PLAN FOR A SMARTER LOWER-TAX RETIREMENT

SENTIENT
WEALTH GROUP

Why focus on retirement tax planning? Simply put, the realities of retirement have changed—drastically.

Pensions are fast becoming a thing of the past. By replacing pensions with plans such as a 401(k), employers are shifting the burden of investment responsibility to the individual. This shift also forces tax decisions on you in whether funding or the pre-tax or Roth portion of your 401(k) and distributing money smartly in retirement to recreate your paycheck. Receiving a monthly pension check is much simpler.

People are living longer. An average couple entering retirement today in their early 60s is expected to have one spouse live into their mid-90s. Your retirement could easily last 30 years or more. Your money needs to last at last as long as you do. Being as tax-efficient as possible helps.

Investment markets are unpredictable in the short term. Sound financial planning can get through short-term market fluctuations and focus on the aspects of your finances that are more controllable. Tax planning, for example, is one way to help keep more wealth on an after-tax basis and available for spending.

So current law has lower rates and wider brackets. But these rates will rise in 2026. Given persistent budget deficits and an aging demographic that will put more strain on our government's finances through spending on programs like Medicare, Medicaid, and Social Security, it is quite possible tax rates will have to rise potentially much more. The time to plan is now.

The Catch-22 and the Smarter Way

Let's be clear. Tax planning is looking forward over a multi-year period in an attempt to maximize your wealth after taxes. Using tax software or a tax preparer to try and gain an extra deduction helps but is limited in its effectiveness. It is like driving a car looking in the rear-view mirror. The book has already been closed on the tax year.

And here's the catch: your tax preparer generally does not perform proactive tax planning for individuals unless you are a key client with a big business. Regardless, your tax preparer cannot advise on your investments, which are certainly related to your tax planning. They're also not privy to your retirement goals nor the portfolio distributions required to meet those goals. Missing the longer-term view of things doesn't allow a multi-year approach when striving to maximize your wealth.

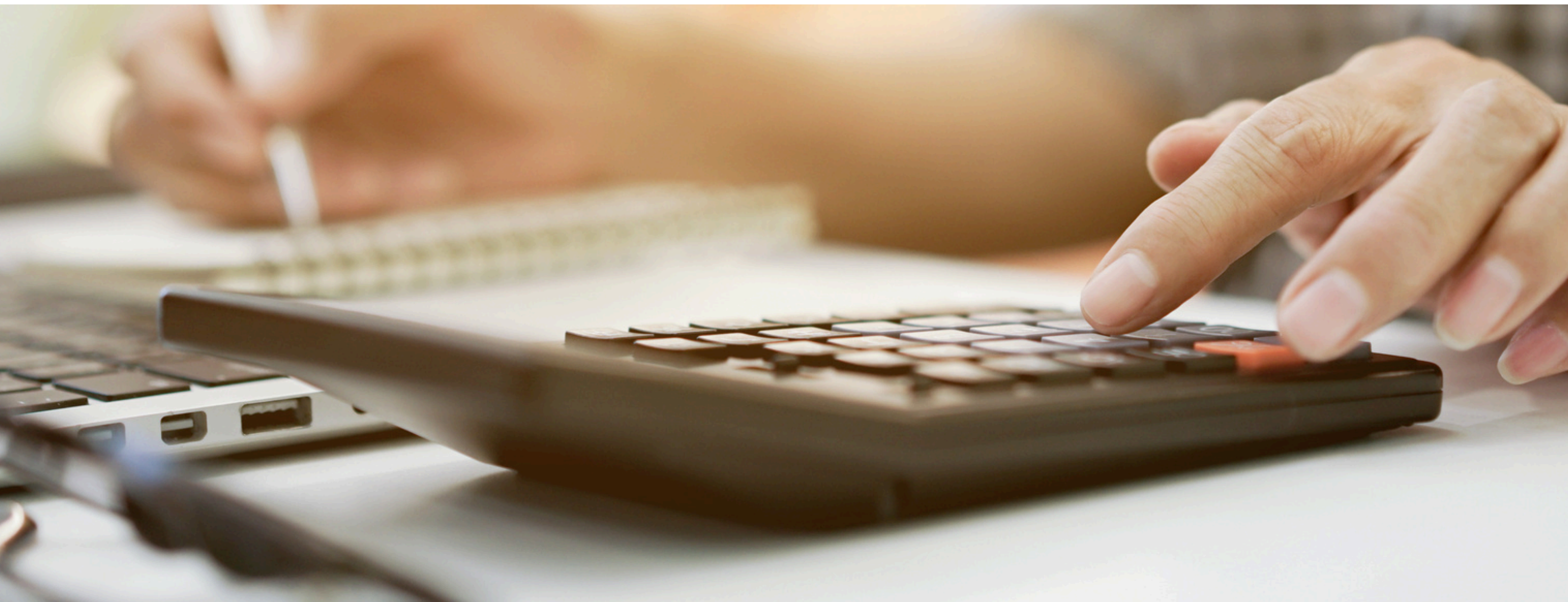
How about your average financial advisor? Well he may not understand your various marginal tax rates let alone how to explain and execute tax planning strategies that could save you money.

Either you are never made aware of the tax planning opportunities you have, or if you are, around and around you go in trying to get help to capitalize on them ... the dreaded catch 22.

The earlier you begin a tax-wise retirement strategy, the more options you'll have. However, these options can be confusing to understand and complex to implement. That's why it's so important to work with an advisory practice with expertise in handling the integration of your financial life planning, investments, and tax planning into a coordinated strategy.

There are many tax planning strategies you can apply. We will guide you through the basics of three primary tactics you can incorporate into your financial plan to help you work toward a lower-tax retirement.

- Tax-Smart Distribution Strategy
- Managing Capital Gains
- Converting to Roth IRAs



Tax-Smart Distribution Strategy

Investment accounts fall into three basic tax account types we'll call "tax buckets":

- Taxable
- Tax-deferred
- Tax-free

TAXABLE:

- Brokerage account, Trust account, Savings, CD
- Contributions are made after-tax, income from dividends and interest are taxable yearly; capital gains are taxed when investments are sold; unlimited contribution.

TAX-DEFERRED:

- 401(k), 403(b), 457, Traditional IRA, Deferred compensation plans, Pension plans
- Contributions are tax-deductible, growth is not taxable until distributions begin; limited contributions and required distributions. Withdrawals prior to age 59 ½ may result in a 10% IRS penalty tax in addition to current income tax.

TAX-FREE:

- Roth 401(k), Roth IRA, 529 plan, Health Savings Account
- Contributions are made after tax, growth is generally not taxable even upon distribution; limited contributions but no required distribution. Prior to investing in a 529 Plan investors should consider whether the investor's or designated beneficiary's home state offers any state tax or other state benefits such as financial aid, scholarship funds, and protection from creditors that are only available for investments in such state's qualified tuition program. Withdrawals used for qualified expenses are federally tax free.

Tax treatment at the state level may vary. Please consult with your tax advisor before investing.

How and when do you fill or withdraw from each bucket? There are no shortcuts when it comes to prescribing how and when these buckets should be filled or siphoned off. Factors to consider include:

- Tax rate (today and forecasted)
- Time horizon until money is needed
- Estate planning considerations

For example, if you are likely in a lower tax rate today compared to when you will need to distribute the money in the future, then you may prefer to put more money into the tax-free bucket with a Roth IRA or Roth 401k.

Thinking about tax diversification while you are working will give you more options in retirement and may allow you to retire earlier, spend more, or leave more to your family or charity.

Many studies have been done in peer-reviewed academic journals to analyze and measure benefits from tax-smart distribution strategies. A 2013 study showed that a retired couple living with a starting investment accounts totaling $2,000,000 could expect to have $400,000 more after thirty years following a smart strategy compared to more traditional rules of thumb. This is a hypothetical example and is not representative of any specific situation. Your results will vary. The hypothetical rates of return used do not reflect the deduction of fees and charges inherent to investing.

Distribution rules are rife with complexities and tax laws change. The good news? A skillful distribution strategy can help you save on taxes—but you must do it correctly, and that requires planning. Work with a team of retirement income distribution specialists to help avoid unnecessary taxes.

MANAGING CAPITAL GAINS

What is a capital gain? If you buy a stock for $100 and it grows to $110. You sell the stock and have a $10 gain since $100 was a return on your initial investment. If you held the stock for a year or longer, the gain is considered to be long-term and receives a lower tax rate than ordinary income.

Most investors believe that their long-term capital gains tax rate is currently 15%. But did you know there are actually three long-term capital gains rates? As of 2018, those rates are 0%, 15%, and 20%. And because of something called the 3.8% Net Investment Income Tax (NIIT) that impacts higher-income taxpayers, those three rates functionally become four 0%, 15%, 18.8%, and 23.8%.

There are many ways to strategically manage capital gains to reduce your overall tax bill. The first step is to understand which capital gains tax rate applies to you based on your income threshold.

If you are near the top or bottom of a bracket, careful planning can help you ensure you pay a lower or 0% rate. Managing your brackets is a reliable way to attain better results consistently over time. This is especially pertinent to retirement, when income levels may initially decrease.

For example, if you are currently a high earner and subject to the 20% long-term rate, you might benefit by not realizing a capital gain until retirement. With proper planning, it is possible for many retirees to live quite comfortably and still take advantage of the 0% capital gains tax rate.

CONVERTING ROTH IRAs

First, let us revisit the basic differences between Traditional IRAs and Roth IRAs.

A Traditional IRA is an account funded with pre-tax dollars and taxes are paid at ordinary income rates when money is distributed. Required minimum distributions (RMDs) start at age 70½ (Based on your birth year). It is not uncommon to find that these RMDs have historically pushed successful families into higher tax brackets in retirement … the exact opposite of what they thought would happen when they were funding these tax-deferred accounts.

A Roth IRA is funded with money that has already been taxed. Growth is not taxable, and with Roth IRAs, there are no RMDs. For Roth accounts, there are two ways to get money into the Roth account – by contributing funds to it or by converting funds from a traditional IRA.

A Roth conversion is taking money from your traditional IRA and transferring it into a Roth IRA where the money will continue to potentially grow tax-free. This causes you to pay tax on the amount converted to the Roth at today's known tax rate.

While the tax-free earnings of a Roth IRA are well-known and desirable, deciding whether to fund a Roth IRA over a Traditional IRA or converting funds to a Roth are less commonly understood. Simply stated:

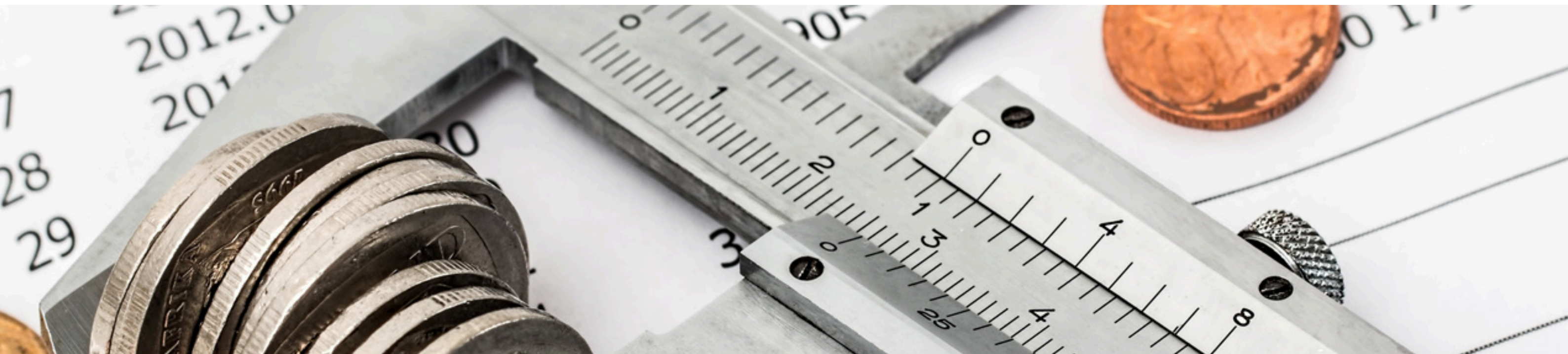
"A Roth conversion makes sense whenever a taxpayer would pay a lower tax rate on the conversion than she would eventually pay if she did not make the Roth conversion, but later withdrew these funds from the tax-deferred account like a traditional IRA."

Historically, lower tax rates were achieved when you first entered retirement. You retired from what was likely your highest earning years. Plus, you have more discretion over how you are taxed – especially if you have tax diversification as we already discussed.

But now with lower tax rates from tax reform, many more Americans – and not just those in the earlier years of retirement – will find themselves in lower tax rates through 2025.

By making conversions to a Roth IRA, you can pay tax at today's known and likely lower rates. Doing so will also reduce your RMDs from traditional IRAs.

Traditional IRA account owners have considerations to make before performing a Roth IRA conversion. These primarily include withdrawal limitations from a Roth IRA, and income limitations for future contributions to a Roth IRA. In addition, if you are required to take a required minimum distribution (RMD) in the year you convert, you must do so before converting to a Roth IRA.



Roth conversions aren't for everyone. The devil is in the details. Spreading conversions over several years is often advisable, which requires yearly tax projections, bracket management, and planning. For example, going over the 12% bracket causes a hefty increase in your tax rate to 22%. If 22% is lower than what you expect your rate to be in the future upon withdrawal, crossing into the 22% bracket can be okay. Otherwise, you want to avoid crossing into the higher bracket.

IMPLEMENTING YOUR TAX-SMART RETIREMENT PLAN

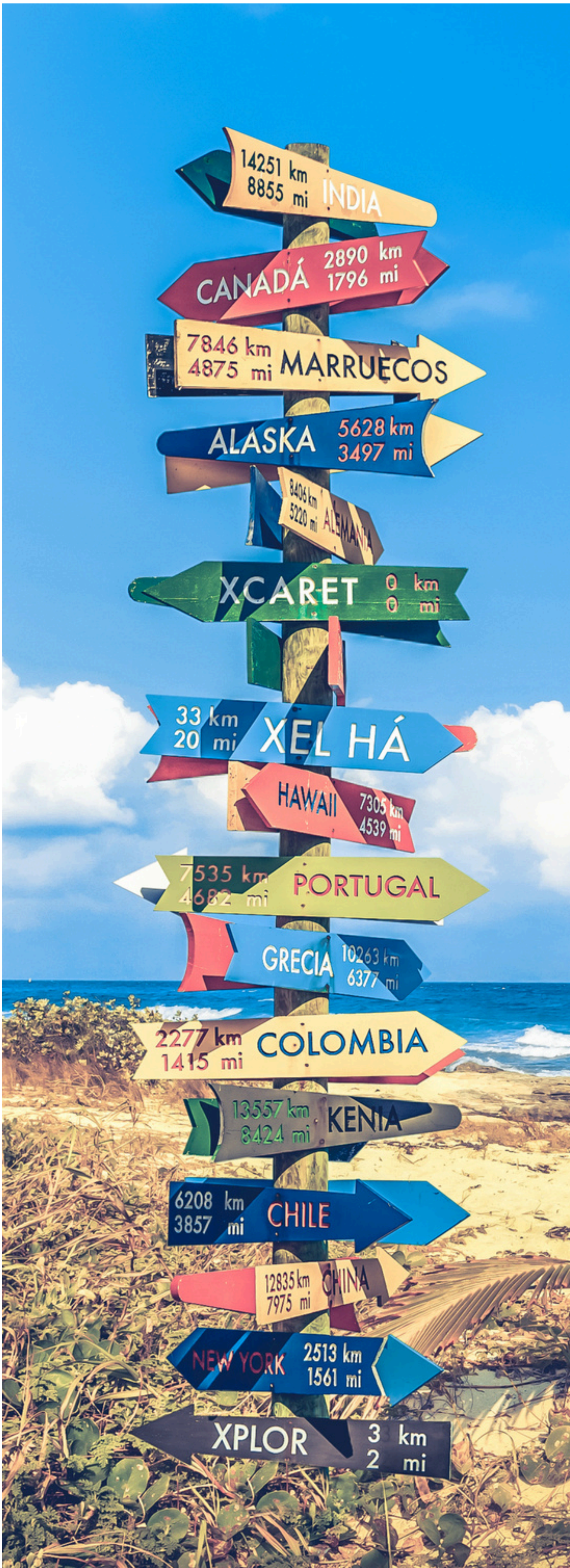
Information is a good starting point, but informed action gets results. With lower tax rates through 2025, now may be the time to act.

A tax-smart retirement plan requires the careful integration of your retirement planning with your investments and taxes. Do you have expertise in these areas? Has your financial advisor been providing ongoing and coordinated advice in these areas?

Sentient Wealth Group Can Help

Our advice is tailored to your needs and designed to align your financial resources with your personal goals. We will gain a deep understanding of what is important to you by reviewing all aspects of your financial household, not just your investment accounts. This means you'll receive personalized and actionable advice through each phase of our relationship.

All investing involves risk including loss of principal. No strategy assures success or protects against loss. This material contains only general descriptions and should not be considered a recommendation or intended as any financial or tax advice.



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ABOUT SENTIENT WEALTH GROUP

Our philosophy is simple: we strive to **replace financial stress with confidence**, helping you balance **living for today** and **saving for tomorrow**. We understand that each individual has **unique needs and values**, which is why our approach is **collaborative** and **tailored** to your specific circumstances.

Like a compass, we **guide you** toward your 'true north', establishing **a valued and meaningful relationships** along the way. We are committed to being your **reliable guide**, helping you make **informed decisions** with **confidence and ease**. With Sentient Wealth Group, you are not alone in navigating the complexities of financial planning—we are here to **support you every step of the way.**

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