A VALENTINE'S DAY GIFT THAT SAVERS CAN GIVE

Valentine's Day, a time when loved ones express their affection with greetings and gifts. Traditional gifts include flowers, jewelry, and candy. What might your Valentine think of as an outside-the-box gift, one that also expresses affection by offering tax control benefits?

Recently, a financial professional shared with me an outside-the-box—but quite meaningful—Valentine's gift that she encourages her clients to consider giving. Now understand, she is also a certified public accountant (CPA), so it isn't completely surprising that her idea of a Valentine's Day gift might be tax inspired. In this case, it is quite a good strategy.

She typically suggests this gift to dual-income professional couples who plan to retire in 10 to 15 years. These clients' current incomes place them in a high tax bracket at both the federal and state levels. That means that they can reinvest only a portion of their investment earnings. It is frustrating for them, as they are trying to use their top-earning years to save more toward retirement. Even more frustrating, their taxes will change for the (much) better when they retire, as their incomes will be lower.

Saving Challenge during Peak Earning Years

Couples typically want to maximize their savings when they have the most discretionary income, that is, in their peak earning years. The challenge: that also is when they are likely to be in the highest tax bracket. This means less of every dollar earned from their investments will be reinvested.

In other words, clients are trying to maximize their retirement savings when they also are in higher tax brackets. What if those clients could defer paying taxes on their savings until they need the funds?

Tax Control through Deferral Can Help

Tax control means the owner of the tax-deferred account can (generally) control when taxes are due on gains by controlling distributions. (For a tax-deferred account, taxes are not due until a distribution is taken.) This is true for qualified accounts, such as traditional Individual Retirement Accounts (IRAs) and 401(k)s, required minimum distributions (RMDs) notwithstanding. It also is true for nonqualified tax-deferred annuities. A nonqualified annuity allows the owner to time the distributions and associated taxes on gains, thus providing control.

What Might a Nonqualified Deferred Annuity Do for These Saver Clients?

For clients who want the ability to have more control over the timing and recognition of gains, a nonqualified deferred annuity may mean:

- **More Gains Stay Invested.** As taxes are deferred until distribution, that means 100% of each reinvested dollar goes to work. The rule of 72 helps illustrate how deferral can help shorten the time needed for assets to reach a specific amount.

- **Potential for Tax-Advantaged Income.** A nonqualified annuity offers different ways to create cash flow. The client can choose to take a distribution, although this means gains are distributed first. The client also can elect partial or full annuitization and have exclusion-ratio tax treatment, which means each payment is a pro rata combination of return of premium and gain.
- **Tax Control.** A nonqualified annuity allows the client to rebalance and capture gains without immediate tax consequences. This means more dollars stay invested for longer. It also means that the client has more control over the entries on Form 1099.

Remember—nothing worth having is free. Annuities have charges that vary depending on the type of annuity and investments available. If the client is not age 59½ or older, there is an additional 10% federal tax that is applied to any distributed gains. But this strategy may work for a portion of the account.

What is the outside-the-box Valentine's Day gift this financial professional suggests clients consider for themselves? It's a nonqualified deferred annuity for a portion of their retirement savings. This financial professional focuses the investments on separate accounts that produce ordinary income—the same type of income the gains in the annuity produce. Every dollar of gain in the contract stays working until clients need the funds (or reach the age of contract maturity, which is age 100 in most states).

Valentine's Day is an opportunity to express love for those special people in our lives. What a caring way for dual-income couples to show their love for each other—and gift a tool for a happy and comfortable retirement.

Reach out to your clients to share this outside-the-box Valentine's Day gift idea today, and help them give the gift of tax control.

Additional Resources and Links

Seven Reasons to Gift a Roth Conversion for Valentine's Day

Nonqualified Annuities

In a Rising Tax-Rate Environment, Deferral Can Help Manage the 1099

More Retirement Strategies Blogs

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
PacificLife.com

VLC2446-0222W

This material is educational and intended for an audience with financial services knowledge.

PACIFIC LIFE

THE OFFICIAL SPONSOR OF RETIREMENT®