HBKS® Wealth Advisors

Tax-Free Retirement Strategies for High Earners

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THERE ARE ONLY SO MANY PRE-TAX AVENUES TO RETIREMENT INCOME. High earners who want to put more dollars aside must find alternatives beyond such traditional means as 401ks and IRAs. Of course, the first step in saving for retirement is to maximize those plans, contribute to the maximum allowable limit. Then consider the following strategies as ways to set aside additional tax-advantaged retirement savings.

First, the basics. Once you have maxed out your 401k — the maximum contribution limit is $19,000 in any year — contribute to a Roth IRA. Roth plans have become popular because even though they are funded with after-tax dollars, qualified withdrawals in retirement, including the earnings on your contributions, are not taxed. If you are filing as a single taxpayer, and your modified adjusted gross income is under $122,000 for the year, you can contribute up to $6,000 to a Roth IRA plan — or an additional $1,000 as a "catch-up" contribution if you are 50 or older. The amount you can contribute decreases on a sliding scale as your earnings increase, and are phased out completely once your modified adjusted gross income reaches $137,000. The respective thresholds for "married filing jointly" are $193,000 and $203,000.

So how can you add to your retirement savings after 401k and Roth contributions? Consider a "cash accumulation" universal life insurance policy. The carriers that have created these policies have built them to allow their cash values to accumulate in exchange for a smaller death benefit. The cash value builds over time complemented by earnings on the invested premiums. When you retire, you take the funds out as a loan, making the withdrawals tax-free distributions. The policy remains in effect and the death benefit will be paid to your designated beneficiary. The only caveat is that you must be young and healthy enough to qualify to be insured. The premiums can be paid on a "limited pay" schedule, for example, $10,000 per year for 10 years.

Take advantage of an employer-sponsored plan that allows for after-tax contributions.

Another strategy for boosting retirement income involves taking advantage of an employer-sponsored plan that allows for after-tax contributions. Not all employer plans include such an option, but if yours does, you can make after-tax contributions of any amount; there are no maximums or income restrictions.

Strategies like these allow you to grow earnings and withdraw savings tax-free.

Once you have made an after-tax contribution, you have two more options. You can leave the money in the plan, draw on the savings in retirement, and pay taxes on the earnings. However, if you convert the plan savings to a Roth IRA, the earnings will grow tax-free from the date of conversion. As such, it's more advantageous to convert as early as possible, so more of the earnings will grow tax-free.

Strategies like these that allow you to grow earnings and withdraw savings tax-free are especially welcome as your withdrawals, including required minimum distributions, from your traditional pre-tax contribution plans will be taxed.

We're here to help. For more information or to schedule a meeting to talk about your retirement savings program, call us at 330-758-0428; or email me at MCox@hbkswealth.com.

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Melissa Cox, CRPC® is a financial advisor in the Youngstown, Ohio, office of HBKS® Wealth Advisors and has worked in the financial services industry since 2007, joining HBKS® in August of 2015.

Melissa began her professional career as an administrative team member for a nation-wide wealth management firm where she was responsible for monitoring and servicing client accounts. She most recently worked as a financial specialist at a large bank where she worked with her customers to identify and review their financial needs and goals, leveraging her experience and bank partners to deliver relevant solutions.

As a member of the HBKS® financial services team, Melissa works closely with team members Rich Morrow, Tom Taranto, Robin Roberts and Jackie Zetts assisting clients in formulating and executing a plan specific to their situation to help them reach their financial objectives. Her comprehensive planning strategies utilize sound financial management principals to help clients navigate their financial journey.

Melissa earned her bachelor's degree in finance from Penn State University and is a Chartered Retirement Planning Counselor℠ (CRPC®). Currently, she is pursuing the CERTIFIED FINANCIAL PLANNER™ designation.