Advanced Markets

managing your tax bracket

planning if taxes go up and planning if taxes go down

It's always important to diversify and spread your risk among many investments. Diversification can help protect you from fluctuations among different assets and asset classes.[1]

But, what about diversifying your tax rate exposure? By diversifying among different financial products you may have the ability to protect yourself against fluctuations in tax rates. Why is this important? During years with high tax rates you may want to have the option to take funds from tax-free investments. In today's uncertain tax and budget environment, planning for this is all the more important.

Problem

Rosie and Bennett are a middle-aged couple. They're saving for retirement, but need to care for their children and plan for college. Bennett is also looking at life insurance to help protect the family in case something happens to him. At the same time, the couple is funding their IRAs and 401(k)s, but know these won't address all they need for retirement.

ideal candidates

- Need life insurance
- Think taxes will increase
- Need more retirement income than Social Security, their IRAs and other current savings can provide
- Already maximum fund their 401(k)s and IRAs

A Possible Solution

Carl, their Financial Professional, shows them an option — cash value life insurance. It offers Rosie and Bennett:

- Death benefit protection in case something happens to Bennett during his working years.
- Access to policy available cash surrender values that grow tax-deferred.
- During the couple's retirement years, any available cash surrender value can be taken from the life insurance policy via withdrawals and loans. So long as the life insurance remains in force, the funds can be received income-tax-free.
- The couple can use these tax-free withdrawals and loans to supplement income in years they need added income without increasing their tax bracket.[2]
- Withdrawals and loans from life insurance policies are exempt from the 3.8% Medicare surcharge.

There's a final added benefit: Life insurance cash values, along with the couple's IRA and 401(k) accounts aren't included in the expected family contribution calculations for college financial aid.

1 Diversification is a method of asset allocation. It does not guarantee a profit or protect against a loss. A diversified method of investing may result in a loss of principal to the investor.
2 Loans and withdrawals reduce the policy's cash value and death benefit and increase the chance that the policy may lapse. If the policy lapses, terminates, is surrendered or becomes a modified endowment, the loan balance at such time would generally be viewed as distributed and taxable under the general rules for distributions of policy cash values.

Managing Your Tax Bracket

Rosie and Bennett estimate that during retirement they'll need $100,000. They have a number of sources of income, but they're worried about taxes. Here their life insurance cash values can also help. Each year they will take non-discretionary payments, such as Social Security and their required distributions from taxable retirement funds. This fills up their lower tax brackets. As they approach the higher tax brackets, they can minimize taxes with available life insurance cash surrender values.

How Rosie and Bennett fill their higher tax brackets makes a difference while still meeting their $100,000 target income.

Added benefit with Life Insurance. Because the funds can be pulled out free of income taxes, the couple can withdraw or borrow less and still meet the same after-tax amount they need to live on.

		Lower Tax Brackets Filled First: Social Security, IRA and Pension Distributions, and Other Taxable Income			Higher Tax Brackets: Rosie and Bennett Have a Choice — Taxable Income, or Cash Values, Roth IRAs and Municipal Bond Interest		Total
		First $18,450	+	Next $56,450	Next $25,100	=	$100,000
Without Life Insurance Planning	Tax Rate	10%	+	15%	25%		
	Taxes Due	$1,845	+	$8,468	$6,275	=	$16,588
With Life Insurance Planning	Tax Rate	10%	+	15%	0%		
	Taxes Due	$1,845	+	$8,468	$0	=	$10,313
					37.8% Savings	=	$6,275

Based on a 45-year-old male, preferred underwriting status, an AXA Equitable Indexed Universal Life contract with a death benefit of $500,000 and an annual premium of $9,700 would generate 20 years of income of $25,100 starting at age 66. Assumes tax calculations made in 2015, filing jointly.

By diversifying via taxes, you can also make the choice and take income from taxable or non-taxable sources to optimize taxes.

Why AXA Equitable?

- Strong life insurance portfolio with competitive cash-value product options.
- A wide selection of riders to choose from, including the Charitable Legacy Rider®, which offers an additional death benefit to the charity(ies) of your choice at no added cost.
- The financial strength of AXA Equitable Life Insurance Company (New York, NY) or MONY Life insurance Company of America.

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