



NATIONWIDE RETIREMENT INSTITUTE®

# Managing the taxes on your retirement income



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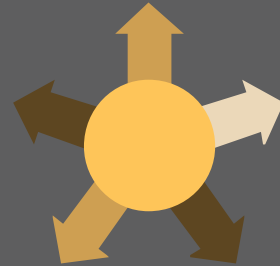
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# Today's agenda



**Tax  
basics**



**The importance of  
diverse retirement  
income sources**



**Managing the  
conversation**

# Tax basics



## There are two kinds of taxes on income

1

2



Ordinary income tax	Capital gains tax
Wages from employment <sup>2</sup>	Selling investments (stocks, most kinds of bonds)
Certain retirement accounts	Profit from selling real estate*
Bank account interest (savings, money market, CD)	
Social Security income, in part	



This list is not exhaustive.

\* Capital gains are exempt on the sale of a primary residence up to \$250,000 (single) or \$500,000 (married filing jointly).

## 2021 ordinary income tax bracket

Standard Deduction (age 65+)	
Single	\$14,250
Married filing jointly	\$27,800

	Single	Married filing jointly
<b>10%</b>	\$0 – \$9,950	\$0 – \$19,900
<b>12%</b>	\$9,951 – \$40,525	\$19,901 – \$81,050
<b>22%</b>	\$40,526 – \$86,375	\$81,051 – \$172,750
<b>24%</b>	\$86,376 – \$164,925	\$172,751 – \$329,850
<b>32%</b>	\$164,926 – \$209,425	\$329,851 – \$418,850
<b>35%</b>	\$209,426 – \$523,600	\$418,851 – \$628,300
<b>37%</b>	\$523,601+	\$628,301+

# How taxes owed are calculated

## 2021 marginal tax rates

For single filers, these are the brackets:

Tax rate	Tax bracket
10%	\$0 – \$9,950
12%	\$9,951 – \$40,525
22%	\$40,526 – \$86,375
24%	\$86,376 – \$164,925
32%	\$164,926 – \$209,425
35%	\$209,426 – \$523,600
37%	\$523,601+

## Effective tax rate

Actual amount of tax paid.

Example: total income of \$150,000.

Tax owed	Standard Deduction (age 65+)
\$995	Single
\$3,669	\$14,250
\$10,087	
\$11,850	
<b>\$26,601</b>	
	÷ \$150,000

**Effective tax rate = 17.7%**

## Three categories of retirement income



**Taxable**



**Tax deferred**



**Tax free**



## Taxable sources of retirement income

Type of income	Type of tax paid
Investment sales or earnings (stocks, most bonds, etc.)	Capital gains or ordinary income
The taxable portion of your Social Security income	Ordinary income tax
Profit from selling real estate*	Capital gains, under certain circumstances



\* Capital gains are exempt on the sale of a primary residence up to \$250,000 (single) or \$500,000 (married filing jointly).

# Capital gains tax

## Capital gains

The increase between the original value of an investment and the price when it is sold.

**Short-term gains** are earned on investments held **one year or less**. These are taxed at **ordinary** income rates.

**Long-term gains** are earned on investments held **more than one year**. These are taxed according to how much you make.

Long-term capital gains tax rate <sup>1</sup>	Individual/married filing separately	Married filing jointly/surviving spouse	Head of household
0%	\$0 – \$40,400	\$0 – \$80,800	\$0 – \$54,100
15%	\$40,401 – \$250,800	\$80,801 – \$501,600	\$54,101 – \$473,750
20%	\$250,801+	\$501,601+	\$473,751+

<sup>1</sup> IRS.gov

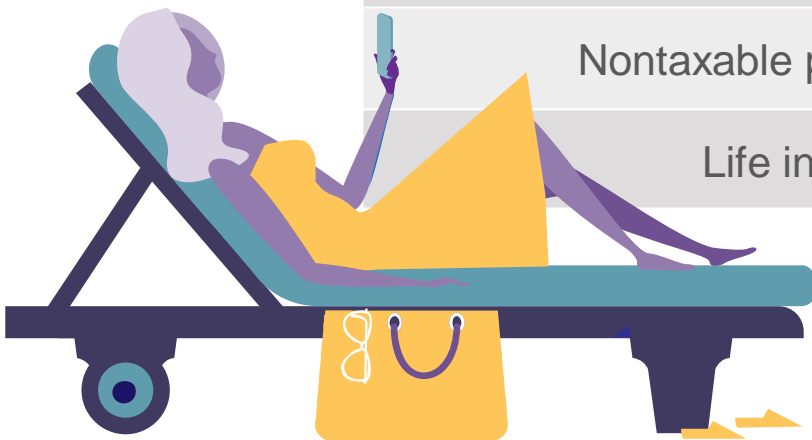
## Tax-deferred sources of retirement income

Type of income	Type of tax paid
Pension	Ordinary income tax
Retirement Savings <ul style="list-style-type: none"><li>• 401(k)</li><li>• Traditional IRAs</li><li>• 403(b) plan</li><li>• 457(b) plan</li></ul>	Ordinary income tax
Annuities	Ordinary income tax



## Tax-free sources of retirement income

Type of income	Type of tax paid
Certain municipal bonds	Capital gains, if any
Retirement savings <ul style="list-style-type: none"> <li>• Roth 401(k)</li> <li>• Roth 457(b)</li> <li>• Roth IRAs</li> </ul>	None
Health reimbursement arrangement (HRA)	None
Health savings account* (HSA)	None on qualified medical expenses
Nontaxable portion of Social Security income	None
Life insurance cash value	None



\* HSAs are not taxed at a federal income tax level when used appropriately for qualified medical expenses. Also, most states, but not all, recognize HSA funds as tax free.

Federal tax laws are complex and subject to change. Neither Nationwide nor its representatives give legal or tax advice. Please consult with an attorney or tax advisor for answers to your specific questions.

# Social Security considerations for private- and public-sector workers

Will you collect Social Security benefits?



Source: SSA.gov.

Will your spouse? Government Pension Offset (GPO)



Did you work in both the public and private sector? Windfall Elimination Provision (WEP)



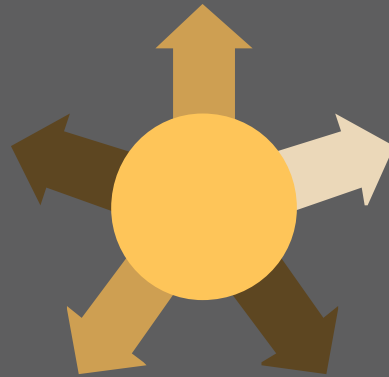
A tax advisor can explain the specifics based on your personal work history and income.

## What determines how much Social Security income is taxed?



<sup>1</sup> 2015 Internal Revenue Service Publication 915 — Worksheet A (2017).

# The importance of diverse retirement income sources





## Taxable

- Investments (stocks, most bonds, CDs)
- Taxable portion of Social Security benefits
- Profit from selling a primary home



## Tax-deferred

- Pension
- Retirement savings
  - 401(k)
  - 403(b) plan
  - 457(b) plan
  - Traditional IRA
- Certain annuities



## Tax-free

- Retirement savings
  - Roth 401(k)
  - Roth 457(b)
  - Roth IRA
- Life insurance cash value
- Certain municipal bonds
- Health reimbursement arrangement (HRA)
- Health savings account (HSA)
- Nontaxable Social Security benefits



## Diverse retirement income sources may help you pay less tax



In 2021, two couples decide to take their grandkids to the Grand Canyon.



For each couple, the trip will cost

**\$10,000**



But before they go, both couples need to pay contractors for home renovations. To cover this one-time expense, each couple needs another

**\$10,000**

*So each couple needs*

**\$20,000**

*on top of their usual retirement income.*

Let's assume each couple normally draws \$100,000 of retirement income per year, so they'll need a total of

**\$120,000**

# Paying for a retirement trip and home improvement



**Couple 1** decides to take the extra \$20,000 out of the same account as the \$100,000 for their retirement income — that is, their tax-deferred 401(k).

*After their standard deduction of \$27,800, this means \$92,200 will be taxed.*

Taxable bracket	Tax rate	Amount taxed	Tax due
\$0 – \$19,900	10%	\$19,900	\$1,990
\$19,901 – \$81,050	12%	\$61,150	\$7,338
\$81,051 – \$172,750	22%	<b>\$11,150</b>	<b>\$2,453</b>
			<b>Total = \$11,781</b>

$$\$92,200 - \$81,050 = \$11,150 \times 22\% = \$2,453$$



**Couple 2** has some account diversity, including a savings account and a Roth IRA. They withdraw \$10,000 tax free from the Roth and another \$10,000 from savings for the renovations.

*They withdraw only \$100,000 from their tax-deferred account, of which \$72,200 will be taxed.*

Taxable bracket	Tax rate	Amount taxed	Tax due
\$0 – \$19,900	10%	\$19,900	\$1,990
\$19,901 – \$81,050	12%	<b>\$52,300</b>	<b>\$6,276</b>
			<b>Total = \$8,266</b>

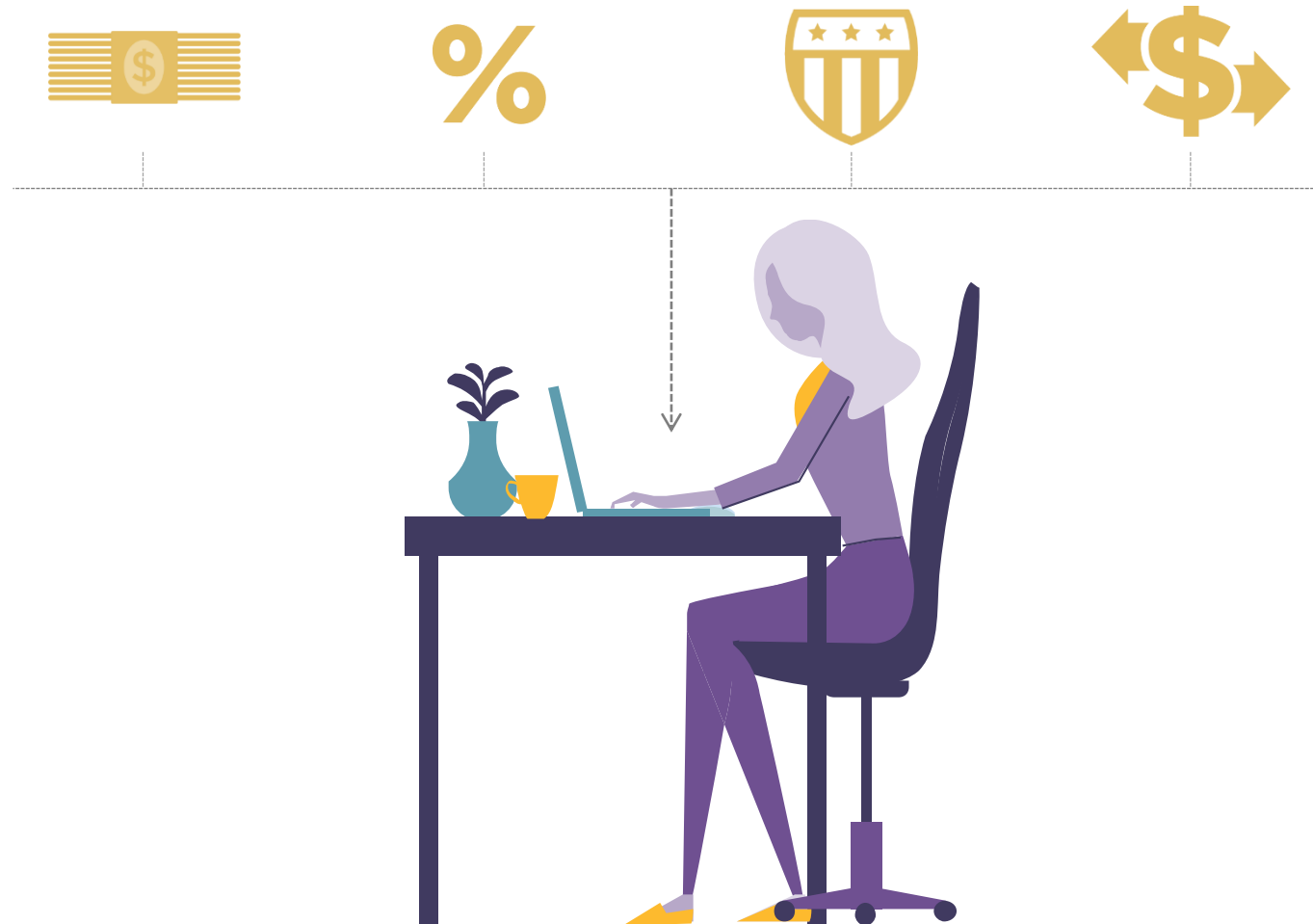
$$\$72,200 - \$19,900 = \$52,300 \times 12\% = \$6,276$$

Couple 1 owes \$11,781 in tax, whereas Couple 2 owes \$8,266.

**Couple 2 will pay \$3,515 less in tax for 2021.**

These are hypothetical scenarios, and actual results may vary.

## Having diverse accounts may allow you to stay in a lower tax bracket



# Managing the conversation



## Find someone to talk to



### Reach out to experts who can help:

- Your employer's retirement plan liaison
- Retirement specialist
- Tax advisor

## Summary

1. Understand how your current retirement savings and Social Security benefits will be taxed.
2. If you can contribute to either the Roth 401(k) or Roth 457(b) options within your Savings Plus account, you're creating a future source of tax-free income in retirement.
3. Work with an expert now to get advice on new investments.
4. Work with an expert again later to strategize withdrawals to minimize taxes.



## Questions to get the conversation started

- What are the tax implications when I start to receive retirement income?
- How will distributions from my retirement plan impact my taxes?
- Will my Social Security benefits be taxed?
- How does employment income post-retirement impact my Social Security payments?
- Should I take a distribution to pay off debt or renovate my home?
- I want to travel or make a large purchase. How will this impact my retirement income?
- Should I do a Roth conversion before required minimum distributions (RMDs) begin?

