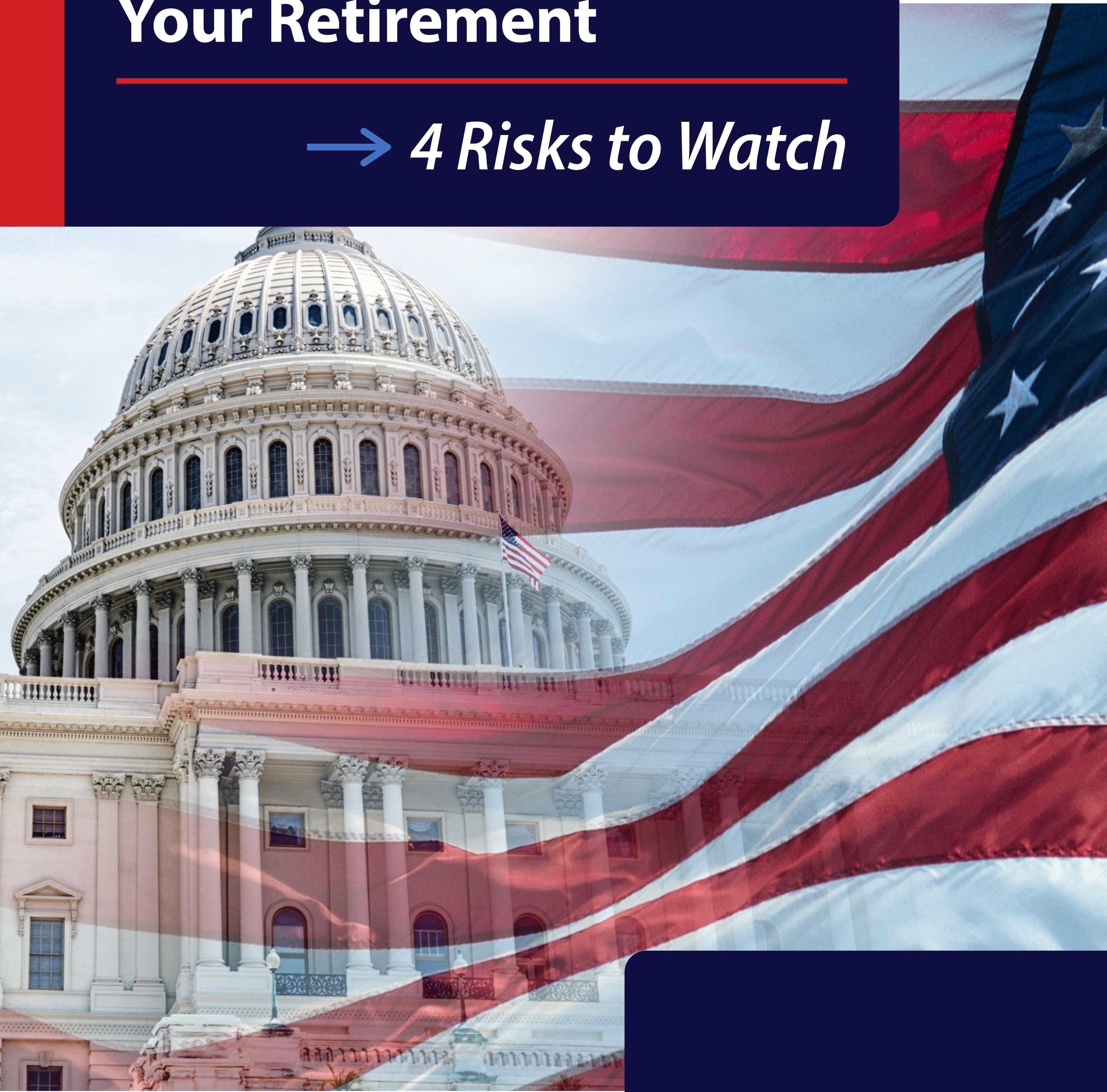
Washington and Your Retirement

4 Risks to Watch



Retirement can be full of risks — an unpredictable stock market; fluctuating interest rates; potentially outliving your income.

> **But there are important risks many Americans haven't addressed — even in the most thorough retirement approaches.[1] And those risks have the potential to reduce the amount of income they can spend in retirement.**

Preparing for retirement involves addressing as many of these risks as possible.

Some savers have considered how they want to grow, protect and spend their funds in retirement. But often, they haven't considered how taxes might impact their retirement funds. After all, unexpected changes to the level or structure of taxation could reduce the amount of spendable income in retirement.

Consider these pressing risks facing savers today:

TAX RISK | Tax risk has to do with your level of taxation. This is the risk your taxes will be higher in retirement than planned, meaning more of your income will go to the IRS in the form of taxes, and less will go in your wallet to spend in retirement.

LEGISLATIVE RISK | Legislative risk has to do with the structure of the U.S. tax code. This is the risk our government passes new legislation that negatively impacts your retirement savings vehicle or approach.

These two risks are closely intertwined. However, they can impact your retirement approach in slightly different ways depending on how you save and how you spend in retirement.

Why You May Need to Address Tax & Legislative Risk Now:

If you're concerned your retirement assets may be exposed to more tax and legislative risk than you'd like, now is the time to get educated. Consider:

Our national debt has swelled to more than **$31 trillion,**[6] leading many experts to believe Congress will need to raise additional tax revenue in the near term.

Congress has passed **trillions of dollars** in new spending priorities in recent years, so they may need increased tax revenue to offset continued spending.[7]

Recent Congressional debate shows **retirement accounts** are one place Congress is looking for additional tax revenue,[5] so it's important to be prepared.

Could your Retirement be Impacted by Tax and Legislative Risk?

Let's look at four ways legislation from Washington could potentially impact your retirement approach.

1 CHANGING TAX BRACKETS

Throughout modern history, Congress has passed laws adjusting U.S. tax brackets. This legislation has impacted both how much income falls within a given bracket, and the level of taxes applied to that income range. For example, in 2017, Congress passed and the President signed into law comprehensive tax reform, sometimes known as the Trump Tax Cuts.[2] This legislation temporarily lowered tax bracket rates for many Americans. But this law — and its lower bracket rates — will expire in 2025. That means in 2026, tax bracket rates will revert back to their older, higher levels. If you are evaluating your retirement assets based on today's tax rates, it's important to remember those rates will likely be higher starting in 2026 — even if your income needs stay the same.

In the future, Congress could pass additional legislation that would impact the amount of your income subject to a given rate.

2 LIMITING TAX DEDUCTIONS

In recent years, Congress has passed legislation reducing or eliminating tax deductions.[2] Changes to tax deductions can impact the amount of your income subject to taxation. For example, if you make $100,000 a year and can deduct $20,000, you pay taxes on around $80,000 of taxable income. But if next year you can only deduct $10,000, you would find yourself paying taxes on $90,000 of taxable income instead. In the 2017 Federal Tax Reform legislation, we saw an elimination of some deductions,[2] and it's possible Congress could make additional reductions going forward. Further, many of the most popular deductions — like the child tax credit, or mortgage interest deductions — deliver less value as children grow up and mortgages are paid off.[3]

3 ADJUSTING *WHICH* ASSETS ARE TAXED

The government can change which retirement assets are taxed through regulatory and legislative changes. One example is Social Security. Before 1984, Social Security benefits were not taxable. Based on legislation passed in 1983, Social Security payments became taxable up to 50% of the benefits, and in 1993 that amount was raised to 85%.[4] Congress could potentially pass new legislation making an even higher amount of the benefit taxable for some retirees. If that happened, you could pay more in taxes because more of your retirement income would be subject to taxation.

4 CHANGING *HOW* ASSETS ARE TAXED

Perhaps one of the most frustrating ways Washington can impact your retirement approach is by changing how assets in various retirement vehicles are taxed. This is essentially Congress "changing the rules" on how the IRS evaluates retirement savings accounts. In recent years, we've seen increased Congressional debate around our tax code structure — affecting how, which, and when retirement assets are taxed.

For example, The Build Back Better legislation debated in 2021 and 2022 included trillions of dollars in new government spending; to help offset that spending, the bill also included trillions of dollars in new taxes. One tax provision included in the House bill sought to enact a new annual Required Minimum Distribution (RMD) from Qualified retirement accounts like IRAs and 401(k)s. This RMD would be applicable at any age, and would be triggered when a saver's retirement assets reached a value above a congressionally-mandated limit. The proposal required savers above this cap to withdraw 50% of the excess above the cap each year — whether they need the income or not — and pay taxes on that withdrawal, in essence ending the tax-preferred status of those funds.[5] While this provision has not yet passed, it is the type of reform Congress is considering.

IN SUMMARY:

When Congress changes the tax code structure, it could mean you access your assets under a different set of rules than when you saved them.

So what actions can you take today to help protect yourself from these risks?

Different retirement savings vehicles have different levels of exposure to tax and legislative risk. Diversification within your retirement approach can potentially help you reduce these risks.

Some savers choose to address the risk of rising taxes by incorporating tax-free vehicles into their retirement strategies. Tax-free assets can serve as a hedge against rising taxes in the future. Since Roth IRAs, Roth 401(k)s, and other tax-free savings vehicles are funded with after-tax dollars, no taxes are due on the funds when they are withdrawn in retirement. That means if Congress raises taxes in the future, these funds would not be impacted.[8]

Additionally, to address legislative risk, some savers look beyond the popular Traditional and Roth accounts for a portion of their assets. They may seek out vehicles that have lower exposure to legislative changes,[9] like CDs or cash value life insurance.[10]

One thing is clear: it's important to work with a financial professional who understands tax and legislative risk and can help you make informed decisions **based on your needs and goals in retirement.**

If you're concerned about these risks, it's important to start preparing now.

Below are **four questions** you may want to discuss with your financial professional:

- Based on my needs and **today's legislative environment**, are my taxes in retirement likely to be **lower, the same, or higher** than they are today?
- How will my **income** be impacted if taxes are different than I expected? Will I still have **enough funds** to meet my **retirement goals?**
- How have I saved for retirement? Are the vehicles I'm using ***exposing*** me to legislative risk or ***protecting*** me from it?
- If I plan to pass my unused retirement assets on to my **heirs as a legacy**, are they **protected from legislative changes** that could **reduce** the amount of legacy they receive?

Evaluating tax and legislative risk in your retirement approach can help you prepare for the complete risks you may face in the future. And that can help you achieve the retirement you've envisioned.

DISCLOSURES

1 "Types of Retirement Plans," Internal Revenue Service. Accessed January 2023. Available online: https://www.irs.gov/retirement-plans/plan-sponsor/types-of-retirement-plans

2 Public Law 115-97, Passed December 22, 2017. Complete legislation available online: https://www.govinfo.gov/content/pkg/PLAW-115publ97/pdf/PLAW-115publ97.pdf

3 "Credits and Deductions for Individuals," Internal Revenue Service, Accessed January 2023, available online https://www.irs.gov/credits-deductions-for-individuals

4 "Social Security History," U.S. Social Security Administration, Accessed January 2023. Available online: https://www.ssa.gov/history/InternetMyths2.html#:~:text=The%20taxation%20of%20Social%20Security,President%20Reagan%20in%20April%201983

5 "Responsibly Funding Our Priorities Section-by-Section," Fact Sheet, U.S. House Committee on Ways and Means, published September 15, 2021 and accessed June 15, 2022. Available online: https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/SubtitleISxS.pdf

6 "Debt to the Penny," U.S. Treasury Fiscal Data. Accessed June 23, 2022. Available online: https://fiscaldata.treasury.gov/datasets/debt-to-the-penny/debt-to-the-penny

7 "COVID-19 Economic Relief," U.S. Treasury Department, Accessed January 2023. Available online: https://home.treasury.gov/policy-issues/coronavirus

8 "Ten Differences Between a Roth IRA and a Designated Roth Account," Internal Revenue Service, Accessed January 2023. Available online: https://www.irs.gov/retirement-plans/ten-differences-between-a-roth-ira-and-a-designated-roth-account

9 "Types of Retirement Plans," Internal Revenue Service. Accessed January 2023. Available online: https://www.irs.gov/retirement-plans/plan-sponsor/types-of-retirement-plans

10 The primary purpose of life insurance is death benefit protection. Please note life insurance is subject to insurability and other suitability factors. Policies include fees, limitations and restrictions. Please see a complete carrier illustration for information regarding your specific situation.

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