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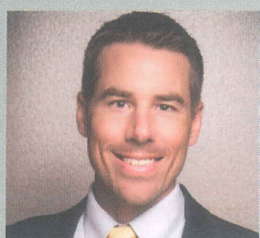
FOUR STEPS TO ZERO TAXES IN RETIREMENT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When it comes to retirement planning, most people prepare to leave money for their families, but forget one crucial family member: Uncle Sam. Taxes affect everyone, but too often the investment community gleans over the government's share. To that point, here is how to to prepare for lower or no taxes in retirement.

Step 1: Accept the facts

It is hard to separate media frenzies from the real economic issues – ones backed by solid data that have an impact both domestically and globally. The national debt, which is $18 trillion and growing fast, can impact your retirement. Moreover, 85%[1] of every dollar of our nation's gross domestic product is gobbled up by entitlement programs (Social Security, Medicare, Medicaid, etc.) and interest on the national debt, and shows no sign of slowing down. With 0% interest rates having nowhere to go but up, there will be interest payments on our national debt, and our likely future tax rates, like you can't imagine.

Step 2: Analyze your situation

First, let's discuss the three primary "buckets" of money:

1) Taxable — your savings, checking, possible CDs, etc.
  a. Taxed only on gains

2) Tax-deferred — 401(k)s, 403(b)s, SEPs, IRAs, 457s, etc.
  a. Taxed on 100% of withdrawals

3) Tax-free — Roth IRA, cash-value life insurance, etc.

Social Security income doesn't fit in these three buckets as it is "tax-preferred," which means the taxable amount (between 0% and 85%)[2] depends on your other retirement income. Next, putting Social Security to the side, determine your expected future income sources and current assets in these three buckets. Now ask yourself, if you knew taxes were going up (10%, 20%, or 50%), which bucket are you most concerned about?

Step 3: Arrange your optimal account buckets

If we agree taxes are likely going up, and we want to arrange our bucket amounts for the best chance at 0% future taxes, then what is the proper amount to have in each bucket? This depends on your specific situation, but in general you should target:

Bucket No. 1) Six months of income needs
Bucket No. 2) Minimal (depending on other non-Social Security income sources)
Bucket No. 3) As much as possible!

To shift these assets from buckets Nos. 1 and 2 to bucket No. 3, you'll likely need to utilize tax-free options such as Roth IRA contributions, Roth IRA conversions and life insurance retirement plans.

Step 4: Act now before it's too late

There are no IRS limits on how much a person can convert from an IRA to a Roth IRA. However, this might not be the case in 5 or 10 years. This process will likely take multiple years, but it's one to which you must commit. Yes, you will have to pay taxes during this process, but if done correctly, you will be paying taxes at historically low rates and protecting your family from future taxes.

Your specific action plan will depend on many factors, including your age, health, current bucket amounts, income sources, retirement goals, tax situation, and so on. In general, you want to move as many assets from bucket No. 2 (tax-deferred) to bucket No. 3 (tax-free) using the strategies discussed in Step 3. If and when you accomplish a 0% tax rate, you will never have to pay Uncle Sam another penny in retirement.

If you feel taxes will likely be going up, then now is the time to implement a plan. We encourage you to work with an independent financial advisor who has experience structuring comprehensive retirement income plans for the 0% tax bracket.

[1]Source: (Heritage.org, "Federal Spending by the Numbers 2014", December 2014, http://www.heritage.org/research/reports/2014/12/federal-spending-by-the-numbers-2014 (accessed October 2015).
[2]Source: (IRS.org, Publication 915, http://www.irs.gov/pub/irs-pdf/p915.pdf).

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