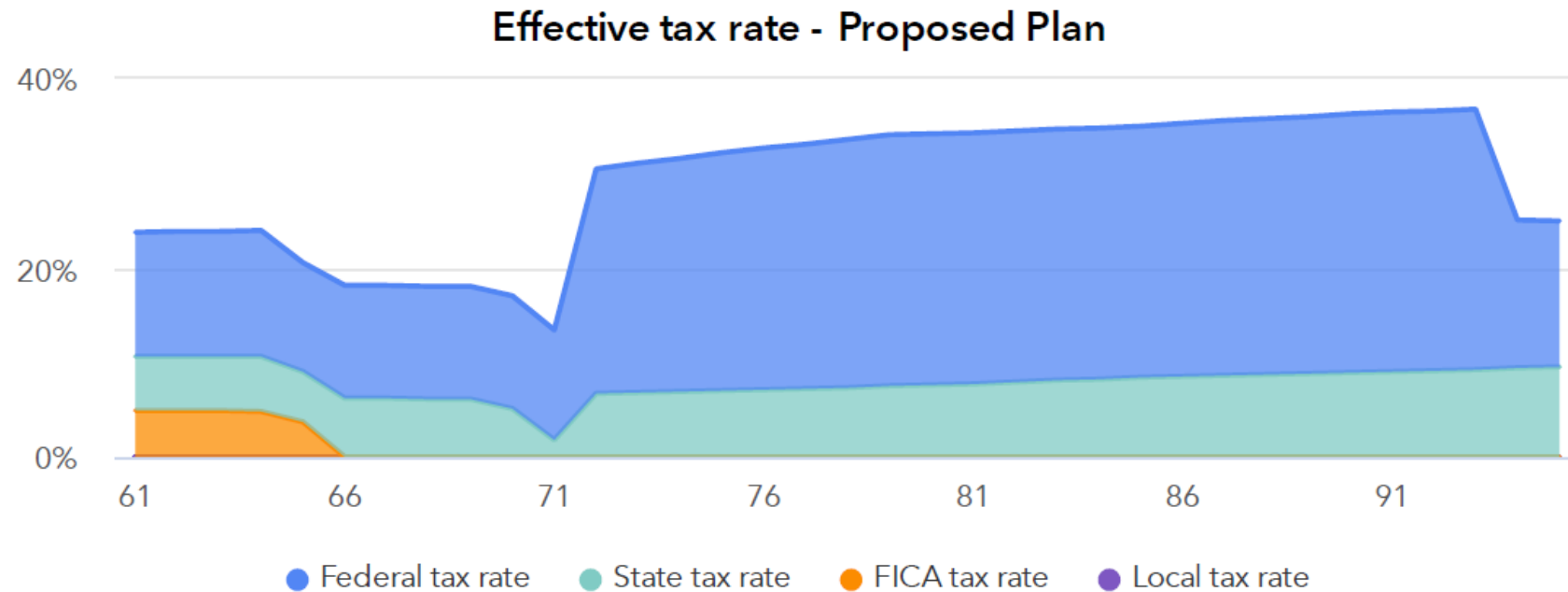
tax adjusted ending portfolio than a pro-rata withdrawal strategy w/o conversion

Proposed distribution strategy

Proposed withdrawal strategy: Standard - taxable, tax deferred, tax free

Roth IRA conversion: Fill up to the 12%/15% ordinary income tax bracket

The New Whale (with conversions)



What to Do

2022

Do Roth Conversions

Years when you are in a **low tax bracket** are a great time to

- Convert some of your Traditional IRA \$ to Roth IRAs.
- Pay tax on the converted amount, at your current marginal rate.
- Deadline: Conversion must be completed by **12/31/2021** to count in 2021.

- Advantages:
 - Once the funds are in a Roth, they will *never* be subject to more taxes. All growth is tax *free* (not deferred)
 - No RMDs! (At least in your lifetime)



Thank you!

Heather is reachable at HCListon@hargravefa.com

2022 Key Numbers

- ▶ 401(k), 403(b), 457(b)
 - ▶ \$20,500 + \$6,500 catch-up
- ▶ IRA & Roth IRA
 - ▶ \$6,000 + \$1,000 catch-up
- ▶ SIMPLE IRA
 - ▶ \$14,000 + \$3,000 catch-up
- ▶ Total 415 Limits
 - ▶ \$61,000 + \$6,500 catch-up
 - ▶ For **SOLO 401(k)** & Mega-Backdoor
- ▶ FSA Medical: \$2,850
- ▶ FSA Dependent Care: \$5,000
- ▶ HSA Contributions
 - ▶ \$3,650 Single
 - ▶ \$7,300 Family
- ▶ Standard Deduction
 - ▶ \$12,950 Single
 - ▶ \$25,900 MFJ
 - ▶ \$19,400 HoH
- ▶ Social Security Wage Base
 - ▶ \$147,000

AGI Limits 2021

Traditional Deductible IRA IF you have a workplace plan

Single	\$66,000 to \$76,000
Joint (Active Participant Spouse)	\$105,000 to \$125,000
Joint (Non-Active Participant Spouse)	\$198,000 to \$208,000
Married Filing Separately	\$0 to \$10,000

Roth IRA

Unmarried Individuals	\$125,000 to \$140,000
Married Joint Return Filers	\$198,000 to \$208,000
Married Filing Separately	\$0 to \$10,000

AGI Limits 2022

Traditional Deductible IRA IF you have a workplace plan

Single	\$68,000 to \$78,000
Joint (Active Participant Spouse)	\$109,000 to \$129,000
Joint (Non-Active Participant Spouse)	\$204,000 to \$214,000
Married Filing Separately	\$0 to \$10,000

Roth IRA

Unmarried Individuals	\$129,000 to \$144,000
Married Joint Return Filers	\$204,000 to \$214,000
Married Filing Separately	\$0 to \$10,000



Questions?

ASK IN THE Q&A BOX

NOTE: PLEASE BE MINDFUL OF PERSONAL FINANCIAL/TAX- RELATED QUESTIONS.

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