5TH ANNUAL
Financial Advisor
RETIREMENT SYMPOSIUM

Tax-Efficient Retirement Withdrawal Strategies

PANELISTS

Jim Johnson, JD, CLU, ChFC
Vice President Advanced Sales
Allianz Life Insurance Company

G. Joseph Votava, Jr.
CFP®, CPA, JD
Seneca Financial Advisors LLC

Allianz Life Insurance
Company of North America

Allianz Life Insurance
Company of New York

DrawDown™ Strategies for High-Net-Worth Clients

Keebler & Associates, LLP
Expertise. Insight. Clarity.

For financial professional use only – not for use with the public

Our Mission: Allianz Life Insurance Company of North America and Allianz Life Insurance company of New York are the trusted authority in insured retirement solutions for consumers working with a financial professional.

Agenda

1. Tax-sensitive withdrawal strategies
2. Other strategies and issues for consideration

For financial professional use only – not for use with the public.

Tax-sensitive withdrawal strategies

Jim Johnson

For financial professional use only – not for use with the public.

Tax-sensitive withdrawal strategies

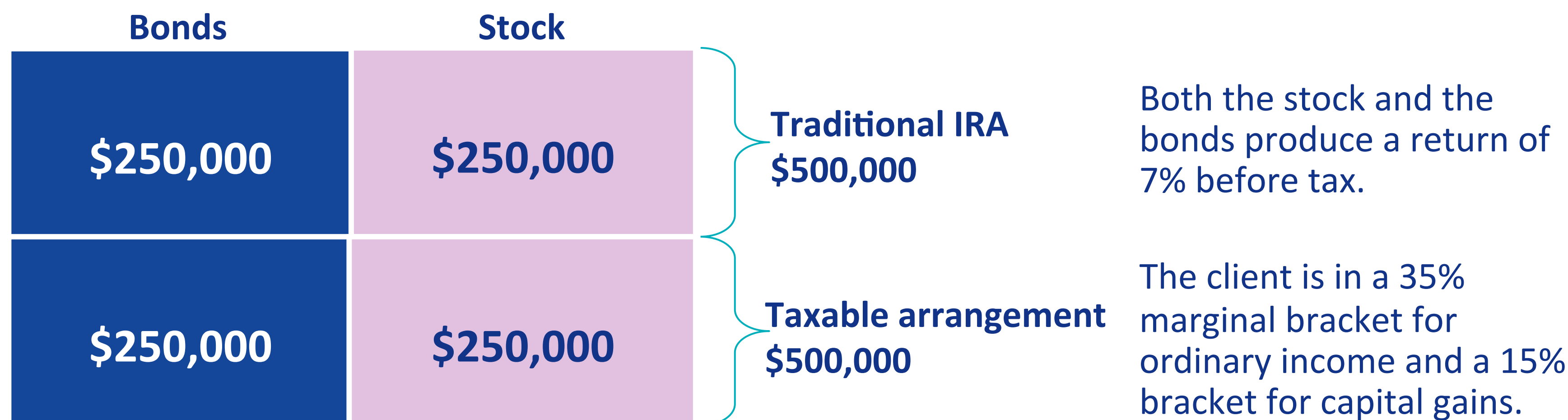
- Manage taxation of Social Security benefits
- Manage income tax brackets
- Select high-basis securities to sell first
- Aggressively harvest outside portfolio losses
- Defer Roth IRA distributions
- Implement Roth IRA conversions[1]
- Tax efficient use of nonqualified annuities
- Manage charitable gifts
- 3.8% Medicare NIIT

[1] Please remember that converting an employer plan account to a Roth IRA is a taxable event. Increased taxable income from the Roth IRA conversion may have several consequences including (but not limited to) a need for additional tax withholding or estimated tax payments, the loss of certain tax deductions and credits, and higher taxes on Social Security benefits and higher Medicare premiums. Be sure to consult with a qualified tax advisor before making any decisions regarding your IRA. The taxable amount of converting a traditional IRA annuity to a Roth IRA annuity while maintaining all of the contract features is the contract value plus the actuarial present value of certain living and death benefits.

It is generally preferable that you have funds to pay the taxes due upon conversion from funds outside of your IRA. If you elect to take a distribution from your IRA to pay the conversion taxes, please keep mind the potential consequences, such as an assessment of product surrender charges or additional IRS penalties for premature distributions.

Asset location example

A high-net-worth client owns $500,000 worth of stock and $500,000 of bonds that are allocated between a traditional IRA and a taxable account as shown in the chart below (50/50 mix).



Assume that the stock has a 50% turnover rate each year and that all gains are long term. By placing all the bonds in the traditional IRA and all the stock in a taxable account, the client could significantly increase wealth over a period of time, as illustrated in the next slide. The slide assumes a 10-year time horizon.

This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product.

Asset location example – chart of future wealth in 10 years

50/50 mix	Future value in 10 years
Bonds in traditional IRA (7% growth)	$491,788
Bonds in taxable account (4.55% A.T. return)	$390,104
Stock in traditional IRA (7% growth)	$491,788
Stock in taxable account (6.475% A.T. growth)	$468,184
Total	**$1,841,864**

All Bonds in traditional IRA	
Bonds in traditional IRA (7% growth)	$983,576
Stock in taxable account (6.475% growth)	$936,368
Total	**$1,919,944**

Difference	**$78,080**

This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product.

For financial professional use only – not for use with the public.

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

Allianz

Principle #1 example

	Traditional IRA first	Roth IRA first
Initial balance – traditional IRA	$100,000	$100,000
Initial balance – Roth IRA	$100,000	$100,000
Federal income tax rate – traditional IRA	25%	25%
Annual after-tax cash flow needed	$15,000	$15,000
Annual pre-tax withdrawal	**$20,000**	**$15,000**
Period until exhaustion – initial assets (traditional IRA)	6 years plus 12% of $15,000 at end of 7th year	8 years plus 77% of $15,000 at end of 9th year
Period until exhaustion – remaining assets (Roth IRA)	88% of $15,000 at end of 7th year, plus 13 years, plus 67% of $15,000 at end of 21st year	23% if $15,000 at end of 9th year, plus 11 years, plus 67% of $15,000 at end of 21st year.
Maximum withdrawal period (years)	**20**	**20**

No matter which account tax structure is depleted first, the maximum withdrawal period for both account tax structures is the same.

This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product. Assumes a 6% annual beginning of period return; a simple 28% tax rate; and distributions sufficient to cover any RMDs.

For financial professional use only – not for use with the public.

Principle #2 example

	100% traditional IRA first	50/50 mix
Initial balance – traditional IRA	$100,000	$100,000
Initial balance – Roth IRA	$100,000	$100,000
Annual after-tax cash flow needed	$15,000	$15,000
Annual pre-tax withdrawal – traditional IRA (15% tax rate)	$8,824	$8,824
Annual pre-tax withdrawal – traditional IRA (25% tax rate)	$10,000	-
Annual pre-tax withdrawal – Roth IRA	-	$7,500
Annual pre-tax withdrawal (First 6 years comparison)	$18,824	$16,324
Period until exhaustion – initial assets (traditional IRA)	6 years plus 63% of the $15,000 at end of 7th year	19 years plus 28% of $15,000 at end of 20th year
Period until exhaustion – remaining assets (Roth IRA)	37% of $15,000 at end of 7th year plus 14 years, plus 87% of $15,000 at end of 22nd year	72% of $15,000 at end of 20th year, plus 3 years, plus 12% of $15,000 at end of 24th year
Maximum withdrawal period (years)	**21 years plus 87% of $15,000 at end of 24th year**	**23 years plus 12% of $15,000 at end of 24th year**

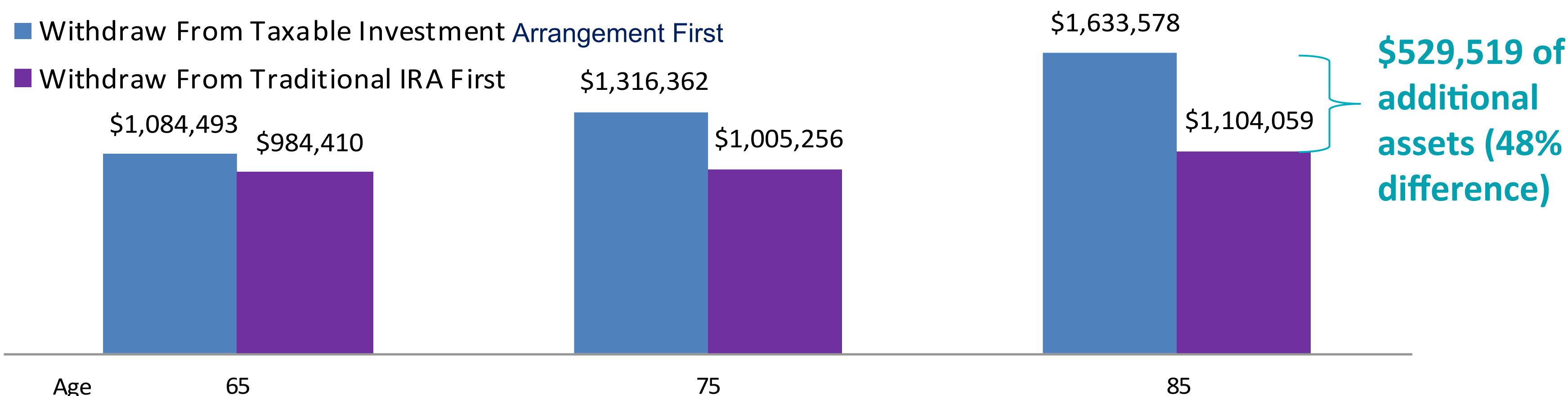
This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product. Assumes a 6% annual return with distributions at the end of each year; a simplified marginal tax rate of 15% on the first $8,824 of income and 28% thereafter to achieve the 50/50 after-tax distribution mix; no other taxable income; and distributions sufficient to cover any RMDs. For simplification, the calculations ignore any standard deduction or personal exemption. All distributions from the Roth IRA are assumed to be qualified distributions.

Principle #3 example

Example: Client, age 60 and single, has a $500,000 taxable arrangement with a basis of $500,000 and a $500,000 traditional IRA. **Needs** $60,000 annually for living expenses. **Receives** $12,000 of Social Security benefits beginning at age 62.

Assumptions: Annual return consists of 3% ordinary income (i.e. interest income) and 4% growth on the value in each account. The stock earnings are tax deferred until the time of sale, then taxed as long-term capital gains. Basis on the sale is determined as a percentage of the total account value. Required minimum distribution (RMD) begins at age 70½, regardless of the intended distribution ordering. If the RMD and the income from the taxable account exceed the living expenses for a year, the excess is reinvested in the taxable account. 25% ordinary income tax rate, 15% capital gains tax rate, 85% of Social Security benefits are subject to income tax.

Benefit of Withdrawing Funds from a Taxable Account First (balance at a particular year)



This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product.

For financial professional use only – not for use with the public.

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

Allianz

Other strategies and issues for consideration

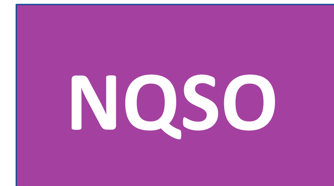
Joseph Votava

For financial professional use only – not for use with the public.

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York
Allianz

Compensatory stock options
Nonqualified stock options (NQSOs)

- Any stock option that does not qualify for special tax treatment under Internal Revenue Code (IRC) §422



- May be transferable
- No specific holding period requirements
- Employer receives an income tax deduction for the difference between the strike price and the fair market value (FMV) of the securities on the date of exercise

For financial professional use only – not for use with the public.

Nonqualified stock options (NQSOs)

A "Cashless exercise" example

- The exchange of previously acquired stock (no holding period requirement) for the funding price of new shares is a tax-free exchange.
- The basis and holding period of the old stock are carried over (i.e., "tacked") to the same number of shares in the exchange.
- The excess shares basis is equal to the income recognized on the transaction (FMV), and the holding period begins with the date of exercise.

For financial professional use only – not for use with the public.

Nonqualified stock options (NQSOs)

Tax consequences

- Ordinary income is recognized on the difference between the strike price and the FMV of the stock on the exercise date.
- FICA and Medicare are applicable to ordinary income.
- The subsequent appreciation will be taxed as capital gain.
- The holding period for purposes of determining the correct capital gain rate begins with the exercise date.
- The basis of the stock is the exercise price plus the amount of income recognized upon the exercise of the option.

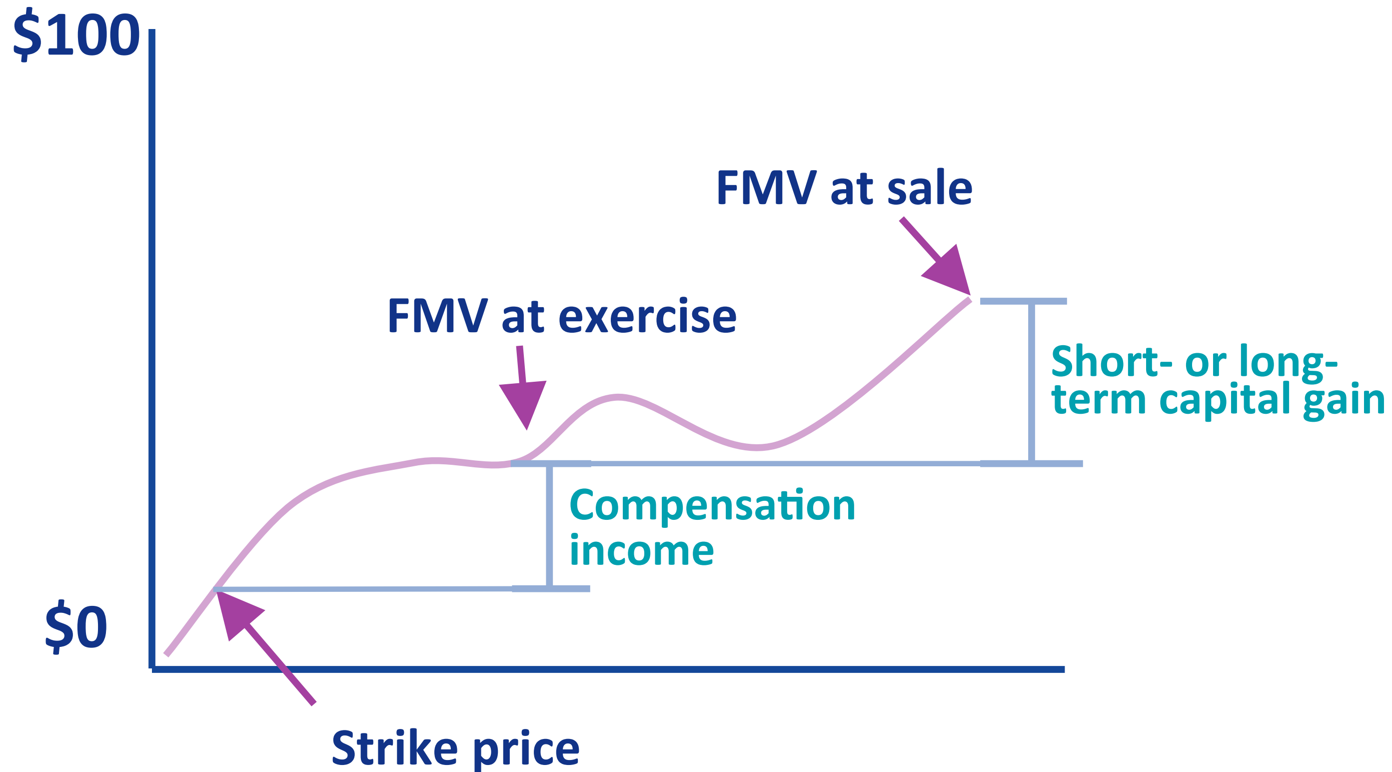
For financial professional use only – not for use with the public.

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York

Allianz

Nonqualified stock options (NQSOs)

Tax consequences



This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product.

Incentive stock options (ISOs)
Requirements

- The ISO plan and the stock options **are in writing**
- The plan specifies the number of shares that can be purchased, as well as the eligible employees
- The FMV of the stock, with respect to which the options are exercisable for the first time by any individual, **does not exceed $100,000** per calendar year
- The options must be exercised **within ten years** after they are granted
- The options are exercisable only by the employee during their lifetime
- The options are **transferable only upon the death** of the employee

For financial professional use only – not for use with the public.

Incentive stock options (ISOs)

Requirements

- The employee must be employed from the option grant date and must exercise no later than three months following termination of employment
- The stock acquired must be held for at least two years after the time it is granted and one year after the time it is exercised
- If an option is granted to an 10% or greater shareholder, the exercise price must be at least 110% of the FMV of the stock
- The employer's shareholders must approve the plan within twelve months before or after the employer's board of directors adopts the plan
- Option granted within ten years of the plan's adoption by the board of directors or, if earlier, the date it is approved by the shareholders

For financial professional use only – not for use with the public.

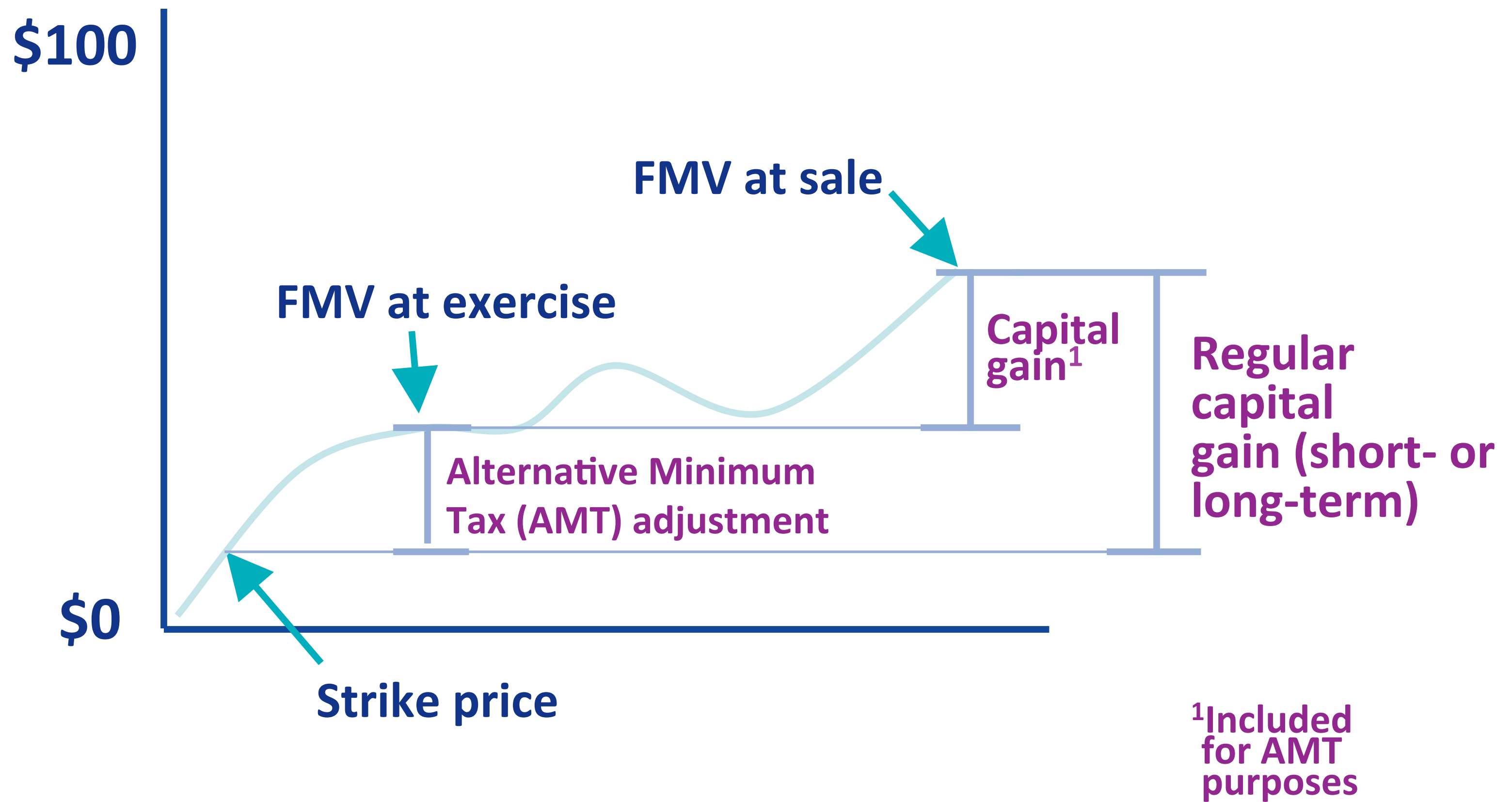
Incentive stock options (ISOs)
Disqualifying disposition

If the stock acquired by the exercise of an ISO is disposed of before one year has lapsed from the exercise date or two years from the issue date, the sale will be subject to the following recapture rules:

- Ordinary income is recognized on the difference between the exercise price and the FMV at the time of exercise
- FICA and Medicare withholding will not apply
- In addition, there will be short- or long-term capital gains on the difference between the FMV at the time of exercise and the selling price.

For financial professional use only – not for use with the public.

Incentive stock options (ISOs)
Tax consequences (qualified disposition)



This hypothetical example is for illustrative purposes only and is not intended to predict or project the future value of any financial product.

For financial professional use only – not for use with the public.

Compensatory stock options
Exercise considerations

- Opinion of experts
- Historical returns
- Fundamental analysis – look at data about company, ratios, statistics, etc.
- Security market line
- Importance of expert investment counsel to your client
- Important for setting inputs for option exercise model

Compensatory stock options
Early exercise considerations

- Forfeit time value of option
- Differential tax consequences favor early exercises
- Dividends on underlying stock
- Cash flow situation
- Price change expectations for underlying stock
  - Need for diversification – concentrated portfolio
- Better investment is available – exercise, sell, and reinvest
- Possible future change in tax rates.
- Employer stock ownership requirements

For financial professional use only – not for use with the public.

Allianz Life Insurance Company of North America
Allianz Life Insurance Company of New York
Allianz

Thank you!

For financial professional use
only – not for use with the public.