Retirement Planning and 199A Planning Under The New Tax Law

Speaker:
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OVERVIEW – MAJOR PLANNING POINTS

1. Introduction
2. Retirement Income Tax Strategies Under New Tax Laws
    i. Social Security Tax Planning
    ii. Medicare Surcharge Tax
    iii. 199A Deduction Planning
    iv. NUA Strategies
    v. Roth Conversions
    vi. Mortgage Changes
    vii. Long-Term Care
    viii. Digital Assets
    ix. QCDs and DAFs
3. Conclusions

Introduction

Retirement Income Certified Professional® (RICP®)

Clients for life.

SPEAKER – PROFESSOR HOPKINS

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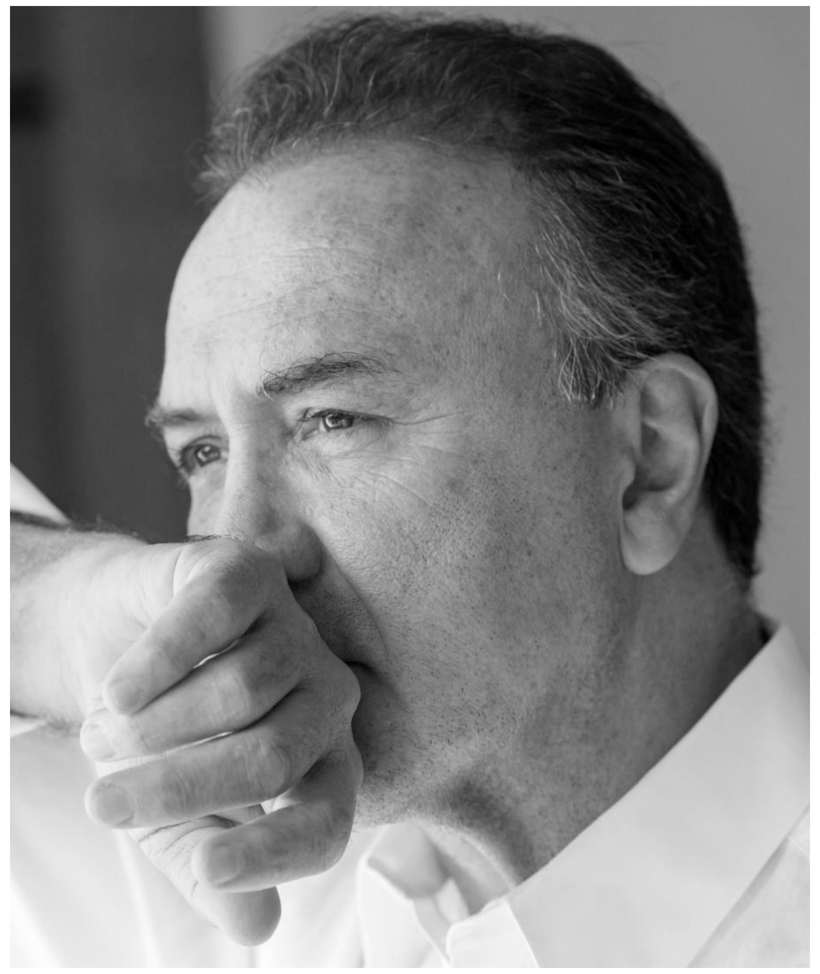



They Are Concerned

- Don’t have enough **saved**
- **Rising** health care costs
- Will money **last a lifetime**?
- **Burden** on family members

The Numbers Behind the Concern

10,000 baby boomers a day reach 65

Heavy reliance on Social Security

Only **44%** of retirees have a professional to help

Impact of Good Advice

Strategies	**Increase in Income***
Social Security Claiming	**9.0%**
Dynamic Withdrawal Strategy	**8.5%**
Tax Efficiency	**8.2%**
Total Wealth Asset Allocation	**6.1%**
Annuity Allocation	**3.8%**
Liability Relative Optimization	**2.2%**
Total	**38%**

** David Blanchett, video discussing article "Alpha, Beta and now Gamma"*

What is Retirement Income Planning?

"Retirement Income Planning
can be like **hitting** a moving target in
the wind."

What is Retirement Income Planning?

GOAL-BASED PLANNING

Individual's financial goals

- Income needs
- Contingent expenses
- Legacy goals

+

Address retirement risks

- Longevity
- Inflation
- Health care
- Long-term care
- Sequence risk
- Public policy risk

SECURE RETIREMENT INCOME PLAN

So Many Issues to Face

CLAIMING SOCIAL SECURITY

CHOOSING ANNUITY PRODUCTS

Using housing wealth

Contingencies

- Law changes
- Bad timing
- Unexpected expenses
- Frailty

CHOOSING INCOME STRATEGY

HEALTH CARE PLANNING

COMPANY PLAN DISTRIBUTIONS

Choosing withdrawal rates

INVESTING THE PORTFOLIO

Contingencies

- Life expectancy
- Inflation
- Market risk

ROLE OF LIFE INSURANCE

Where to live

WHEN TO RETIRE

LONG-TERM CARE PLANNING

Retirement Income Tax Strategies Under New Tax Law

MAJOR INDIVIDUAL INCOME TAX CHANGES

- Effective date is 2018 but many revert back 2017 rules in 2026
- SALT deduction limited ($10,000 per filing)
- Mortgage interest (reduced)
- No more Misc. expenses over 2% (financial planning and attorney fees)
- Charitable contributions remain – new 60% (higher) AGI limit for cash contributions (but again need to itemize)
- Kept previous seven-bracket structure but rates and ranges changed (some rates lowered and brackets widened)
- Increased standard deduction

SINGLE TAX FILER

2017 Tax Rates		Tax Cuts and Jobs Act (2018)	
Rate	**Income Levels**	**New Rates**	**New Income Levels**
10%	$0-$9,525	10%	$0-$9,525
15%	$9,525-$38,700	12%	$9,525-$38,700
25%	$38,700-$93,700	22%	$38,700-$82,500
28%	$93,700-$195,450	24%	$82,500-$157,500
33%	$195,450-$424,950	32%	$157,500-$200,000
35%	$424,950-$426-700	35%	$200,000-$500,000
39.6%	$426,700.01+	37%	$500,000+

MARRIED FILING JOINTLY

2017 Tax Rates		Tax Cuts and Jobs Act (2018)	
Rate	**Income Levels**	**New Rates**	**New Income Levels**
10%	$0-$19,050	10%	$0-$19,050
15%	$19,050-$77,400	12%	$19,050-$77,400
25%	$77,400-156,150	22%	$77,400-$165,000
28%	$156,150-$237,950	24%	$165,000-$315,000
33%	$237,950-$424,950	32%	$315,000-$400,000
35%	$424,950-$480,050	35%	$400,000-$600,000
39.6%	$480,050+	37%	$600,000+

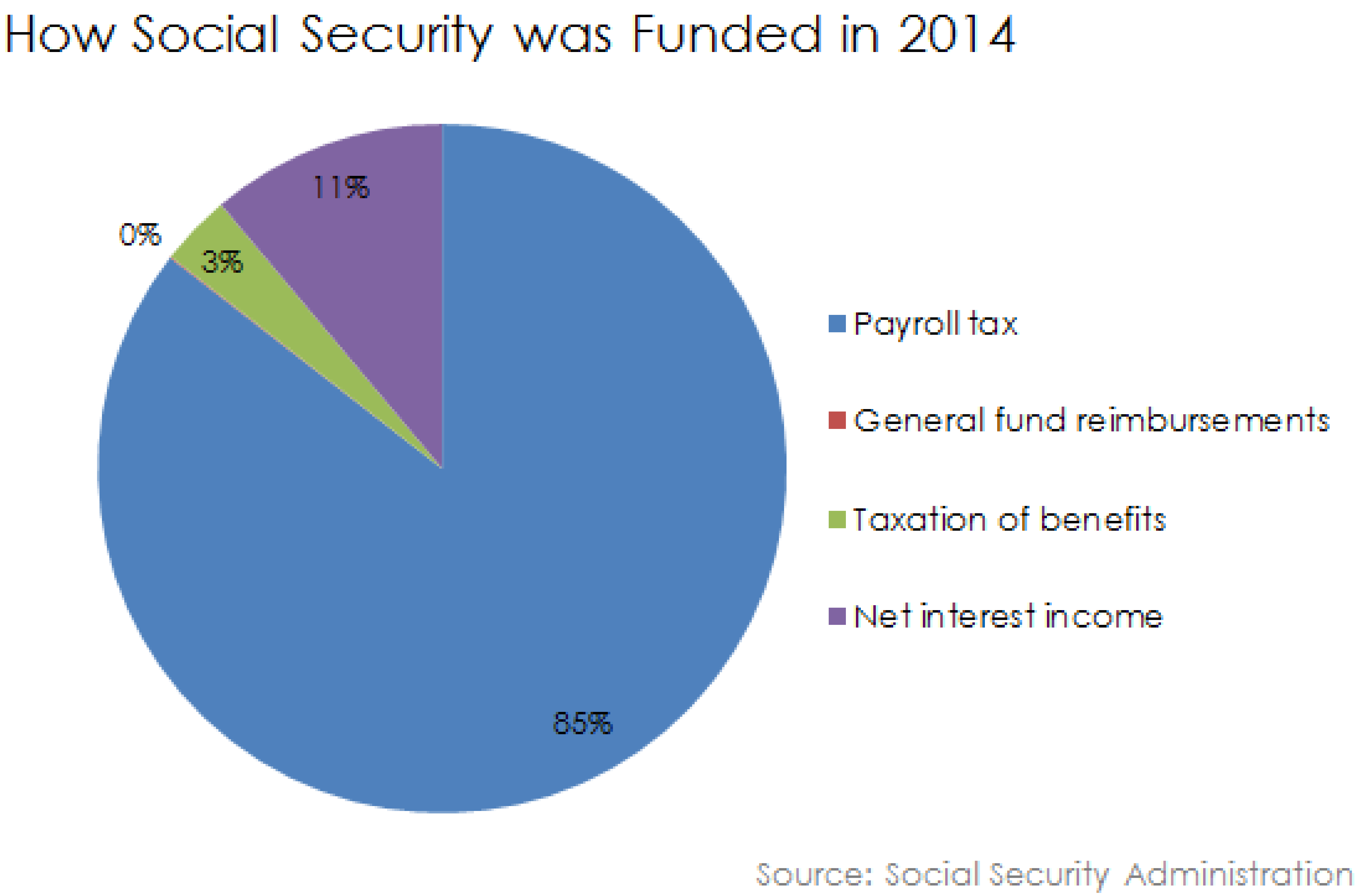
TEMPORARY INCREASE IN STANDARD DEDUCTION

- The Act increases the standard deduction
  - Individual standard deduction increased from $6,350 to $12,000
  - Married Filing Jointly standard deduction increased from $12,700 to $24,000
  - Both are indexed for inflation
  - No change for the additional standard deduction for elderly or blind taxpayers
    - For age 65 – single $1,600 (2018) and married filing jointly $1,300 (2018) per spouse 65+
- Act also repeals all personal exemptions through Dec. 31, 2025

Social Security Tax Planning

How is S.S. Funded?

- Payroll Taxes:
- 6.2% FICA – EE/ER
- Self-Employed 12.4%
- 2018 TWB $128,400



MAXIMUM BENEFIT 2018

- 2.8% COLA Adjustment for 2019
- $2,158 a month ($25,896 a year) at 62
- $2,589 ($31,068 a year) at age 65
- $3,698 ($44,376 a year) at age 70
- Couple both earning maximum benefit
  - Age 65 $63,136
  - Age 70 $88,752
  - In 2018, the average Social Security benefit paid to retired workers is $1,404 per month

SOCIAL SECURITY TAX ISSUES

- About 40 percent of people who get SS benefits have to pay income taxes them
- “individual filing’ and your combined income* is between
  - Between $25,000 and $34,000, up to 50 percent of your SS benefits
  - more than $34,000, up to 85 percent of your Social Security benefits
- joint return:
  - Between $32,000 and $44,000, up to 50 percent of your SS benefits
  - more than $44,000, up to 85 percent of your SS benefits
- Combined Income/Provisional Income - modified adjusted gross income (MAGI) + tax-exempt interest + 50 percent of Social Security benefits

SOCIAL SECURITY TAX TORPEDO

- RMD can cause two dollars to be subject to taxation
- RMDs could push an individual into a higher tax bracket, and increase the amount of S.S. benefits subject to taxation
- Additional issues arise at death of first spouse
  - Lost standard deduction (significant)
  - Higher tax brackets for single filers
  - Could be keeping most of the S.S. income (can come up with situations where spouse dies – has same income – but ends up with less after tax income)

SOCIAL SECURITY TAKEAWAYS

- Defer as long as possible
- Paid for through Taxes
- Social Security can be taxed
- Too important to go away completely

Medicare Surcharge Tax Planning

INCOME BRACKET PREMIUM EXAMPLE 2017

- Single taxpayers (MAGI > $85,000) and married taxpayers (MAGI > $170,000) pay income related monthly adjustments (IRMA)
- MAGI is simply adjusted gross income determined on the tax return (AGI) plus tax-exempt municipal bond interest

Medicare Premiums 2017					
Income Bracket	**Single 2014 MAGI**	**Married Couple 2015 MAGI**	**Part B Monthly Premium**	**Part D Monthly Premium**	**2017 Annual Premiums**
1	≤$85,000	≤$170,000	$134*	$39.90**	$2086.80
2	$85,001 - $107,000	$170,000 - $214,000	$187.50	$39.90 + $13.30	$2,888.40
3	$107,001 - $160,000	$214,001 - $320,000	$267.90	$39.90 + $34.20	$4,105.20
4	$160,001 - $214,000	$320,001 - $428,000	$348.30	$39.90 + $55.20	$5,320.80
5	>$214,000	>$428,000	$428.60	$39.90 + $76.20	$6,536.40

* $134 is the base premium for those enrolling in Medicare in 2017. Those previously receiving Social Security benefits only pay $109 per month.

** This number represents the 2017 national average premium for a stand-alone Medicare Part D plan as identified by the Kaiser Foundation . Part D participants pay the actual premium charged by the plan.

INCOME BRACKET CHANGES IN 2016 AFFECT 2018 MEDICARE PREMIUMS

MAGI Bracket	Single Taxpayer		Married Filing Jointly	
	2015	2016	2015	2016
1	≤$85,000	≤$85,000	≤$170,000	≤$170,000
2	$85,001 - $107,000	$85,001 - $107,000	$170,001 - $214,000	$170,001 - $214,000
3	$107,001 - $160,000	$107,001 - $133,500	$214,001 - $320,000	$214,001 - $267,000
4	$160,001 - $214,000	$133,501 - $160,000	$320,001 - $428,000	$267,001 - $320,000
5	>$214,000	>$160,000	>$428,000	>$320,000

STRATEGIES FOR CONTROLLING MEDICARE PREMIUMS

- Accumulate sources of tax-free income
  - Distributions from Roth IRAs and Roth 401(k) accounts
  - Withdrawals from Health Savings Accounts (HSA) used for qualified medical expenses
  - Withdrawals of cost basis or loans from a cash value life insurance policy that is not a modified endowment contract (MEC)
  - The portion of a withdrawal from a nonqualified annuity that is a non-taxable return of premium
- Borrow from a reverse mortgage
- Limit taxable RMDs (required minimum distributions) by making direct transfers to charity
  - Individuals age 70½ can elect up to $100,000 of direct transfers from an IRA to a public charity each year
  - Direct transfers count toward satisfying RMDs and at the same time are excluded from MAGI
  - Preferable to taking withdrawals (which is counted as MAGI) and then making a deductible contribution to a charity

MEDICARE TAKEAWAYS

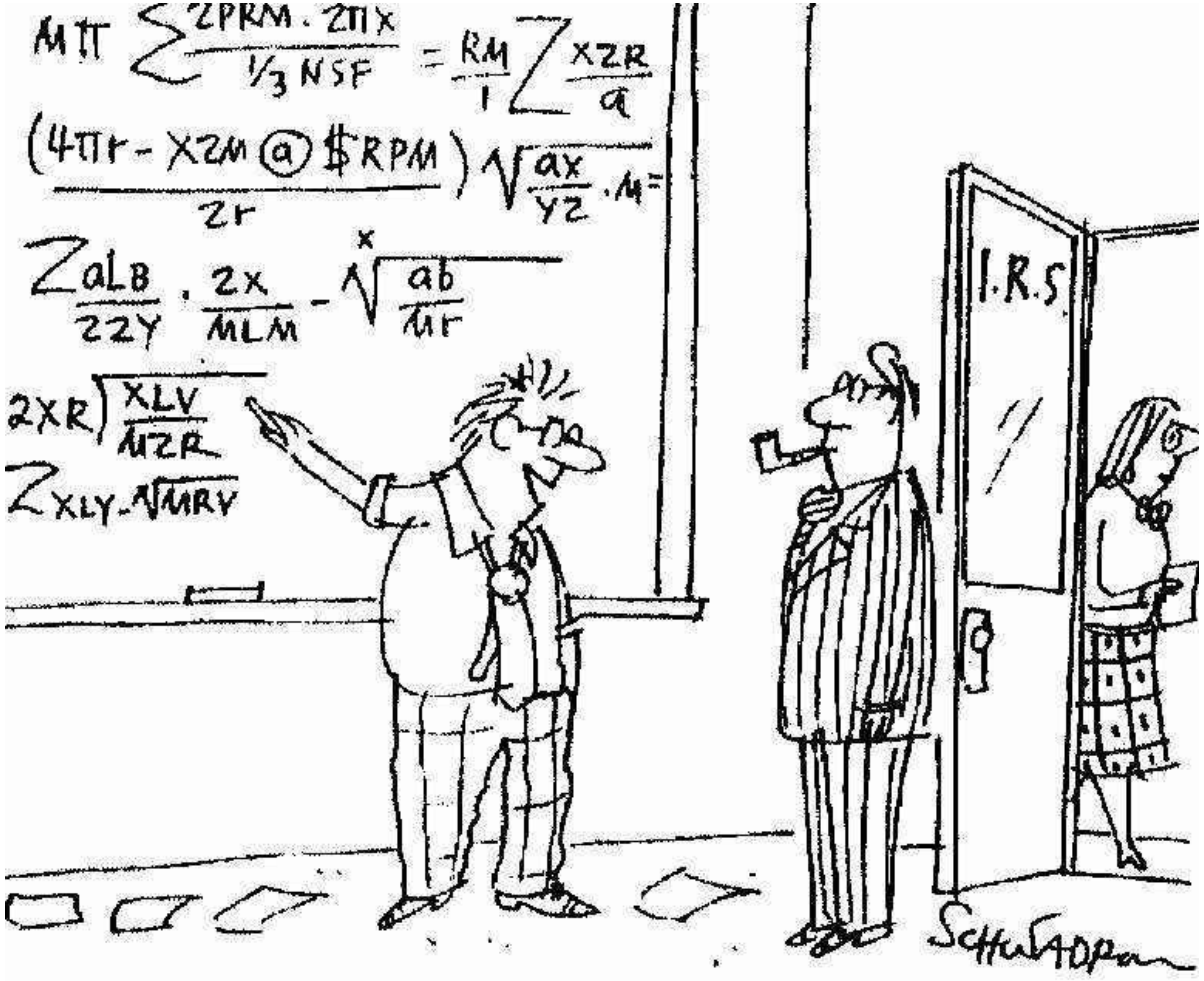
- Don’t mess up signing up at 65 if self-employed or small company! (Won’t have insurance)

- Increase premiums if sign up late

- A, B, D and Medigap compared to Part C

199A Deduction Planning

NEW SEC.199A PASS-THROUGH DEDUCTION



"Now are you convinced that the tax simplification plan will work, chief?"

DETERMINE THE SEC.199A DEDUCTION

- QBI deduction is done pro-rata based on your ownership interest
  - Example – if you own 25% of partnership – 25% of net business income is included in your QBI deduction
- Do the calculations on an entity-by-entity basis
- If over the full phase-out threshold
  - Lesser of :
    - QBI x 20% or
    - Greater of W-2 wages x 50% or W-2 x 25% + 2.5% of unadjusted basis
- Know Ranges!!!!
  - Single Filer (Below = full 20% QBI deduction) $157,500 - $207,500 (over = full phase in/phase out)
  - Joint Filer (Below = full 20% QBI deduction) $315,000 - $415,000 (over = full phase in/phase out)

199A PLANNING

- Get Under The Ranges
- Sometimes it might be increasing W2 wages in an S Corp (some risks)
- Sometimes it might be purchasing property that you currently rent or re-leverage debt
- Use retirement plans
  - If just a bit over – can use the IRAs $5,5000 ($1,000 catch up over 50)
  - HSAs also could help $6,900 (2018 Family)
  - 401ks ($55,000 or $61,000 - $6,000 catch-up/$18,500 salary deferral)

THE REAL DEFINED DEDUCTION

- Defined Benefit and Cash Balance Plans Offer Huge Opportunities

Annual Limits in 2018

- Benefit dollar limit $220,000
- Cap on compensation $275,000
- Contribution Limit Actuarial

- Can put in over $250,000 per individual participant (age/income allowing)
- $615,000 of income joint filer – using a 401k and DB plan can deduct over $300,000 – fund the plan, get the full 199A on $315,000
- Also moves them down from a top tax rate of 37% down to 24% - huge tax savings!

199A TAKEAWAY

- Very Complex

- If you run a pass-through entity talk with an attorney/tax professional by end of year

- No one has ever done 199A planning until this year!

Roth Conversions

ROTH CONVERSIONS

- Why use a Roth IRA conversion and what is it?
  - Convert a traditional IRA or tax-advantaged account to a Roth IRA by taking converted amount into income and paying taxes (no penalty 10% 72(t) tax)
  - This raises your taxable income – so goal is usually to stay within your current tax bracket (called a bracket-bumping conversion)
  - Can be used as a way around Roth IRA contribution limits, a way to tax diversify, or an investment strategy for high-growth assets
  - Needs to be done by 12/31 for that year to be included in income

WHY DO CONVERSIONS?

- Benefits to retiree
- Control
- Tax Diversification
- Medicare
- Social Security
- Tax Rates (tax bracket bumping – got more challenging)
- Estate Planning

ROTH RECHARACTERIZATIONS

- In past, you could recharacterize (undo) a Roth conversion by October 15 the year following the year of conversion
- New Law – last year to recharactize a conversion is for a 2017 conversion
  - No more recharacterizing conversions starting in 2018 and forward
  - However, you can still recharacterize an excess contribution to a Roth as a contribution to another IRA
- Problem with new law – makes it harder to do bracket-bumping conversions because you do not know your income or tax rate for sure by 12/31 when conversion is due – recharacterizations allowed you to fix excess conversions that caused increased tax liability once you figured out your tax rate
- Planners need to be more careful when doing conversions moving forward
- However – temporary lower tax rates from 2018-2025 also support the notion of Roth conversions

Mortgage Changes

CHANGE TO STATE AND LOCAL TAXES

- Deduction for state and local property taxes was a popular tax deduction – especially in high tax states like NY, NJ, CT, Mass, and CA
- New Law: SALT deduction lost - Itemized deduction allow of up to $10,000 for the total of state and local property taxes and income or sales taxes paid ($10,000 for single filers)
- The $10,000 is not an indexed number

HOME MORTGAGE DEDUCTION BASICS

- Generally (IRC Section 163(h)) - you cannot deduct “personal” interest
  - Exception – IRC Sec. 163(h)(3) – qualified residence interest
    - Acquisition Indebtedness v. Home Equity Indebtedness
- Deducting interest from mortgage payments is only valuable if the homeowner itemizes
- Pre-Tax Reform limits (Pre-2018 Rules)
  - Home Acquisition Indebtedness
    - Limited to interest on first $1,000,000 of debt principal
  - Home Equity Indebtedness
    - Limited to interest on first $100,000 of debt principal

(Note: Mortgage interest deductibility can also never exceed the original purchase price for home plus adjusted basis for home improvements Treasury Regulation 1.163-10T(c)(1).)

TAX CUTS AND JOBS ACT 2017 CHANGES

- Home Equity Indebtedness no longer deductible after 2017 tax year
  - Grandfathering: None – this is immediately no longer deductible interest
  - Refinancing cannot fix the problem
- New Home Equity Acquisition Debt –
  - $750,000 new limit
  - Old mortgages grandfathered under $1,000,000 limit
- Reverse Mortgages and Refinancing

QCDs and DAFs

QUALIFIED CHARITABLE DISTRIBUTIONS

- The last great charitable deduction?
- Qualified charitable distributions from an IRA made directly to a charity are not included in the taxable income of the IRA owner and count against an RMD requirement.
- The taxpayer can do up to $100,000 of a distribution per year per spouse
- Taxpayer must have reached age 70.5
- QCDs were made permanent in the Consolidated Appropriations Act of 2016 (passed in 2015)
- This is a great strategy as it keeps AGI down, gets money to charity, and satisfies RMD
- Must be to a qualified charity – donor-advised funds and private foundations don’t qualify
- Anyone giving even a few hundred dollars a year should consider this – also make sure charity provides a receipt of the funds
- This is essentially like being able to deduct charitable contributions without itemizing!

CHARITABLE PLANNING – STRATEGIES

Strategy of “Bunch, Contribute, Recommend, and Repeat”

Bunching of deductions will be desirable to maximize tax savings.

Donor Advised Fund (DAF) ideal vehicle to receive the “bunched” contributions.

IRS Notice 2017-73 makes clear that distributions from a DAF are permitted with regard to a charitable pledge without violating the not more than an incidental benefit rule.

For more details see Trusts & Estates, *Bunch, Contribute, Recommend, Repeat: Dealing Successfully With New Restrictions on Charitable Giving*, February, 2018, pp. 8-10.

Digital Asset Planning

TECHNOLOGY ISN'T ALWAYS INVESTABLE

- Warren Buffett, "Oracle of Omaha", CEO Berkshire Hathaway
- "The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money."
- "Think Airlines. Here a durable competitive advantage has proven elusive ever since the days of the Wright Brothers. Indeed, if a farsighted capital had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville Down."
- First 80 years of airlines – net investment loss across all companies
- Even from 2002 to 2011- top 3 filed for bankruptcy
- Transformative technology isn't always a good investment!

DIGITAL ASSET PLANNING

- What is the issue with digital assets and estate planning?
  - Tracking, location, access, TOSAs

- RUFADA – Will/trust, TOSA, other avenues

- Almost every will, trust, etc is out of date

- Lots of value here – but also a protection piece

Long-Term Care Developments

THE MOVE TO ASSET BASED PRODUCTS

- 80+ percent of senior homeowners state they want to age in place in retirement

- But the issue can be is the home suitable? Where can you get care? How will you fund care? Family caregiver crisis coming

- Self-funding
- Traditional LTCi
- Annuity with LTC rider
- Asset Based Life Insurance w/LTC rider 2x regular market
- Life Insurance with ADB

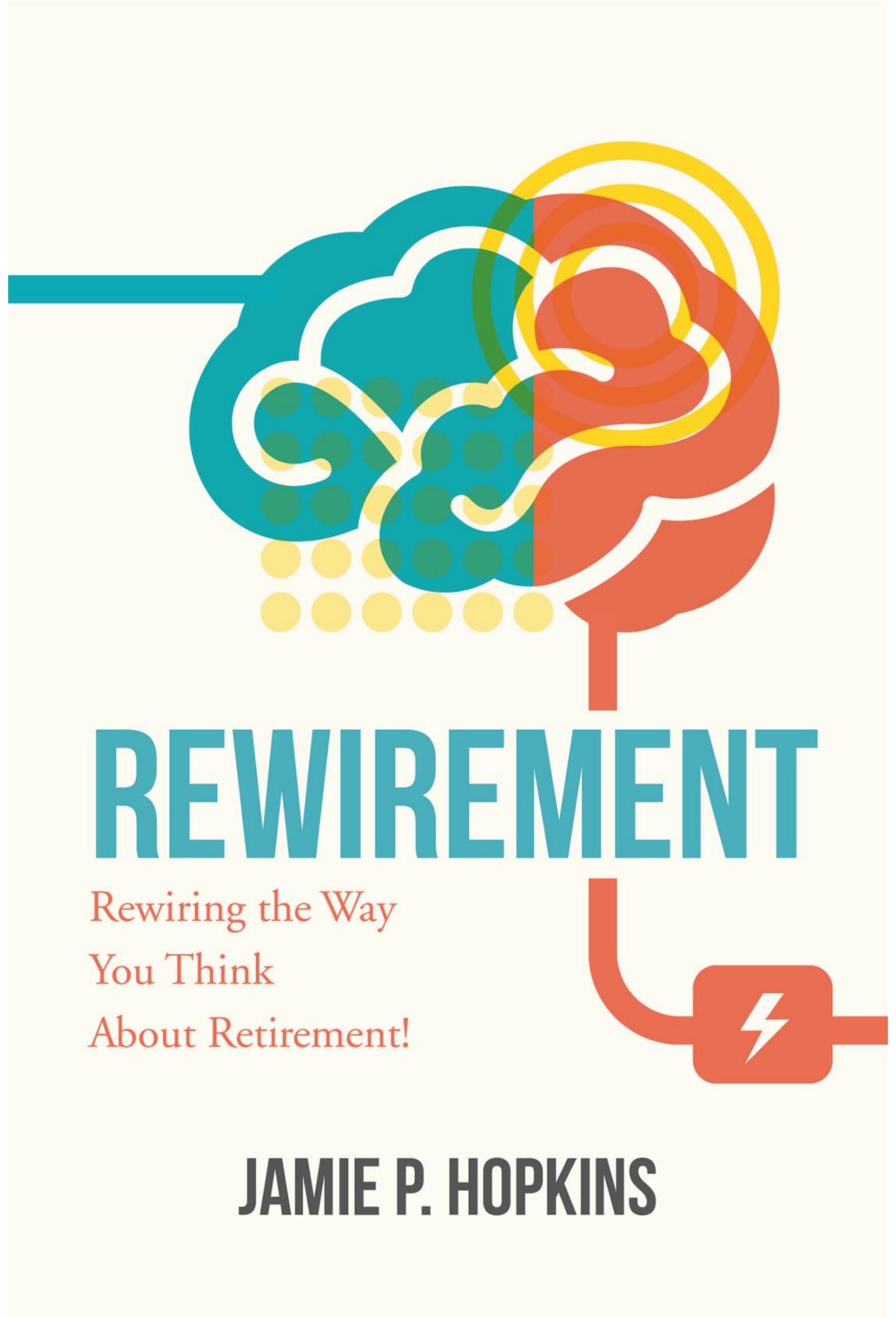
Conclusion and Q&A

CONCLUDING THOUGHTS AND TAKEAWAYS

- No one likes paying taxes (although paying taxes means you usually have income)
- Huge value add for clients in managing taxes and penalties
- Not always something a software or robo or platform will pick up on
- Accountants not always doing best long-term tax planning
- Tax rules continue to evolve – will continue to change – important to keep up with times
- No need for anyone to pay more taxes than legally required to pay under the law
- SS is extremely important
- Digital assets growing importance
- LTC challenges

QUESTIONS?

Rewirement Book



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