



Six Strategies to Help Retirees Reduce Taxes and Preserve Their Assets



Provided to you by:

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Disclosure 2
Disclosure 3

How Fixed Immediate Annuities Can Help Increase Cash Flow



It's possible to increase your monthly cash flow with a fixed immediate annuity. An immediate annuity is simply the payment of a premium to an insurance company. In exchange, the company converts your premium to a monthly cash payment for life or term of years. (Monthly

payments are based on the claims-paying ability of the insurer, so picking a financially solid insurance company is important.) As each payment consists of principal and interest, each annuity payment is partially excluded from taxation as described by IRS Publication 590. Premium taxes could apply in some states.

Here's a hypothetical example.¹ A 70-year old gentleman paid \$250,000 in premium to an insurance company for a fixed, immediate annuity. In return, the insurance company makes annuity payments of \$1,750 per month. Of this payment, \$1,302 will be considered a return of investment and only \$448 will be subject to federal income taxes for the next 16 years (exclusion ratio calculations based on Publication 939, Table V). Thereafter the entire monthly payment is taxable.

¹ Quote from immediateannuities.com 12/20/24. Lifetime payment guarantee is based on the claims-paying ability of the insurance company. Individual insurance companies may use a different assumption as to life expectancy and assumed interest rate in calculating their annuity payments. The payments in the example above are calculated on the life expectancy of the annuitant. The payments shown above are not subject to mortality fees, administrative charges, or other expenses. However, actuarial calculations, life expectancy assumptions, and interests rates can vary from insurer to insurer.

Assuming this taxpayer is in a 22% federal income tax bracket², the income tax for each payment would come to \$99 per month. Any payments received after the taxpayer exceeds his life expectancy are completely subject to federal income taxes. That's \$21,000 each year of checks in the mail with very little tax. Please note that these annuities cannot be surrendered for value and payments will usually cease at the insured's death. Please note that your actual results will vary based in part upon your age and premium paid.

For whom may a fixed immediate annuity be suitable?

- A retiree needing increased monthly cash flow;
- A person with no heirs or who is not concerned about leaving an estate;
- Someone who has set aside other funds to leave to heirs if they desire to leave an inheritance; and
- A retiree desiring the fixed payment and wanting to avoid maturities, rolling over investments and the maintenance and administration often required of investing on one's own.

² For 2025, married couples filing joint returns are taxed on the first \$96,950 of their taxable income at the lower 10% and 12% rates and 22% for taxable income \$96,951 to \$206,700 IRS Rev. Proc. 2024-40 <https://www.irs.gov/pub/irs-drop/rp-24-40.pdf>. Your results will vary based upon your income level. The amount excluded from federal income tax is based upon a calculation that compares the premium payment (\$250,000) to the total annuity payments expected over taxpayer's lifetime. The total anticipated payments for a 70-year old male is \$336,000 based upon a 16-year life expectancy as per IRS Publication 939 Table V.. Of this, \$250,000 payment, 74.4% will not be subject to federal income taxes (\$250,000/\$336,000). Payments beyond the annuitant's life expectancy are fully taxable as ordinary income.

An Alternative to Tax-Free Bonds?

While tax-free bonds can be a popular source of tax-free income, some retirees are not aware that they can receive a potentially higher source of cash flow from insurance companies.³

This source of money is from an immediate annuity. In exchange for the premium payment, the insurance company pays the annuity owner a cash payment for life or for a term of years. Each of these payments is comprised of interest and principal as determined by an actuarial calculation set forth in Section 72 of the federal tax code. The principal portion is not subject to income taxation. Once the owner has recovered his or her investment, the remaining payments will be taxed as ordinary income.

Let's take a look at the hypothetical case of Mr. Jones, age 70 with a \$500,000 portfolio of municipal bonds, earning 3% federal tax free.⁴ He receives \$15,000 of annual tax-free income ($3\% \times \$500,000$).

He decides to cash in his tax-free bonds and pay a premium to an insurance company of \$500,000 for an immediate fixed annuity. With the immediate annuity, his yearly cash payment from the annuity would be \$42,000 per year of which 74.4% is tax free (the tax-free portion of an immediate annuity is the part the IRS considers return of

³ Each immediate annuity payment is comprised of interest and principal as determined by actuarial calculations. The principal portion is not taxable. Once the entire premium has been recovered through principal payments, the remaining payments are fully taxed as ordinary income. The purchase of municipal bonds incurs a commission. The purchase of annuities incurs commissions, fees, and potential surrender charges. Municipal bonds may be subject to alternative minimum tax.

⁴ Electronic Municipal Market Access, rate on 12-year, investment grade municipal bonds as of 12/20/24,
<https://emma.msrb.org/ToolsAndResources/MBISYieldCurve?daily=True>

your principal and is based on your life expectancy and the expected return).⁵ After taxes of \$2,365 he will have \$39,635 to spend.⁶ His spendable cash using the immediate annuity over the tax free bonds increases by \$24,635 annually (\$39,635-\$15,000).

So in this particular example, the yearly cash flow has increased by using the fixed immediate annuity. Of course, your results will vary based (among other things) upon your age, health, relative yields on annuities and tax free bonds and premium payment. The payments in the example shown above are calculated on the life expectancy of the annuitant and the spot interest rates effective for the month of purchase under the contract. The spot interest rates can vary from month to month. The payments shown above are not subject to mortality fees, administrative charges, or other expenses. However, actuarial calculations, life expectancy assumptions, and interest rates can vary from insurer to insurer. Therefore, your results will likely vary from the examples shown above.

However, an immediate annuity will usually not leave anything for your heirs unless you purchase from a company that offers a refund feature. This refund feature will typically reduce the size of the monthly annuity payments. The amount of the refund could also be reduced by surrender charges in some cases. Therefore, the immediate annuity is generally better suited for people who place more importance upon increasing lifetime cash flow.

⁵ Quote 12/20/24 www.immediateannuities.com. Male, age 70, lifetime monthly payments beginning 1 month after payment of premium.

⁶ For 2025, married couples filing joint returns are taxed on the first \$96,950 of their taxable income at the lower 10% and 12% rates and 22% for taxable income \$96,951 to \$206,700 IRS Rev. Proc. 2024-40 <https://www.irs.gov/pub/irs-drop/rp-24-40.pdf>. The amount excluded from federal income tax is based upon a calculation that compares the premium payment (\$500,000) to the total annuity payments expected over taxpayer's lifetime. The total anticipated payments for a 70-year old male is \$672,000 based upon a 16-year life expectancy per IRS Publication 939 Table V. Of this, about 74.4% will not be subject to federal income taxes (\$500,000/\$672,000). After 16 years, the entire monthly income from the annuity becomes taxable.

	Tax-Free Bond	Immediate Annuity
Annual Payment	\$15,000	\$42,000
Income Tax	0	\$ 2,365
Net to Spend	\$15,000	\$39,635
Amount Left at Maturity	\$500,000	\$0

Hypothetical Illustration - Your results will vary

In some cases, an immediate annuity can produce more after-tax cash flow than tax-free bonds. Of course, the benefit of increasing your cash flow does involve a number of other trade-offs. Note that the difference between municipal bonds and immediate annuities are:

- Immediate fixed annuities have a stated payout for a stated period of time and municipal bonds have a fixed interest rate for a fixed term.
- Municipal bonds may be callable, while immediate fixed annuities are not. Municipal bonds may be subject to AMT taxes if your income exceeds certain amounts. You should consult with your tax advisor about this.
- The purchaser of municipal bonds incurs a commission. Premiums for immediate annuities include commissions, fees, and potential surrender charges.
- The payments in a fixed immediate annuity are guaranteed by the annuity claims paying ability of the insurance company, while the payments from a municipal bond are guaranteed by the issuing municipality.
- Part of each immediate fixed annuity payment is tax-free because it represents a return of the principal, while all of the interest from most municipal bonds is completely exempt from federal tax and may be exempt from state tax. Municipal bonds may be subject to AMT taxes if your income exceeds certain amounts. You should consult with your tax advisor

about this.

- Immediate fixed annuities cannot be redeemed and are illiquid. Most municipal bonds can be sold at any time on the secondary market at a gain or loss. When held to maturity, the issuer guarantees payment of face value of a municipal bond.
- Immediate annuities provide a source of cash payments for life or the selected term while municipal bonds provide semi-annual interest until maturity or until called.
- At death, the payments from an immediate fixed annuity stop unless for a certain term and there is no residual value. At death, a municipal bond is included in the estate of the owner.

Which is a better source of cash for you? Contact us to view the comparison.

Annuities Can Help Reduce or Eliminate the Tax on Your Social Security Benefits

Prior to 1984, Social Security income was tax-free. Today, however, taxpayers could be paying tax on up to 85% of their Social Security income.⁷ The good news is that annuities can help reduce and sometimes eliminate the income tax on your Social Security income!

The IRS calculates the tax on your Social Security income based on your total income from all sources. However, income you earn on an annuity that is left to accumulate does not appear on your current tax return.

⁷ Per IRS Publication 17, www.irs.gov, single individuals and married with modified adjusted gross incomes exceeding \$34,000 and \$44,000, respectively, pay tax on up to 85% of their Social Security income. The explanation of the tax treatment of payments under an annuity contract is in IRS Publication 17.

Therefore, annuities may reduce your total income for Social Security benefit taxation purposes. In fact, if you shelter enough income in annuities and bring your income below the thresholds (adjusted gross income of \$25,000 for a single taxpayer and \$32,000 for a married taxpayer) you then pay no tax on your Social Security income.

Want to see if these calculations work to your advantage? Bring in a copy of your tax return (including Schedule B) to the professional who has provided this booklet to you. They should be able to let you know how much you could save in taxes.

Helping Preserve Your Retirement Assets by Taking Smaller Distributions

You own two pots of money: The money that has already been taxed (let's call it "regular money") and the money that has not been taxed (let's call this "retirement money" such as IRA, 401(k), 403(b), etc.). When you spend \$1 of retirement money, assuming your combined marginal tax bracket is 35% (32% federal plus 3% state), the cost to you would be \$1.54⁸ (\$1/.65) because you may have to pay federal and state income tax on the amount you withdraw. Therefore, if you want to reduce your taxes, consider taking no more than the required distribution from your retirement money.

Some people think they should never spend their principal, but this can be a mistake if you want to save taxes. It could be better to spend some of your regular assets first, so that you can take advantage of the tax-deferral benefits associated with IRAs and qualified retirement plans. You could be better off financially from an income tax standpoint. Your lifetime tax bill can be less or you will at least defer taxes for many years.

⁸ Federal income tax rates range between 0% to 37% under the federal tax code for 2025, and are based upon the taxpayer's level of annual income. State income taxes could also apply, which vary from state to state. Please note that federal and state tax laws are subject to frequent changes.

Consider the following hypothetical example that assumes you have a taxable regular money account and a tax-deferred retirement account with a \$100,000 balance each (see table below). Let's assume the money in each account earns a hypothetical return of 6% per year. Let's further assume that annual distributions of \$6,000 per year are being taken for a 20-year period. Under one scenario, the \$6,000 will be taken first from the taxable money and the other scenario considers what would happen if the money was taken first from the regular money. Under this example, you would have \$150,000 more at the end of 20 years by spending your regular money first. The upside is that you could potentially hold onto more money while you are alive.

Of course, the down side is that your beneficiaries will eventually have to pay income taxes on the money when you are gone. As the information provided by this example is hypothetical, actual results will vary depending upon the performance of your investments.⁹

Spend Regular Money First

	Today	In 20 Years
Spend Regular Money First		
Regular Money	\$100,000	\$40,916
IRA Money	\$100,000	\$320,713
TOTAL	\$200,000	\$361,629
Spend IRA Money First		
IRA Money	\$100,000	\$0
Regular Money	\$100,000	\$211,247
TOTAL	\$200,000	\$211,247

Assumptions: All money is assumed to earn 6%. This assumed rate is used for tax illustration purposes only and does not reflect any particular investment. Federal plus state income taxes are assumed to be 35% in this example, and your income tax rate could be lower

⁹ The fact that the beneficiaries are going to pay income taxes at a later date could be an advantage if they are in a lower tax bracket. As previously explained, estate taxes could also apply if the decedent's estate exceeds \$13.99 million for 2025.

based upon your annual income. This illustration covers a 20-year duration, with distributions of \$6,000 occurring each year. The income taxes on withdrawals are also deducted from the IRA account. For 2025, married couples filing joint returns are taxed on the first \$96,950 of their taxable income at the lower 10% and 12% rates and 22% for taxable income \$96,951 to \$206,700 IRS Rev. Proc. 2024-40 <https://www.irs.gov/pub/irs-drop/rp-24-40.pdf>

Do You Need Long-Term Care Insurance?

Maybe-Maybe not.



Statistics indicate that over half of all people over age 65 will require long-term care. In fact, the most current research statistics are below¹⁰.

More than half of people turning 65 who will have a long-term care need during their lifetimes. The average duration of nursing-home stay for men is 11 months. The average duration of nursing-home stay for women is 17 months.

- Females face a 58% probability of having at least one nursing home stay, compared to 47% for males.
- The probability of needing more than one year in a nursing home: men 22%, women 36%.

With such a great risk, doesn't everyone need insurance? After all, the cost of long-term care can run \$8,669 monthly or more in some locations.¹¹ The truth is, you may or may not need to buy insurance.

¹⁰ Morningstar "75 Must-Know Statistics About Long-Term Care" 8/31/17
<https://www.morningstar.com/personal-finance/75-must-know-statistics-about-long-term-care-2> visited 12/20/24

¹¹ Genworth Long Term Care Costs - Cost of Care Survey 2023 Semi-private room
<https://www.genworth.com/aging-and-you/finances/cost-of-care>

It comes down to the various income and asset resources you have available to you. To illustrate this, let's take a look at the varying needs of three general groups:

- **Low Resources**
- **High Resources**
- **Medium Resources**

These groups are organized according to their income and asset resources. When reviewing this information, please keep in mind that nursing home costs and Medicaid qualification rules can vary widely from location to location. As everyone's situation is different, the need for insurance can also vary among people within the same resource group.

Low Resources: This group has countable assets that are at or below the spend down limits imposed by their state Medicaid rules. Additionally, this group typically has monthly income below the average nursing home costs for the state where they live. In many cases, people that fall within this group will qualify for Medicaid without having to spend down their assets.

Countable assets include such things as cash, stocks, bonds, mutual funds, cash value insurance policies, CDs, boats, jewelry, and real estate investments.¹² In most states, you will only qualify for Medicaid if you have no more than \$2,000 in countable assets.¹³ Spouses of a nursing home resident who still live in the family home are allowed to retain countable assets up to \$157,920 (2025), depending on the Medicaid rules in their state.¹⁴ The Medicaid rules will allow the live-at-home spouse (also referred to as the "community spouse") to retain the family residence, a vehicle, and a modest amount of other assets for their support. The Medicaid rules also establish a monthly support allowance to help community spouses

¹² American Council on Aging

<https://www.medicaidplanningassistance.org/medicaid-spend-down/> visited 12/20/24

¹³ Limits for 2024, Medicaid.gov

<https://www.medicaid.gov/federal-policy-guidance/downloads/cib11152024.pdf>

¹⁴ *ibid.*

meet their living needs, and this allowance can be up to \$3,948 per month depending on state law.¹⁵ This means that if the community spouse's income falls below the allowance, the state will then allow the community spouse to keep an amount equal to the difference from the resident spouse's income. On the other hand, a community spouse is usually not allowed to retain any income from the resident spouse if their income exceeds the allowance.

In some cases, even this group might want to consider the insurance if the monthly allowance is below the community spouse's living needs. Nolo Press concludes, "those who have assets worth \$300,000 to \$500,000 above and beyond the value of their homes -- for whom LTC insurance may be a sound idea."¹⁶

High Resources: This group has sufficient monthly income to support the community spouse's living needs and to cover the monthly nursing home costs in their area (which will vary from location to location). Alternatively, this group may have enough countable assets set aside to meet a three to five year nursing home stay (\$200,000 to \$350,000 per spouse, depending on nursing home costs in their community).¹⁷ Many of these people, still do, however, obtain insurance because it can help them protect their estate from being reduced by a long-term care need. Most importantly, it can give them some added assurance by providing a separate source of funds to be used for long-term care needs.

Medium Resources: This is the group that often needs the insurance. This group of people has countable assets that exceed the Medicaid limits, but they don't make enough money to cover the monthly costs of nursing home care in their area. Another thing that separates this group from those with high resources is that they lack a

¹⁵ *ibid.*

¹⁶ Nolo Press

<https://www.nolo.com/legal-encyclopedia/long-term-care-insurance-risks-benefits-30043.html> visited 12/20/24

¹⁷ Assuming that the \$8,669 monthly nursing home costs apply, a 2.5 year nursing home stay for a senior citizen could deplete an estate by \$260,000 or more over such a timeframe. Genworth Long Term Care Costs - Cost of Care Survey 2023

separate source of assets to cover an extended stay in a nursing home. For this group, having to come up with \$8,669 per month over a long-term period could potentially deplete their estate or create an economic hardship for the community spouse. If you are in this group, you should consider long-term care insurance. This insurance could help secure your financial independence. It can also help to preserve cherished assets for spouses and younger family members.

An Annuity That Tracks Market Performance



Choosing a suitable vehicle for your retirement is not an easy task. With the numerous choices, which product is better suited for your needs? On one hand, you might want the guarantee of principal and past earnings. On the other hand, many prefer the potential of higher returns by being linked to the equity markets.

Would you like an annuity that tracks the performance of the stock market, yet helps to protect your principal when the market declines? The equity-indexed annuity could help you to cover these objectives.

The equity-indexed annuity can offer some market risk protection, tax deferral, a minimum interest rate guarantee, probate savings and guaranteed minimum income payments for life. The interest earnings for these annuities are based upon the growth in an accepted equity index, such as the S&P 500 Index, Dow Jones Industrial Average, and Russell 2000. The interest rate applied to these annuities is based upon the overall movement of the index.

Many of these annuities will base the interest rate upon a pre-determined percentage of the market movement. For example, let's assume for illustration purposes that the annuity company set its participation rate at 50% of the index movement of the S&P 500. Let's assume that the S&P 500 had a good year and increased by 30%

(this is a hypothetical assumption and is not based upon the performance of any particular investment). Let's also assume that the interest rate could actually move as high as 15% before any rate limitations were applied. Based upon the facts of this example, the interest rate that would apply to this hypothetical account would be 15% (before contract fees and expenses are subtracted from the account balance). Please note, that participation percentages do vary among companies and can range anywhere from 50 to 90%.¹⁸

Some companies also set a cap on the interest rate, which can vary from company to company (typically 10%).

The second fundamental feature of these annuities is the market risk protection. In the event that the market index should go down, this feature will help prevent your principal investment from being reduced below a certain percentage of your principal investment. The minimum guaranteed account value typically can also vary among companies and generally ranges anywhere from 75 to 100% of your premium, depending upon the type of product involved.

Notwithstanding the benefits previously discussed, there are many other things that should be considered before a purchase is made, including:

1. Surrender Fees: Like fixed deferred annuities, equity-indexed annuities have penalties for early withdrawal called surrender charges. These charges can result in a loss of your principal investment (see discussion below on withdrawals). These charges typically decline over the length of the surrender charge period (typically five to 15 years, depending upon the company).

2. Tax Consequences: These annuities are also suited for investors with long-term investment horizons. Withdrawals from these annuities can also subject the annuity owner to income taxes, and prior to age 59½, an additional 10% income tax penalty on the distributed amount.

¹⁸ All Things Annuity http://www.allthingsannuity.com/best_indexed_annuity.htm
visited 12/20/24

3. Features Vary Among Insurance Companies. There are many companies that are offering these types of annuities, and the methods of calculating the minimum and maximum interest rate vary greatly among them. Although many companies offer a minimum interest rate (typically ranging between 1.5 to 3%), some companies offer minimum interest rates as low as 0%.

4. Fees and Expenses: Asset management fees will be incurred on these annuities. Maintenance fees, sales commissions, trading costs and other contract charges could also apply. These charges will, in many cases, reduce the account value of these annuities.

5. Loans and Early Withdrawals: Although some companies do allow you to take minimal withdrawals with surrender charges, it is important to remember that some withdrawals can affect the amount of market downside protection provided under the contract.

6. Company Stability and Regulatory Oversight: All annuity features are guaranteed by the claims-paying ability of the issuing company. The guaranteed account value of an equity-index annuity applies only if the annuity is held until the end of the contract term, and that loss of principal is possible if the annuity is surrendered before the end of the contract. Despite the market participation feature, the various state insurance departments regulate these products.

Do you want to know more about these annuities? Please call for more information.

How Roth IRAs Could Lower Your IRA Distribution Taxes

One thing you can consider to save on federal income taxes during your retirement is to convert your qualified tax money into a Roth account. By doing this, you could shield any appreciation



on these assets from federal income taxes. Additionally, distributions from these assets will come to you free of income taxes as well. This, of course, assumes that the holding period rules are satisfied (age 59½ and the five year holding period).

Unlike the traditional IRAs, the owner of a Roth is not required to take distributions at any age.

Also, any distributions you do take from Roth accounts are **not counted** for purposes of figuring income taxes on Social Security benefits. This provides Roth owners with another tax benefit that cannot be achieved from a traditional IRA.

Although an income tax must be paid if you convert your retirement money to a Roth, the potential for future tax savings could make this a good strategy. For instance, let's consider an example where a taxpayer converts \$300,000 of traditional IRA money into a Roth IRA. Let's further assume that the Roth money is invested in a diversified portfolio of investments. If we assume over the long-term that the investments grew at 10% for 15 years, the accumulated value of this portfolio would be \$1.2 million. Although the portfolio grew by \$900,000, no income tax is paid in the future. Although your beneficiaries are required to withdraw the balance within 10 years (inheriting spouses may withdraw based upon their life expectancies), any future appreciation in the account will come to them free of income taxes. Please remember that investments in traditional and Roth IRAs are subject to various levels of market risk, depending on the type of investments held in the accounts. Therefore, you should never assume that your IRA investments will perform in the same way as was explained in this example. Your results will likely vary from this example.

Please call if you would like more information about Roth IRAs.

About Bob Planner



Bob Planner has been assisting seniors for 12 years to protect their assets and invest wisely. In fact, he has assisted over 1000 retirees to safely invest over \$500,000,000 into secure investments. He has advised retirees of IBM, AT&T, Chevron, and General Electric. First Name Last Name is a junior partner with Mid America Financial Services and an expert in helping retirees preserve their assets and increase their income.

Bob graduated from Colgate University in 1972 after some undergraduate work at the University of Chicago. After initial coursework at George Mason University, he received a master's degree from Western Illinois University in 1996. He also holds a master's degree from Christian Bible College in Rocky Mount, North Carolina. To avoid the most frequent ways that many retirees ruin their finances, do not miss one of Charlotte's best speakers. Call for seats today.

About ABC Company Name

Bob Planner Investment Advisory LLC seeks to preserve clients assets and our style would be properly considered "conservative." Most of our clients are age 60+ and most are retired. Our approach has been successful in preserving client account values even during volatile times.

- **Estate Planning** - Includes assistance with living trusts and elimination of estate taxes.
- **Wealth Management** - preserve your capital.
- **Financial Planning** - help you maximize all of your financial opportunities--lower debt expense, reduce taxes, prepare for future events and required income streams
- **Insurance Services** - assure that your risks in life are insured for so that an unforeseen event does not destroy your savings and financial plan

**Phone today with questions or to see if we can help you.
There is no charge for an initial meeting.**

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