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Our Agenda

- Tax Rates ~ Today and Future
- Income and Portfolio Strategies
- Low Marginal Tax Rate Opportunities
- Personalize Your Social Security Strategy

Tax Rates

- Where we're at
- Where we're headed



Tax Brackets (MFJ)

Taxable Income	2011 & 2012 Tax Rate	2013 & Beyond Tax Rate
\$0 - \$17,000	10%	15%
\$17,000 - \$69,000	15%	15%
\$69,000 - \$139,350	25%	28%
\$139,350 - \$212,300	28%	31%
\$212,300 - \$379,150	33%	36%
Over \$379,150	35%	39.6%

2013 Expiration of Bush Tax Cuts

	2010-2012	2013
Ordinary income	35%	39.6%
Capital Gains	15%	20%
Qualified Dividends	15%	39.6%
Hospital Insurance Tax (Tax on wages over \$250,000 for joint filers, \$125,000 for married filing separate & \$200,000 for all others)	N/A	0.9%
Unearned Income (Tax on lesser of “net investment income” or excess of Modified AGI over threshold. Thresholds are AGI over \$250,000 for joint filers and \$200,000 for single)	N/A	3.8%

Income & Portfolio Strategies

Retirement Spending: Bucket Strategy

- **Basic Bucket**
 - Life necessities
- **Enhanced Bucket**
 - Lifestyle expenses
- **Dynamic Bucket**
 - Goal-specific costs

Expense Funding Analysis

- Need to Know:
 - Fixed Income Portfolio Value
 - Cash Flow Needs
- Calculate # years:
 - Basic Expenses Covered
 - Basic + Enhanced covered



Bucket Strategy - Example

\$1MM portfolio with 50/50 allocation

- Basic = \$50k
- Basic + Enhanced = \$60k
- Income Source - \$25k/yr taxed @ 25%,
net \$18,750

Coverage Ratio

- **Basic: 16 years** (\$31,250 need)
- **Basic + Enhanced: 12.1 years** (\$41,250 need)

Sustainable Withdrawal Rate

- Sustainable Withdrawal Chart

25 Year Time Horizon		
Stock/Bond	Profitability of Success	
	100%	90%
20/80	3.92%	4.45%
35/65	4.06%	4.71%
50/50	4.08%	4.80%
65/35	3.87%	4.75%

- Be realistic: 4% per year for 25-year period
 - With annual inflation increase
 - \$1M portfolio = \$40,000 per year

Projections generated by WATS, a Zunna, Inc. product. Source data provided by Ibbotson Associates. Time period is 1/1/1926 through 12/31/2010. Past performance is not a guarantee of future results

Retirement Investing Strategy: Asset Location

- **Taxable: capital gain assets**
 - Brokerage account
 - *Stocks*
- **Tax-deferred: ordinary income assets**
 - Traditional IRA, Traditional 401(k)
 - *Bonds, money market, commodity fund*
- **Tax-free: highest expected growth**
 - Roth IRA, Roth 401(k)
 - *Small-cap and international stocks*

Overlay your asset location with cash flow needs.

Retirement Income Strategy: Qualified Dividends

- Qualified Dividends
 - Capital Gain Tax Rate: 0-15%
- More tax-efficient than traditional income structure
- Enough assets dedicated to achieve appropriate diversification

Equity Income Model - Example

Stock	Dividend Yield
Abbott Laboratories	3.80%
Bank of Montreal	4.70%
Chevron	3.30%
Procter & Gamble	3.40%
Verizon	5.60%
Dividend Range	3-5%

Dividend Yields as of 9/13/2011

Low Marginal Tax Rate Opportunities

Maximizing Benefits of Marginal Tax Brackets

- Realizing Capital Gains
- IRA/Retirement Plan Distributions
- Roth IRA Conversions



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AMT Marginal Tax Rates (MFJ)

AMTI (before exemption)	AMT Marginal Tax Rate
$\leq \$150,000$	26.0 %
$> \$150,000$ to $\leq \$227,960$	32.5 %
$> \$227,960$ to $\leq \$439,800$	35.0 %
$> \$439,800$	28.0 %

Retiree

Income	Original Scenario
Wages	\$50,000
Interest & NQ Dividends	5,000
Qual. Dividends	10,000
Capital Gains (losses)	0
IRA, Pension, Annuity Distributions	0
Adjusted Gross Income	<u>65,000</u>
Deductions:	
State Taxes	(12,410)
Contributions	(20,000)
Misc. Deductions	(8,700)
Exemptions	(7,400)
Taxable Income	<u>16,490</u>
Regular Tax	<u>649</u>
Alternative Minimum Tax (AMT)	<u>-0-</u>
Total Tax	<u>649</u>
Change in Tax	<u>N/A</u>

Tax Brackets (MFJ)

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Retiree Strategy 1

Income (Federal Only)	Original	Strategy 1
Wages	\$50,000	\$50,000
Interest & NQ Dividends	5,000	5,000
Qual. Dividends	10,000	10,000
Capital Gains (losses)	0	50,000
IRA, Pension, Annuity Distributions	0	0
Adjusted Gross Income	65,000	115,000
Deductions:		
State Taxes	(12,410)	(12,410)
Contributions	(20,000)	(20,000)
Misc. Deductions	(8,700)	(7,700)
Exemptions	(7,400)	(7,400)
Taxable Income	16,490	67,490
Regular Tax	649	749
Alternative Minimum Tax (AMT)	-0-	-0-
Total Tax	649	749
Change in Tax	N/A	100

Retiree Strategy 2

Income (Federal Only)	Original	Strategy 2
Wages	\$50,000	\$50,000
Interest & NQ Dividends	5,000	5,000
Qual. Dividends	10,000	10,000
Capital Gains (losses)	0	0
IRA, Pension, Annuity Distributions	0	25,000
Adjusted Gross Income Deductions:	65,000	90,000
State Taxes	(12,410)	(12,410)
Contributions	(20,000)	(20,000)
Misc. Deductions	(8,700)	(8,200)
Exemptions	(7,400)	(7,400)
Taxable Income	16,490	41,990
Regular Tax	649	3,949
Alternative Minimum Tax (AMT)	-0-	-0-
Total Tax	649	3,949
Change in Tax	N/A	3,300

Taxation of Social Security Benefits

Taxpayer who is:	Percentage of Benefits That are Taxable	
	50%	85%
Single or Head of Household	Over \$25,000	Over \$34,000
Married, Filing Jointly	Over \$32,000	Over \$44,000

Personalize Your Social Security Strategy

Social Security Basics

- Can start at 62 = reduced benefits
- Full Retirement Age (FRA) = full benefits
- Postpone to Age 70 = maximum monthly benefit
- Adjusted for inflation (COLA increases)



Full Retirement Age (FRA) (Full Benefits)

Age to Receive Full Social Security Benefits

Year of Birth	Full Retirement Age
1943-1954	66
1955	66 & 2 months
1956	66 & 4 months
1957	66 & 6 months
1958	66 & 8 months
1959	66 & 10 months
1960 & later	67

Social Security Basics Cont.

- About 8% more per year for waiting (until age 70)
- Before FRA: \$14,160 earnings limit before benefits are reduced (2011)
- Any age: Up to 85% of social security is taxed

Retirement Planning with Social Security

Current Age	Projected Benefit
Retired	100%
> Age 60	75%
Age 50 - 60	50%
Age 40 - 50	25%
< Age 40	0%

When to Begin Social Security Benefits Strategies

This decision is based on many factors:

- Statistics
- Averages
- Life Expectancy Tables
- Return Assumptions
- Personal Health
- Family Health History
- Financial Need
- Earnings Potential Age 62 to FRA
- Marital Status
- Age of Spouse
- Other Income Sources
- Other Retirement Assets

Social Security - Breakeven Analysis

Client's Starting Client's Monthly		Scenario 1	Scenario 2	Scenario 3
		62 \$1,839	66 \$2,452	70 \$3,285
Age	Year	Cumulative Benefit	Cumulative Benefit	Cumulative Benefit
62	2011	\$ 22,068	\$ -	\$ -
66	2015	\$ 115,997	\$ 29,424	\$ -
70	2019	\$ 219,676	\$ 154,662	\$ 39,420
80	2029	\$ 528,440	\$ 527,629	\$ 492,098
81	2030	\$ 563,720	\$ 570,244	\$ 543,821
82	2031	\$ 599,880	\$ 613,924	\$ 596,836
83	2032	\$ 636,946	\$ 658,696	\$ 651,177
84	2033	\$ 674,937	\$ 704,587	\$ 706,877
90	2039	\$ 923,685	\$ 1,005,058	\$ 1,071,565

Benefits are inflated at 2.5% per year.

Social Security: File and Suspend

66-year-old couple; Soc Sec income not needed

- Husband's benefit @ 66 = \$2,300 / month
- Wife's options @ 66:
 - Hers (\$300/mo) or $\frac{1}{2}$ husband's (\$1,150/mo)
- Husband files for benefits, then suspends

Social Security: File and Suspend Example (Cont.)

- **Results:**

- Wife gets \$850 more/mo until age 70
(\$1,150 - \$300)
- Husband waits to collect ~ \$3,000/mo at age 70
(30% more than at age 66)
- After husband dies, wife gets \$700 more/mo for
rest of her life
(\$3,000 - \$2,300)

Tax and Financial Strategies

Spending Bucket Coverage Ratio

Maintain a Sustainable Withdrawal

Optimize Asset Location

Maximize Income Stream with Dividends

Capital Gains with No Tax

Retirement Plan Withdrawals at Low Tax

Minimizing Taxation of Social Security

Personalize Social Security Strategy

Retirement Strategies

- No Magic Formula
- No “One Size Fits All” approach
- Basic strategy subject to annual fine-tuning
- Requires close coordination of investment advisor, financial planner, and tax advisor



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Thank You!

