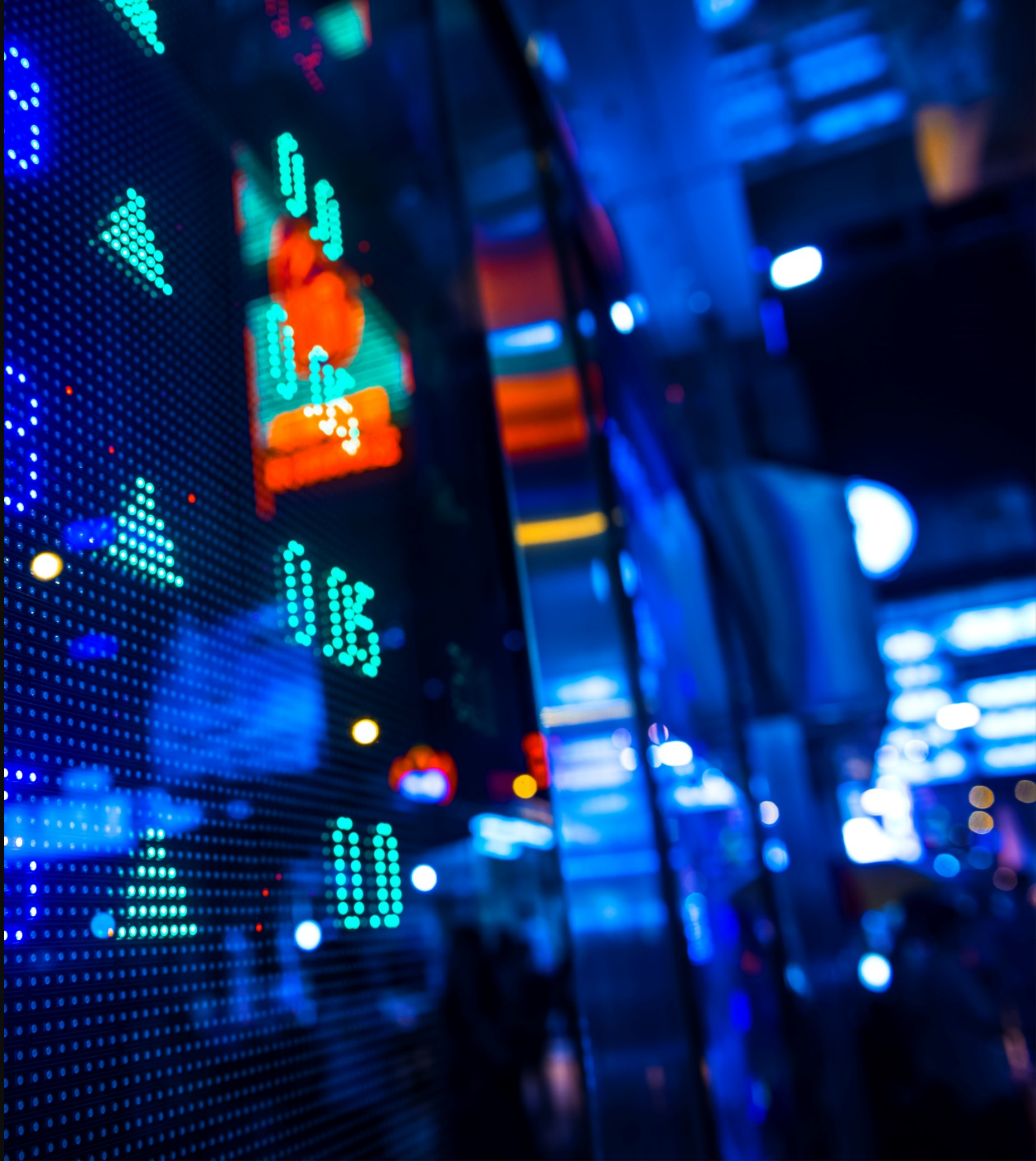
YOUR 401K (OR 403B, 457, TSP OR TRADITIONAL IRA)

THE TICKING TAX TIME BOMB!

What is it and what you can do about it



NOT A BAD DEAL, RIGHT?

Just about every financial expert we know advises savers to contribute to their company's 401(k) plan — at least enough to receive the employer's matching contribution.

And we agree.

That company match is free money — so why not cash in if you can?

And, of course, the tax breaks are another bonus. Because the money comes out of your paycheck before tax and compounds every year without a bill from Uncle Sam, investing in a defined contribution plan is bound to make April 15 more tolerable.

Not a bad deal, right?

Until you're ready to retire, that is. That's when a 401(k) (or 403(b), 457, TSP or traditional IRA) suddenly becomes the worst possible retirement plan, from a tax perspective, a saver could have.

Here's why:

When you eventually make withdrawals from a traditional defined contribution plan, you'll have to pay regular income taxes on that amount each year, whether the money came from your contributions, dividends or capital gains. And the money will be taxed at your income tax rate at the time you withdraw it — whatever that may be. (The top marginal income tax rate for 2020 is 37%, but it's likely to change down the road.)

You've likely been told you'll be in a lower tax bracket in retirement, but that isn't necessarily true. If you keep the same standard of living, you will require about the same amount of income, which means the same tax rate. And in retirement, when your children are grown, your house is paid for and those substantial tax deductions have gone away, you may end up in a higher bracket.

EVERY DISTRIBUTION YOU TAKE WILL BE TAXED AT YOUR HIGHEST RATE.

YOU WILL HAVE DOUBLE TAXATION

Besides paying income taxes on the money coming out of your retirement plan, depending on how much you withdraw each year, you also could end up paying more taxes on your Social Security benefits.

If you are like many retirees, you may not realize that distributions from your retirement plans (except for a Roth IRA) count against you when you calculate how much of your Social Security is subject to tax. So, you pay tax on your retirement plan distribution, and then you pay tax again on more of your Social Security income. And, don't forget, if you have capital gains, dividends and interest from investments, you may end up paying more taxes on those as well.

Your traditional defined contribution plan is pretty much the only type of retirement account that requires you to withdraw money even if you don't want to. The IRS won't allow you to keep retirement funds in your account indefinitely, however thanks to the recent passage of the SECURE Act, you have a little more time before those required minimum distributions must begin. You generally must start taking withdrawals when you reach age 72 (previously the age was 70½, and it still is for anyone born before July 1, 1949). If you don't, or if you make a mistake in calculating your required minimum distributions (RMDs), you may have to pay an additional 50% tax.

YOU MUST WITHDRAW MONEY WHEN THE IRS SAYS SO, WHETHER YOU WANT TO OR NOT

IT'S THE WORST ACCOUNT TO LEAVE TO A SURVIVING SPOUSE

If you want your spouse to be financially secure and your solution is to leave behind a big IRA or 401(k), think again. You're leaving behind a fully taxable account to someone who is about to go from the lowest-obligation tax status (married filing jointly) to the highest-obligation tax status (single).

It's the opposite of what you should do.

YOUR ACCOUNT IS FULLY EXPOSED TO TAX LAW CHANGES

You have a silent partner in your 401(k), and his name is Uncle Sam. Every time Congress meets, there's a chance the government could decide to increase the IRS' share of your savings — and quite frankly, you have nothing to say about it. If you don't think that's a problem — if you don't expect tax rates to increase in the future — check out www.usdebtclock.org.

SO, WHAT SHOULD YOU DO?

If you're somewhere between Point A (when saving money in a 401(k) plan seems like a great idea) and Point B (when withdrawing money from a 401(k) seems like a very bad idea)?

You should sit down with your tax planner (not your tax preparer) every year to identify strategic ways to exit out of these accounts. What's the difference between a tax planner and a tax preparer?

Well, a tax planner educates you on ways to reduce your taxes now and in the future, while a tax preparer just calculates your tax bill and sends it off to the IRS.

SO, WHAT SHOULD YOU DO?

You may want to move that money from a traditional IRA to a Roth IRA through Roth conversions — realizing that you'd have to pay the tax bill on the amount you're converting. Or you could move it into a specially designed life insurance plan that works very similarly to a Roth. But don't mess with the life insurance option unless you're working with someone who truly understands that environment, such as NMIN Advisor.

You'll pay a little extra in taxes today, but you'll eliminate every problem I've talked about here:

- Any future distributions from those accounts will be tax free instead of taxable.
- They won't count against your Social Security or capital gains tax calculations the way they do when you're in a traditional IRA.
- You won't have forced distributions from either the Roth or specially designed life insurance plan.
- You'll have tax-free money to leave behind for a surviving spouse.
- And you should be immunized against any actions Congress might take to increase the government's share of your savings.

DO THIS TODAY!

If your curious to see what the total tax liability in your current IRA, 401k, 403b, 457 or TSP would be.

› *We can run a tax analysis for you.*

If you'd like to consider how your current IRA, 401k or other retirement plan may accumulate and what your RMD's (Required Minimum Distributions) could look like in the future.

› *We can provide a projected RMD analysis for you.*

If you're interested in alternative or supplemental approaches like the specially designed life insurance plan or Roth.

› *We can show you customized values and illustrations that are customized just for you.*

Let us help you review your current situation, find out your financial goals and then help you find a strategy that can give you a more financially confident retirement future.

Just Click Here for a free consultation to see how we can help you.