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Moving to a Tax-Free Retirement – 8 Steps You Can Take For Success!

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Author of, ***“MOVING TO TAX-FREE”***

Hello, my name is Bruce Hosler, and I am the author of the book MOVING TO TAX-FREE. I am writing this article to help you begin taking steps to make your move to a tax-free retirement. Sometimes it can be hard to get started moving in a completely different direction. When I say in a different direction, I mean to stop contributing to tax-deferred accounts, and to start funding and converting your assets to tax-free investment vehicles.

When it comes to tax planning and purposely paying more taxes now, so you can qualify for tax-free income later, those first few steps may be hard to take if you don't know where to begin.

I hope this article will help you start on your move to a tax-free retirement.

Let's begin.

Step 1. Source, identify, interview, and engage your trusted advisors. (Tax Planner, Financial Planner, Estate Planning Attorney & Wealth Manager)



First, let's talk about the issues you are dealing with to make your move to tax-free. You are dealing with:

- Current and potentially dramatically higher future tax rates. Future tax laws including, income tax, capital gains tax, estate tax, and the calculation of provisional income which determines the taxability of your social security benefit. Additionally, you need to plan for Medicare Income Related Monthly Adjustment Account (IRMAA) penalties you could owe on your Medicare premiums.
- IRA, Roth IRA, and traditional retirement plan rules.
- Beneficiary designation planning for Retirement Plans, IRAs, Roth IRAs, Life Insurance, Pensions and Annuities.
- You are planning for your financial wellbeing and retirement income needs for 20 to 40 years into the future. You must allow for inflation, interest rates, dramatically higher tax rate, market volatility, and your adjusting income needs as you age.
- You are creating, establishing, documenting, and implementing your estate, incapacity, charitable wishes, spousal survivorship, and legacy documents. As well as assuring the proper titling of all of your assets.
- You are creating, implementing, and monitoring a tax plan, a retirement income plan, and an investment plan that matches your Moving to Tax-Free priorities, creating future short term stable value tax-free income ladders, guaranteed income streams, and long-term investment growth buckets that will provide you with the growth you will need to stay ahead of the inflation we are experiencing today, and the inflation we will certainly experience going forward into the future.

You see, this is clearly not a DIY (Do-It-Yourself) project. You will need to negotiate many legal issues, financial regulations, retirement plan rules, and tax laws simultaneously. This type of planning requires multidisciplinary expertise.

Some professionals can provide you with much of the expertise that you will need. In our offices we have Tax professionals, Enrolled agents (EAs) and Certified Public Accountants (CPA). Certified Financial Planning professionals (CFP®). Additionally, I carry the CPWA® designation – Certified Private Wealth Advisor. Which demonstrates my training and expertise to work with people who have a High Net Worth usually exceeding \$5 Million or more. We also hold Securities, Advisory, and Insurance licenses. For legal, we work closely with Estate planning attorneys we have worked with previously who have proven their knowledge and legal skills in the areas you will need.



To be sure, credentialed multidisciplinary offices like ours are going to be hard to find. But they do exist. Most of you will need to create your own team of tax, financial, legal, and wealth management professionals.

In my book, **'MOVING TO TAX-FREE,'** I provide you with the questions you will want to use to vet your professionals in each of these disciplines. Many of these professionals may already be collaborating with other like-minded professionals.

Some professional introductions from one professional to another will provide competent professionals; and other times, they may not. However, you will need to be prepared to perform your own due diligence making sure each professional you select is competent at their craft. You will need to confirm that they are fiduciaries and have your best interest at heart.

You will need to confirm their values in tax planning philosophies to make sure they are aligned with yours, and that they are believers of the importance of your goal of achieving a tax-free retirement.

Step 2. Prepare your tax-plan for this tax year and calculate your ideal IRA to Roth IRA conversion amount.

You will need to prepare a tax-plan every year in order to properly know how big an IRA to Roth conversion you will want to make. There are many variables that will affect your decision.



Here are some of the important issues you should be considering as you make this decision:

- Your current age and how long you have, to convert your tax-deferred IRA and 401(k) accounts to tax-free Roth IRA accounts before you must start Required Minimum Distributions (RMDs)
- How large your tax deferred accounts are. Smaller(\$500K) accounts are easier and less painful, and larger \$1 million to \$10 million dollar IRA accounts are much harder and certainly feel more painful.
- What are your charitable wishes? All to the kids, or are there charities you want to plan for?
- Are you trying to leave a tax-free legacy to your beneficiaries?
- Do you desire to control how the funds are spent after you die? (Post death controls?)
- What are your current income needs? What will your income needs be 10-30 years from now?
- What are your other income sources? Businesses? Rental Properties? Pensions?

This list should give you a feeling for many of the most important issues you will want to consider as you calculate your ideal Roth conversion amount for this year.

Creating a tax plan is much more involved than many people think.

If you would like to see a detailed description of all the issues you should consider when you contemplate creating a tax plan; and how much you should be converting to a Roth IRA this year, go to my website at www.hoslerwm.com and under the Resources tab request my article titled, ***“How much should I convert to a Roth IRA this year”***

That article will provide you with a good example of all of the considerations and calculations you will need to consider as you calculate and make your Traditional IRA to Roth conversion for this year.

Step 3. If you must take Required Minimum Distributions (RMDs) – Take your RMD out of your traditional accounts first – early in the year.

If you are old enough that you have to withdraw Required Minimum Distributions (RMDs) (currently age 73 or older) and recognize those distributions as taxable income, and then pay tax on them, then you have a special requirement that you need to know about.



“Make sure the first distributions you take for the year are applied against your RMD requirements for the year.”

The first distributions that you take for the year are applied against your RMD requirements for the year. Now let that sink in for a minute. If you try and convert traditional IRA funds to a Roth IRA early in the year, before you have taken your RMD, those funds are not able to be converted to a Roth IRA account. Those funds must be withdrawn and are not eligible to be converted to a Roth IRA.

To avoid such a mess, please, please, please, I beg you. Start the tradition of taking your RMDs early, for example, in January or February each year.

Once you have taken your RMD distribution for the year, then, and only then, are you free to make a Roth Conversion.

If you follow these directions this will save you a lot of heartache, headaches, and hassle with the IRS. They will also save you from IRA RMD penalties.

Step 4. Make your Roth Conversion for this year.

One of the tax rules that a lot of people don't understand is that individual tax returns should always be filed on a calendar year basis as a general rule. That means, that unlike an IRA contribution, you **CANNOT make a Roth conversion after December 31st for any previous tax year.** No, you do not get any extra time after the first of the year. No, you do not have until April 15th of the following year to complete your Roth conversion.

Roth conversions MUST be completed during the tax year – period. End of story.

Let me also remind you that from mid-November thru the end of December many people in the financial services support centers try and take vacations to go see family and celebrate the holidays. Many, and let me say most IRA custodians slow down their processing times due to all of their employees that take vacation time in late December. So make sure you submit your Roth Conversion application request at least 6 weeks before year-end to allow ample time to make sure your Roth conversion gets processed before the year-end deadline.



Step 5. Apply for your ideal Life Insurance Retirement Plans (LIRPs)*. One policy for each spouse in order to secure your Long-Term Care (LTC) benefits, and the ability for each spouse to make and receive flexible tax-free loans, and the ability to add additional premium contributions to the plan later in retirement.

If you believe that tax rates in the United States will have to rise in the future, and that as many experts predict, that they will likely have to double – then you should be able to see the importance of securing, owning, and using every Tax-Free investment vehicle available to you, in order to diversify your tax-free holdings, diversify your tax-free income streams, and most importantly provide tax protection potential for your taxable investments.

You see the Roth IRA and the Roth 401(k) can provide you with a tax-free investment vehicle that you can convert your tax deferred traditional accounts into. But what about your taxable investments? Your taxable brokerage accounts, individual, Joint, and Trust accounts. How will you shelter those funds, or at least some of those funds from future tax rates? How will you protect the proceeds going forward you receive from selling other assets like real estate or a business?

That is where permanent cash value life insurance can be used to provide the tax-free income, and the flexibility that you most certainly will need in the future. Flexibility? You may be wondering what I mean by that. Let me share a little insight with you.

When you take a distribution from a Roth IRA account, can you put those funds back into the Roth account later in the year? No, you cannot. A Roth IRA is just like a tube of toothpaste. Once you squeeze out the toothpaste, you can't put it back in.

It is the same for a Roth IRA. Once you take a distribution from a Roth IRA account you have just lost all of the tax free benefits for those funds – *forever!* You can never get any more tax free benefits for those funds again.

Such is not the case for a Life Insurance Retirement Plan. When you need income from the plan you take the funds in the form of a loan. Your money remains invested in the policy in

whatever investment strategy you selected. With most of the Indexed Universal Life policies we use today, most of those funds are invested in an index like the S&P 500.

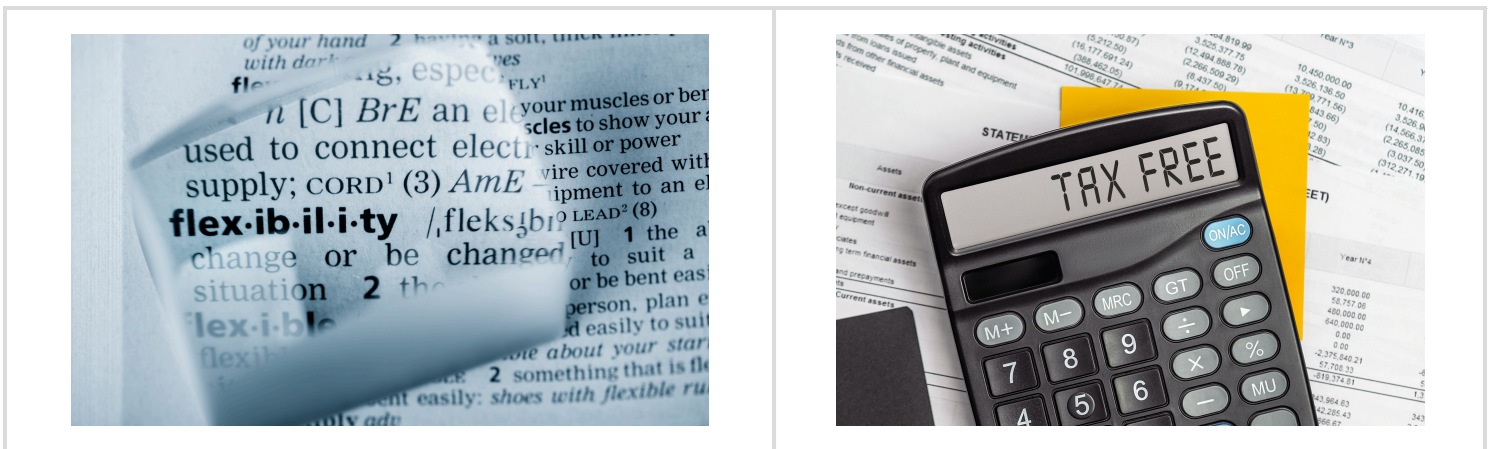
You can borrow money from your policy, and then a year later when you sell some stock, sell a car, inherit some money, sell a piece of real estate, or perhaps earn some excess business income, you can pay the loan back. Yes, you can put funds right back into the policy to replace the money you took out last year.

You see the power of this tax-free vehicle. There is nothing else like it that will allow you to take tax-free funds out, and then later, turn around and put funds back into it again. You do not lose the tax protection the policy offers you when you take money out, like you do when you take distributions from a Roth IRA.

Now, let's consider some of the other benefits of the LIRP. Imagine, you don't have to die to claim the death benefit of your life insurance policy. That's right, you can claim your own death benefit and use it for long-term care when your health changes *and* you need long-term care.

Did you notice that I said, "when," you need long-term care? Folks, if you are a couple 65 years old or older, there is a 70% chance that one of you will need long-term care, **70% percent**. Do you really want to bet against those odds? That would be a bad bet. With the average long-term care need lasting 2 years, we are talking about a lot of money at risk. Why risk it? Secure your own Life Insurance Plan and have the benefits waiting for you when you need them.

Here is one more thing about trying to secure a policy for each spouse for married couples. Ladies, if your husband dies, you will receive the death benefit as a tax-free lump sum. His life insurance policy will no longer be available to provide you with a tax-free account capable of providing you with tax-free income. Ladies, why did I address this point to you? Because, 70% of women will outlive their husband by at least a few years according to Quizlet.com.



Imagine that it is 15 to 20 years or more into the future. What will the income tax rates be in the United States at that time? 40%, 50%, 60% or maybe even 88% like the CBO has

projected. Where will you shelter the death benefit you receive from your husband's life insurance policy. Sure when you receive it, it will be tax free. But where will you invest the proceeds from that moment going forward so you can shelter yourself from the future higher tax rates?

You see, each of you will need your own policy (if you can qualify for it), so you have your own policy available to you if you are the surviving spouse, to provide you with tax-free income when you are alone. Your own policy will be available to provide you with the Long-term care benefits when you need them the most. When you may be alone, you will have confidence because you will know your tax-free retirement plan has provided for your needs in one of your biggest moments of truth.

Oh, guess what ladies? If you don't need the death benefit for your long-term care needs, the death benefits will be left income tax-free to your children and grandchildren.

Gentlemen, if you love your wife, and you know the odds that she will likely outlive you, how could you ever ignore this important planning. Please, love your wives, and plan for the needs that she will likely face when she is all alone.

For these reasons you can see why I feel these vehicles are so very important for single people, and for both spouses of married couples.

**A life insurance retirement plan (LIRP) is a strategy that uses the cash value of a permanent life insurance policy to hold retirement assets. The policy must be properly structured and managed to avoid becoming modified endowment contracts; distributions from modified endowment contracts are subject to tax rules and penalties similar to non-qualified annuities. In addition, withdrawals, and loans plus interest on them, lower both the cash value and the death benefit.*

Step 6. Make estimated tax payments to cover the taxes on your Roth Conversion, or if you are over age 59 1/2 make plans to pay the additional Roth conversion taxes from your Traditional IRA account by November of this year.

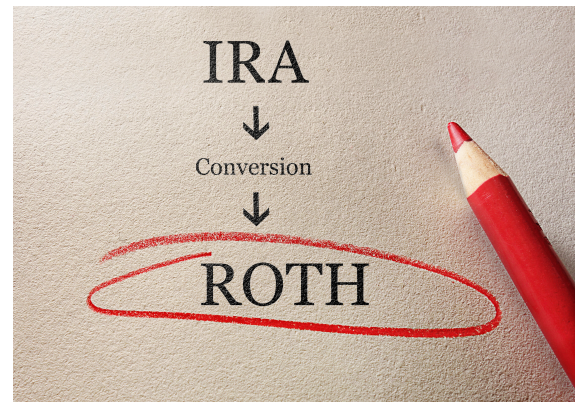
If you have lots of taxable investments (non-tax deferred accounts like taxable brokerage or bank accounts) then it will likely be beneficial for you to plan to pay the taxes on your IRA to Roth IRA conversion with funds from your taxable investment accounts.

This will allow you to preserve your IRA and leave more IRA funds available to be converted to your Roth IRA account in future years. Your Roth IRA account will be allowed to have more IRA funds converted to it over time.

If on the other hand, almost all your money is saved in tax-deferred accounts like Traditional IRAs and traditional 401(k)s, and you have a large balance (\$1 million or more) in these types

of accounts, you will likely want to consider paying the taxes due from the Roth IRA conversion with funds from your Traditional IRA account.

“Make sure you are over age 59 ½ year old, so you can avoid the 10% early withdrawal penalty.”



In order to use this method to pay your taxes, you will want to make sure you are over age 59 ½ year old, so you can avoid the 10% early withdrawal penalty.

If you have a large Traditional IRA, and you are old enough to avoid the early withdrawal penalty, using your IRA to pay your taxes due on the Roth conversion will help you reduce the size of your Traditional IRA, and that is one of the goals we are trying to achieve. Reducing the size of your Traditional IRA before the tax rates double is an important goal.

If you have to pay a much higher income tax rate in the future on that account because you have not been able to get it all converted to a Roth IRA, it could force you to pay a much higher income tax rate on that account than you had planned.

Using your Traditional IRA to pay the taxes on your Roth conversion is a very popular strategy for many of my clients. It could be for you too.

As an extra bonus consider making your Roth conversion early in the year after you get your RMD distribution completed. Then make your Roth conversion and let the growth take place in that tax-free Roth IRA account. But you can wait until November to make the tax payment by pushing the entire distribution to federal and state taxes. The government considers that the payment was made in equal amounts during the year fulfilling your estimated tax payments requirements.

Be careful, if you try this strategy, it can be very enjoyable, and you may never want to give it up as a way to pay your taxes. In order to take advantage of this strategy you will have to prepare a tax-plan, so you know how much to pay in November in the form of an IRA distribution that is pushed 100% to federal and state taxes.



Step 7. Work with your Tax and Financial Planning professionals to create your Moving to Tax-Free retirement plan and a dynamic financial plan.

Folks, you will want to create a plan, a blueprint if you will, that will help you build a tax-free retirement. This requires use of a short-term annual tax plan every year. As the tax brackets change, and as your income and tax deductions change, you will need to be able to adjust your planning.

In addition, you will need a longer-term moving to tax-free financial plan to help you project how long it will take you to achieve a tax-free retirement. This plan is usually static in nature. Once you have calculated the number of years it will take you to reach a tax-free retirement, it will not change much. You may have acquired enough assets and income sources that you will never be able to achieve a tax-free retirement. Knowing this information is essential so you can make plans to get as close as possible to one.

It is for this reason that I named my book Moving to Tax-Free. Many of my clients will never be able to earn 100% tax-free income in retirement, but I want to help you get as close as you possibly can.

In addition to both of those plans you will also need a third plan. I will call this a "Dynamic Financial Plan." This plan needs to be prepared and maintained, year in and year out, using cutting edge financial planning software that is available for you to review and see online.

This dynamic financial plan will tell you the statistical probability of your chances of achieving a successful retirement. That means a retirement where you don't run out of money and can work towards achieving the goals you have set, like travel, maintaining a comfortable lifestyle, and providing for unexpected emergencies. Your goals may also include leaving a tax-free legacy to your children.

This plan should maintain a current net worth and update a balance sheet at least annually. This financial plan will act as your map and compass as the world, markets, politics, tax rates, inflation, investments, and moments of truth affect your potential retirement success.

Step 8. Work with your Wealth Manager to create, implement and maintain your Moving to Tax-Free retirement strategy.

As you can see from the other steps above, moving to tax-free requires a lot of work. Implementing such a plan requires a wealth manager who understands and supports you in all of the tax-free planning aspects I have touched on in this article.

They have to be prepared to help you with other important strategies as well, like how you can keep your Social Security benefits from being taxed. Identifying all of the moving to tax-free planning strategies is beyond the scope of this article. My purpose in writing this article is to give you enough information so you can begin by making an informed start.



In this eighth step, you have to open accounts, convert IRA accounts to Roth IRA accounts, properly title accounts, and properly designate your IRA and Roth IRA beneficiary designations. Consider naming primary, contingent, and tertiary beneficiary designations. Create investment plans specific to your situation and risk tolerance, and use suitable investment vehicles to help you minimize unnecessary income or estate taxes, or at least minimize them.

You don't want to use tax-deferred annuities if you want to take advantage of the tax breaks offered by Long-term capital gains rates. Some annuity salesmen may try to persuade you otherwise.

A tax-deferred annuity (non-IRA) turns taxable investments that can potentially be taxed at long-term capital gains rates into ordinary income that is ALWAYS taxed at your effective or, even worse, at your highest marginal income tax bracket.

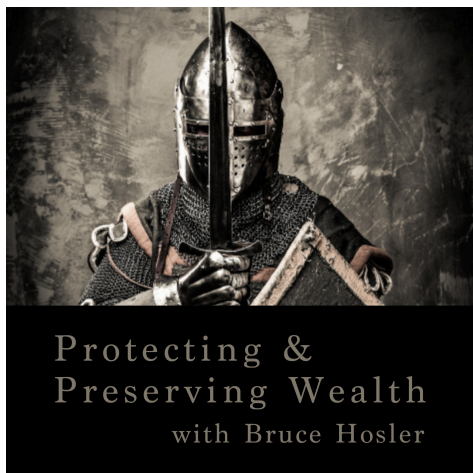
Your trusted wealth manager should know this and use the correct type of investments for the right periods when you need income. Safer investments in the short term for near-term income needs and long-term growth investments to provide the growth you will need to stay ahead of our ever-deflating dollar as our government prints more money to sustain our deficit spending each and every year.



Your wealth manager will need to use a wide variety of investment vehicles to create, maintain, grow, protect, and preserve your tax-free retirement plan. They must be appropriately licensed to provide you with all the vehicles you need for your tax-free retirement. Please choose your wealth manager wisely.

Closing Thoughts

I hope these eight steps have helped you begin moving toward your Tax-Free Retirement. If you want a deeper dive into all my concepts, you can find them in my book, **MOVING TO TAX-FREE**, available on Amazon. My podcast, [Protecting & Preserving Wealth](#), releases new episodes on the 1st and 3rd Wednesday of the month; tune in and listen to unique situations and methods of working toward your tax-free retirement income.



To request a complimentary introductory phone or video call with my team, click the **SCHEDULE A CONSULTATION** button or **REQUEST A CALL** button on the Hosler Wealth Management website, and an advisor will contact you. I hope you have found this conversation helpful, and I wish you every success in your journey of **Moving to a Tax-Free Retirement**.

Respectfully Yours,



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