MissionSquare
RETIREMENT

Tax Planning

Taxes may be a significant expense during your working and retirement years. Better understand and manage taxes related to your retirement assets and income.

1 Start with the Basics

- **Plan for taxes.** When projecting expenses, including for retirement, don't forget taxes.
- **Understand income tax brackets** for 2022. Most of your taxable income is taxed as ordinary income, with higher amounts taxed at higher rates.

Rate	Single Individuals	Married Individuals Filing Jointly	Heads of Households
10%	Up to $10,275	Up to $20,550	Up to $14,650
12%	$10,276 to $41,775	$20,551 to $83,550	$14,651 to $55,900
22%	$41,776 to $89,075	$83,551 to $178,150	$55,901 to $89,050
24%	$89,076 to $170,050	$178,151 to $340,100	$89,051 to $170,050
32%	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950
35%	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $539,900
37%	Over $539,900	Over $647,850	Over $539,900

Learn more: www.irs.gov

- **Don't make decisions based solely on taxes.** Investments and decisions that generate taxes may still make sense.
- **Be wary of complex investments and strategies** that claim to minimize or avoid taxes. They may include high costs, restrictions, and illiquidity.

2 Take Advantage of Retirement Accounts

- **Enrolling in your employer's retirement plan and an IRA** can provide tax benefits that grow your savings. In a 457 plan, you can contribute up to $20,500 for 2022 and even more in your late career years (catch-up contributions). An IRA complements your employer-sponsored retirement plan, and you can contribute another $6,000 ($7,000 if you're age 50 or over) to your retirement savings in 2022. You may also be able to contribute accrued sick and vacation leave. Two 457 plan catch-up options might be available to you during 2022:

Option	You may be eligible if	Save up to	For a total limit of
Age 50	You're age 50 or over as of the end of the year.	+ $6,500	$27,000
Pre-retirement	You're within three years of the year in which you reach your plan's normal retirement age.	+ $20,500	$41,000

The two catch-up provisions cannot be combined in the same plan year.

Learn more: www.icmarc.org/contributionlimits

- **Diversify your investments with Roth assets.** It's hard to predict your exact tax situation in retirement, so evaluate Roth contributions and conversions for an IRA or your 457 or 401(k) plan. Tax-free Roth distributions can help you manage your overall tax bill when you begin taking distributions.

Learn more: www.icmarc.org/ira | www.icmarc.org/rothconversion

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3 Use Non-Retirement Accounts for Added Savings

- **Consider taxable account investments,** especially if you're able to max out your retirement account contributions. Understand their different tax treatment:
  - Profits on sales of investments held over a year are taxed at lower capital gains rates. The amount of your original purchase(s) is not taxable.
  - Many stock dividends are qualified and are taxed at the lower capital gains rates.
  - Municipal bond interest is typically not subject to federal taxes but may be subject to state taxes. Profits from the sale of municipal bonds are subject to capital gains taxes.
- **Minimize tax costs** by aiming to own investments that tend to generate lower tax bills, like broadly diversified index and tax-managed stock mutual funds.
- **High-income individuals** may face an added 3.8% tax on various income, including taxable interest, dividends, and capital gains. Retirement account distributions are not included but could cause that income to become subject to the tax.

4 State and Local Taxes

- **Consider all state and local taxes.** While some states have no income tax, other taxes such as sales, gas, and property may be relatively high.

Learn more: www.kiplinger.com/tools/retiree_map

5 Social Security and Medicare

- **Know whether your Social Security benefits are taxable.** Typically 50% to 85% of your benefits can be taxed as ordinary income.

Learn more: www.ssa.gov | IRS Publication 554

- **Find out whether Medicare Part B and D premium surcharges apply to your plan.**
- **Ensure you're within the plan limits.** You have to pay higher premiums if your adjusted gross income + tax-exempt interest income is just $1 over the limit of $170,000 (married filing jointly) or $85,000 (all other filers).
- **Evaluate yearly, and plan in advance.** The surcharge is typically based on tax returns from two years prior (for example, your 2021 tax return is used to determine 2022 premiums). Begin to evaluate around age 63 – two years prior to Medicare eligibility at age 65.

  Learn more: www.medicare.gov

6 Withdrawing from Retirement Accounts

- **Know the basics about retirement account distributions.** Defined benefit pensions, 457/401 plans, and traditional IRAs are all taxed as ordinary income.

  Example: If you want to withdraw $10,000, it's taxable to you at a combined federal/state rate of 30%. Therefore, you have to withdraw $14,285 to receive $10,000 after taxes.

  Exceptions include:
  - Qualified distributions of Roth assets, including earnings, are entirely tax-free.
  - Distributions of after-tax and non-deductible contributions are not taxable.
- **Tax withholding may not equal yearly tax liability.** The IRS requires 20% withholding for employer plans, but you'll owe more or less based on your tax situation that year. State tax withholding may also apply.
  - **Avoid penalty taxes.** If you're under age 59½, an additional 10% penalty tax may apply, except for the following:
    - **457 plans** – The penalty doesn't apply regardless of your age.*
    - **401 plans** – No penalty applies for plans sponsored by an employer you left in the year you turned age 55 or older.
    - **401 plans, IRAs** – Other exceptions may apply.

Learn more: IRS Form 5329 Instructions

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- **Plan for yearly required minimum distributions (RMDs)** from your 457/401 plans and traditional IRAs. Beginning the year you reach age 72, you must take RMDs from your retirement accounts or be subject to a penalty tax.

  Exceptions include:

  - Roth IRAs
  - Your very first RMD, which can be delayed until April 1 of the following year, but would require you to take two RMDs that year
  - Retirement plans sponsored by your current employer, for which RMDs can be delayed until the year you separate from service

- RMDs are taxable, except to the extent they represent after-tax or non-deductible contributions, and can't be rolled into another retirement account.

Learn more: www.icmarc.org/rmd

7 Your Overall Investment Withdrawal Strategy

- **Put your investments into buckets**

Taxable Account Assets	Retirement Account Assets Subject to Tax	Roth Assets

- **Lower the tax bill** as long as possible by drawing down all taxable accounts before tax-deferred retirement account assets (other than RMDs), and delaying withdrawals of Roth assets to maximize potential tax-free growth.
- **Take your tax bracket into account.** If you're in a relatively high or low tax bracket in a given year, it may make sense to draw heavily from a particular bucket. For example, withdrawing more tax-free Roth assets may be beneficial if you're in a high tax bracket.

Learn More

- Get help from a qualified tax professional.
- See detailed rules about your 457/401 retirement plan assets in MissionSquare's Special Tax Notice Regarding Plan Payments: **www.icmarc.org/taxplanning**.
- Consult your MissionSquare Certified Financial Planner™ professional or Retirement Plans Specialist.

* The 10% penalty tax never applies to withdrawals of original 457 plan contributions and associated earnings but may apply to non-457 plan assets rolled into a 457 plan and subsequently withdrawn prior to age 59½.

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