FOUR BUCKETS:

Do You Know Where Your Tax Liabilities Fall?

NOT ALL FINANCIAL PRODUCTS ARE EQUAL WHEN IT COMES TIME TO PAY YOUR TAXES!

Many retirees leave most of their investments in tax-deferred assets, although this can cost them money down the road.

To understand how different types of assets can affect your income level and the amount of taxes you owe in retirement, imagine that your entire savings plan is represented by four buckets.

TAXABLE ASSETS: Bucket 1 contains the dollars you earn each year from CDs, the distributions you take from nonqualified mutual funds, the dividends and capital gains you earn from stocks, the interest and capital gains you enjoy from bonds, and your reinvested dividends.

TAX-DEFERRED ASSETS: Bucket 2 holds the money saved in tax-deferred retirement accounts that may hold both investments and insurance products, including retirement plans like your 401(k)s, 403(b)s, 457s and IRAs. Qualified and nonqualified annuities and savings bonds are also stored in this bucket.

INCOME TAX FREE/ESTATE TAXABLE ASSETS: Bucket 3 contains Roth IRAs, most municipal bonds, appreciation of capital assets held until death and properly structured life insurance policies.

INCOME TAX FREE/ESTATE TAX FREE ASSETS: Bucket 4 includes items found in Bucket 3 used to fund irrevocable life insurance trusts and charitable trusts.

REDUCE YOUR TAX BURDEN WITH A DIVERSIFIED STRATEGY:

With individuals increasingly responsible for funding their own retirement, they often have a majority of their assets in bucket 2. And while taxes on those assets are deferred, this has the potential to create significant tax liabilities down the road. For that reason, you may want to consider reallocating some assets into buckets 3 and 4 to help reduce your tax liability over time.

While the taxable nature of an asset is not the only consideration when planning for retirement income, it is a critical element, and spreading assets across a mix of taxable, tax-deferred and tax-free accounts can be beneficial to your retirement income strategy.

To learn more about tax-efficient retirement income planning, give us a call.

WE LOOK FORWARD TO HEARING FROM YOU SOON!

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