S.M.A.R.T Strategies for Maximizing Clients' Retirement Assets

An Overview of Social Security and New Tax Laws

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[Optional Slide for Merrill Lynch / Bank of America]

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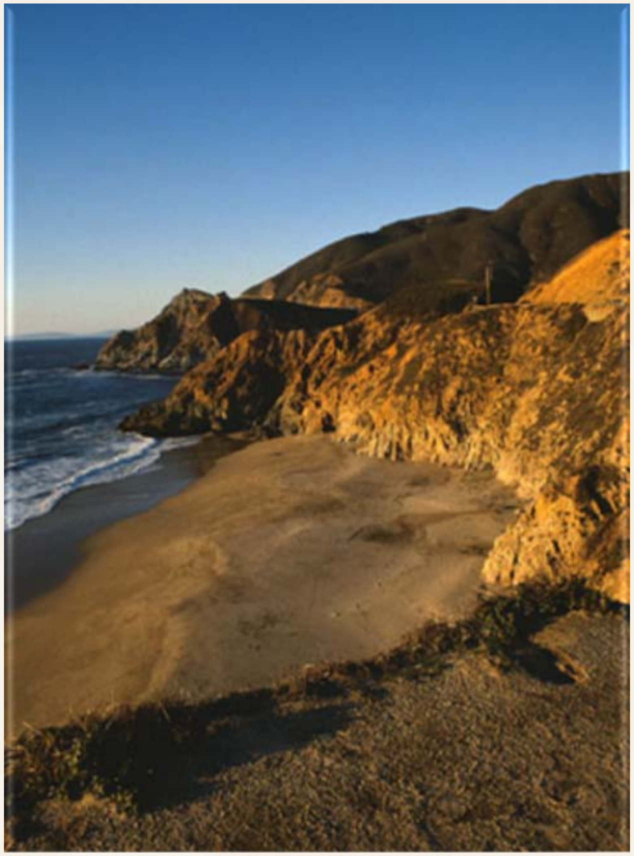
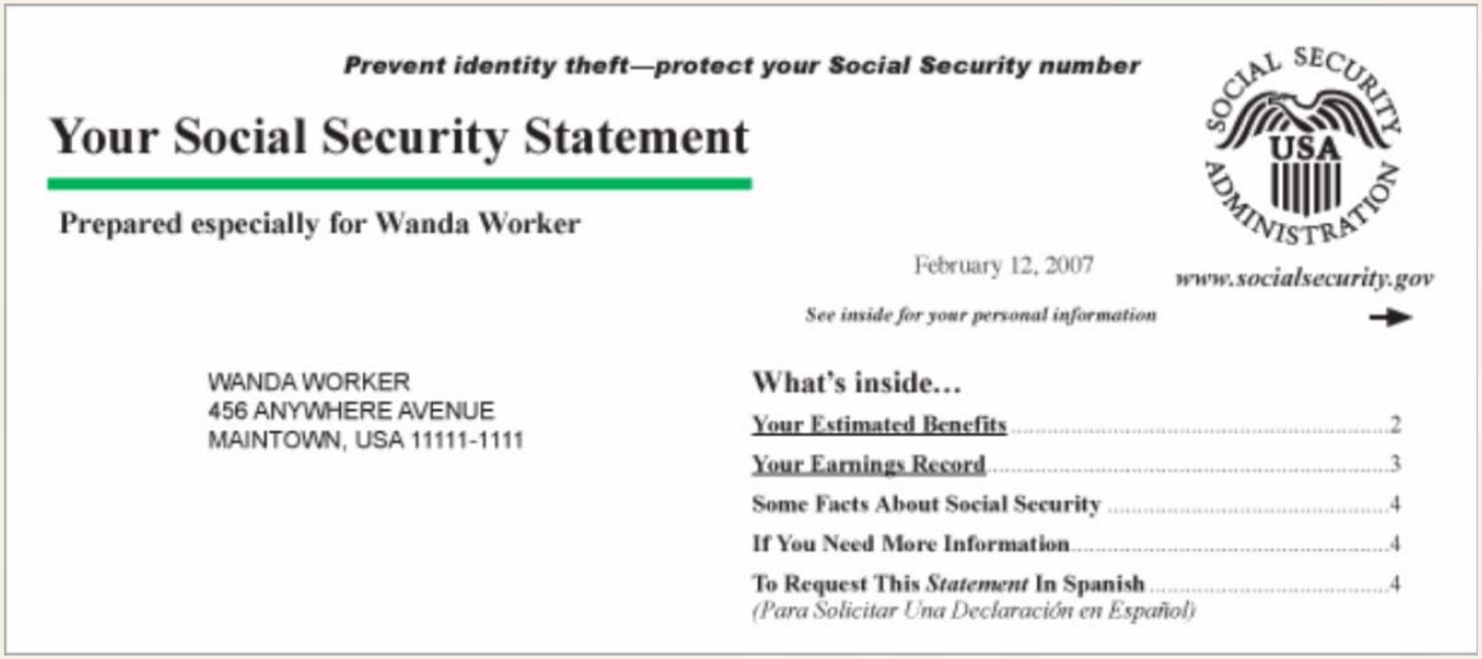
Social Security Taxes Wages: 15.3%

- **Employee and employer each pay**
  - 6.2% for Social Security (OASDI)
  - 1.45% for Medicare Hospital Insurance (HI)
- **2010 maximum earnings taxable**
  - $106,800 for Social Security
  - No limit for Medicare



Social Security Statement



Prevent identity theft—protect your Social Security number

Your Social Security Statement

Prepared especially for Wanda Worker

February 12, 2007

www.socialsecurity.gov

See inside for your personal information

WANDA WORKER
456 ANYWHERE AVENUE
MAINTOWN, USA 11111-1111

What's inside...

http://www.ssa.gov/mystatement/statsamples.htm

Commencing Benefits

- **An individual may choose to receive**
  - Reduced benefits at early retirement age
  - Full benefits at full retirement age, or
  - Increased benefits if benefits are delayed beyond full retirement age

Early Retirement

- You can claim retirement benefits as early as the first full month you are age 62 if you are fully insured (even if your full retirement age is later than 65)

- Your benefit will be reduced $^{5}/_{9}$ of 1% for each month below full retirement age for the first 36 months, and $^{5}/_{12}$ of 1% for subsequent months

Early Retirement Age

Commence Benefit at Age 62

Full Retirement Age	Benefit Reduction
65	20%
66	25%
67	30%

Full Retirement Age

Year Born		Full Retirement Age
1937 and earlier	=	**65**
▪ Add 2 months to each year after 1937 until 1943		
1943 - 1954	=	**66**
▪ Add 2 months to each year after 1954 until 1960		
1960 and later	=	**67**

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Delayed Retirement

- **Benefits can be increased if you delay commencement beyond full retirement date**
- **Benefits will continue to increase until you reach age 70**

Delayed Retirement

Example

Year of Birth	Yearly Increase
1939-1940	7.0%
1941-1942	7.5%
1943 or later	8.0%

When to Commence Benefits

- **Deciding when to commence benefits can be a daunting experience**
  - Do you decide to draw reduced benefits which will be payable over a longer payout period?
  - Do you wait until reaching full retirement age?
  - Do you choose a delayed retirement date to maximize your monthly benefit?

Part of the Decision Process

- ☑ Family history for longevity?
- ☑ Still working?
- ☑ Personal health?
- ☑ Other income to support you?
- ☑ Will other members qualify for benefits on your record?

Earnings Test—2010 Limits

- **Under full retirement age** — **$14,160/year**
  - $1 of benefits withheld for every $2 in earnings above the limit
- **Year individual reaches full retirement age** — **$37,680/year**
  - $1 of benefits withheld for every $3 in earnings above the limit for months prior to attaining full retirement age
- **No limit on earnings beginning month individual attains full retirement age**

Taxable Social Security Benefits

- **Formula**
  ½ of Social Security benefits plus modified adjusted gross income (mAGI). This is often called Provisional Income
- **If this amount exceeds the base amount, benefits become taxable**

- **Single or Head of Household**
  - Base amount = $25,000
  - $25,000 - $34,000 = up to 50% taxable
  - Above $34,000 = up to 85% taxable
- **Married Filing Jointly**
  - Base amount = $32,000
  - $32,000 - $44,000 = up to 50% taxable
  - Above $44,000 = up to 85% taxable

Modified Adjusted Gross Income

- **Modified adjusted gross income (mAGI) includes reportable income increased by certain tax-exempt amounts, such as:**
  - Tax-exempt interest
  - Exclusions for qualified U.S. savings bonds interest (Form 8815)
  - Adoption benefits
  - Foreign earned income or housing
  - Allowable IRA deduction

Recent Tax Legislation

- **Given the potential taxability of Social Security benefits, let's talk about some strategies you may want to consider for your clients in light of these new tax laws:**
  - **Tax Increase Prevention and Reconciliation Act**
  - **Pension Protection Act of 2006**

Tax Increase Prevention and Reconciliation Act

Current law as of 1/1/2010:

- The $100,000 AGI limit for Roth Conversions is eliminated
- Consider making after-tax contributions to a traditional IRA and then converting

For a conversion that occurs in 2010, the taxpayer can elect to include the income ratably in 2011 and 2012.

Pension Protection Act of 2006

- Portability of employer plan assets
- Permanence of Roth 401(k)

Portability of Employer Plan Assets

- **Employer plans can be rolled directly to Roth IRAs**
- **As of 2008**
  - No need to first go through a traditional IRA
  - Tax is paid in the year of the rollover
  - Beginning in 2010, the $100,000 conversion threshold no longer applies
- **As of 2007, non-spouse beneficiaries can transfer inherited employer plan account to inherited IRA subject to beneficiary RMD rules.**
  - Plans are required to allow non-spouse rollovers for plan years in 2010

Roth 401(k)

- **Elective deferrals are made on an after-tax basis; no income limits for making elective deferrals**
- **Combined traditional/Roth 401(k) elective deferral limit**
- **Distributions are tax-free and penalty-free if:**
  - the account has been open for 5 tax years
  - AND the plan participant is
    - age 59½;
    - deceased; or
    - disabled
- **RMD requirement at age if participant has separated from service at age 70½**

Next Steps

- **Review your book**
  - Segment your clients – look for clients approaching age 62
  - Review your clients' Social Security statements
- **Talk to your individual and/or plan sponsor clients about Roth**
- **Consider variable annuities to meet your clients' retirement income needs**

Thank you

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Conversions to a Roth IRA are generally fully taxable. Before you convert to a Roth IRA, consider how your tax bracket will affect the overall benefit of the rollover. Conversion income may push you into a higher tax bracket. It is, however, possible to convert only part of your traditional IRA. This could enable you to remain in the same tax bracket you would be in without the conversion.

It is generally advisable to pay the taxes on the conversion with funds other than those in your traditional IRA. If you are under age 59½ when you do a conversion, any funds not deposited in the Roth IRA will be subject to the 10% federal income tax penalty (unless an exception applies).

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