STRATEGIZING TAXES TO IMPROVE YOUR FUTURE WELL-BEING

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Hello and thank you all for joining us today for our presentation Strategizing Taxes to Improve Your Future Well-Being. I would like to welcome back our presenter, Andrew Hall from the Institute for Financial Education. He has presented on various financial topics for us before. Thank you for being with us, Andrew. I will hand it over to you.

That includes your income statement, your healthcare planning, your estate planning, your tax planning, they are all working together. Really, what we are known for is making sure that families are okay, no matter what happens, things always changing, tax laws are changing right now as we speak. Markets go up and down. Pandemics happen, family situations change, health changes. It is important that you educate yourself, step it up and take control of your finances to ensure that you will be okay no matter what happens. We are here to help with that. Today, we will talk to you about taxes. Let's dive right in. I want to throw this out, I am not giving tax advice. I am just not making any recommendations about stock markets, investments, any of that stuff. Financial decisions are very important and you are definitely encouraged to seek advice from licensed professionals if you want actionable recommendations. I am here to construe this information as education to you. Do not be going and changing your tax life because you heard it on this webinar today. Definitely, seek the advice of a professional before you make a decision. Our overall goals today are pretty simple. I understand the basics of the U.S. income tax law. If you printed out the tax code it would be ridiculously thick. I do not think there is a printer, you have a printing press, right? It is complex, there were rules and loopholes, gifts and buts. We will not get into that, we want the basics of the U.S. income tax laws. We want to talk about the potential changes in future tax laws so you can better plan today. We want to examine strategies that are available to you, especially in this day with the volatility we see every day it seems like. And figure out how to integrate your taxes into retirement. That is what we want to talk about today and will be our objectives today. Again, the goal of this is so you can start asking yourself questions. Am I set up? Do I need professional help? Is my tax burden incoherent with my investment income, healthcare, do I have a plan? That is also part of it as well. Section 1, taxes 101, we talk about the basics of how taxes work. Most people know how taxes work because you pay them. But, essentially you have gross income, that is the total earnings before taxes and deductions. This is your wages, salaries, interest payments, tips. Essentially, when you get paid, you have a salary and will get paid $100,000 per year. You all know that you do not get paid $100,000 per year, there will be deductions. After you take the deductions away, that is your taxable income. There is a difference between gross income and taxable income. There will be deductions, reductions to taxable income. Expenses or losses that can be subtracted from gross income that lower the taxable amount. Most of these will happen on the tax return. There are some things that could potentially benefit you, perhaps insurance benefits, potentially money you put into a traditional IRA. We will talk about that. Before you get down to your taxable income. On your tax return, everybody gets one of two deductions. You either get a standard deduction or you get a itemized deduction. You have what is called your adjusted gross income, basically all the money you have earned in a year that is potentially taxable. After you have come up with that number, you get to deduct a certain number, either standardized or itemized. What you see on this chart right here is just saying, this is what you get, if you are single, you get $12,550 for this year 2021 when you file your taxes in 2022 if you are married and file jointly, you get $25,100 deduction. If your head of household, you get an $18,800 deduction. If you make $100,000 per year and you are married and filing jointly, you could deduct $25,000 from that and only taxed on $75,000. That is your taxable income. If you itemize your deductions, if you have medical expenses, mortgage interest, state and local taxes, up to $10,000, that includes property and real estate taxes, if you give money to charity, you can deduct this as well. Only if it is higher than your standard deduction. If I add all these up, my charity, mortgage interest, state and local taxes, and I am single, and I add all those up and it is only $10,000. Instead, I will deduct the $12,000. Let's say I add that up and it is $15,000. I will get to deduct that $15,000 instead of the $12,000. It is a big or. Standard or itemized. That is it. Taxes 101 you make money, you get a deduction, you are taxed on what you make. How are you taxed? Based off of marginal tax brackets. All right? Let's look at these marginal tax bracket and talk about what they are and how they are. These are the tax brackets and they exist today. For 2021. Essentially, you figure out what your taxable income is. You make $100,000 per year, are married, and I get $25,000 of a standard deduction, so my taxable income is $75,000. I see where $75,000 is on the chart, I see the married and filing jointly and it is file from the second line, so my marginal rate is 12%. That is it. I find out how much I owe in taxes based on that. It is very important to know that marginal rates has to do with your taxable income. Your taxable income is what your marginal rate is. The marginal rate, which we will talk about now, the marginal rate is the rate at which your next dollar is taxed. It refers to the highest tax bracket into which your income falls. Essentially, the marginal rate is what is important. If you are walking down the street and RNA marginal tax bracket of 12% and you find $10, theoretically, you would claim that $10 on your tax return and you would pay $1.20, 12% of $10. It is the rate at which your next dollar is taxed. That is very important because, I put that note on the bottom, when you are making long-term tax planning decisions which we will get into, how to think this through. When you are making long-term tax planning decisions, it is important to focus on the marginal rate and not the effective rate. Because the marginal rate is what your next dollar will be taxed at. Sometimes it is easy for us to think about the effective rate. That is the average rate at which your earned and unearned income is taxed. Basically, total tax paid divided by your gross income. If I make $100,000 per year, and I get the deduction of $25,000, so that makes my gross income of $75,000. Let's say I pay 10% marginal rate on that, that is $7500. My marginal rate is 10% but my effective rate is only 7.5% because I effectively only paid them point 1% taxes. The problem on relying on the number for tax planning is that it is variable. If I rely on the marginal rate, I know that if I make an extra $10,000 and I divide that by 10% I will pay an extra $1000. My marginal rate is not changing and my effective rate will constantly change. If you will be doing tax planning, you will sit down and figure out your financial situation and figure out all these different things about what you want to do and how you want to retire, should you do traditional or Roth? Focus on the marginal rate. That is the most important thing. It is the dollar versus the rate at which your next dollar is taxed. So, let's look at this. This is an example put out on paper. It is so important to understand this. You have $100,000 gross income and $14,000 of itemized deductions which equals $86,000 of taxable income. That blue box on the left, $86,000 of taxable income puts a single individual's marginal rate in the 24% tax bracket. Based on the table, if you do the math, the total taxes owed is $14,600, which represents an effective rate of only 14.6%. You are in a 24% tax bracket but only paying 14 per six 14.6% of your gross income in taxes. Let's say they withdrew $20,000 from the traditional IRA during the year, because the marginal rate is 24%, they would pay 24% tax on it, not 14.6%. The total tax on the additional $20,000 of income would be $4800 and not $2900. It is very common for people to rely on their effective rate when making decisions and they oftentimes underestimate the tax implications of the decision that they make. If you underestimate the decisions of the implications of the tax decisions that you make, you will be very sad this time of year, March and April, when you file your tax returns. That is simply put. It is pretty basic, simple, not necessarily easy but it is pretty simple. But it is so important to have that foundation and understand that foundation. Let's talk about marginal tax rates a little bit more and how the tax cuts and drawbacks of 2017 affected this. This is the crux of the planning. If you really want to start paying attention. Because, when it comes down to this, understanding the marginal rates, where we are as a country as far as systolic rates, we are at all-time lows in marginal tax rates, and where we will potentially go with the laws that we know that are being talked about with the macroeconomic indicators that we have, if we had a poll, most people will say that taxes are going up in the future. The tax cuts and drawbacks of 2017, this law temporarily changed the tax code, meaning, starting in 2018, and ending in 2025, the marginal rate expanded significantly leaving many people in the lowest marginal tax bracket ever. The key is that it is temporary. We are in a tack situation right now where the law states that taxes will rise in the future. I want to show you the impact of this. It is quite a large impact. We will look at the single rate and then we will look at the married rate. For single, I highlighted the middle two. These rates have changed. If you look at this, in 2017, and I actually have these -- hold on, let me look at something, these tables are flipped. They are backwards. But the rates actually moved. I apologize for that. The rate actually moved down significantly. If you look at the bottom in the red bracket, if you make $37,000 per year in 2017, you would be at 25% tax bracket. If you look at the blue table up top, if you make $163,000 per year, you would be in a 24% tax bracket. Another way of saying that, right now, the temporary tax break, you could make $126,000 more as an individual and still be in a lower tax bracket then you work just a couple of years ago. It is the same thing for married people as well. Draw attention to these brackets. You could make up to $326,000 per year right now and be in a 24% tax bracket. In a couple of years ago, if you made $75,000, you would be in a 25% bracket. Another way of saying that, as a married couple, you can make $251,000 more and be in a lower marginal rate than you were a couple of years ago. And that you will be in 2026. The way the law is currently written. That is huge. When you are doing tax planning, you are thinking about your long-term taxes, most folks when they come into my office or the book virtual appointments, they are saying they are paying too much in taxes and want to lower them. Oftentimes, they leave aching I need to pay more taxes. If you can get taxes off the table now, I know it stinks paying taxes now and we want to pay as little as we can, but sometimes by deferring our taxes out of a bracket like we are in today, we will pay a lot more later. As federal employees, you will get a pension, Social Security, you have a lifetime of savings. You would be surprised, if you do an analysis, of what happens to your tax bracket and most of you will probably stay in the same tax bracket when you retire that you are in right now. Not only that, those taxes will be going up in the future. You may be in the lowest tax bracket you will ever be in your life, 2026. It will not be true for everybody but will be true for a significant portion of you on this call and it is important to understand that now. Understanding the rates and the change is really big. Because, when it comes to our next section, this is where the rubber really meets the road and sets the base. You have your gross income, you take your deductions, that gives you your taxable income. Based off of the marginal tax brackets, you just figure out what the taxes that you owe the government are good right now, the marginal rates are lower than they had been in many years and will rise in 2026. Keep that in mind as you do your tax planning. Let's talk about qualified and nonqualified money. Nonqualified money is pretty simple, qualification basically means there is a special tax consequences that the government has on your money. Nonqualified money is no special tax structure as determined by the IRS and a competently tax at different rates. Bank accounts, brokerage accounts, homes are a nonqualified asset, rental property would be a nonqualified asset. Nonqualified assets are purchased after tax and that needs investments are taxed when distribution occurs. Nonqualified money, I pay $1000 out of my wallet, let's say I take $1000 out of my bank account and purchase one share of Amazon stock. That is that. That is not qualified money. Let's say that Amazon stock rose from $1000 to $3000. There is $2000 of growth in that account. In a nonqualified account, you pay taxes on that $2000 of growth whenever you sell that asset. Until you sell it, it is unrealized. As long as it is unrealized, you don't pay taxes but when you sell a nonqualified asset, move a nonqualified asset, change in nonqualified asset, it triggers a tax event and you either have to pay taxes on the unrealized gain or taken unrealized loss. When you realize any gain in a nonqualified asset, you have to pay taxes. That is the key with nonqualified money. If you are interested in the bank account, you pay taxes on the interest as it is earned. If you have a bond that pays interest, you pay interest as a desert and if you have a stock to pay the dividend you pay taxes on the dividend as it is earned. If you sell a depreciated asset, you pay taxes off the sale of that asset and that is how not all applied money works. Right now, nonqualified money has something very important, it is called stepped-up basis that means, when you die, the unrealized growth is eliminated for tax purposes, good news. This is only upon death. I have $1000, I purchased a stock for $1000 and now it is worth $3000, if I sell that, I would have to pay tax on the $2000 of gains. Right? If I die and I leave that stock to my friend, my friend inherits the stock worth $3000, they don't have to pay taxes on that gain. Whenever my friend decides to sell the stock, that is when they pay the game, but the basis is $3000. The $2000 I had to pay went away. They are talking about getting rid of that rule and that is what you are seeing major things happen before the rule goes into effect. They are talking about changing the rule. It is very favorable right now for you as an individual and favorable for estate planning. One of the reasons why, when we do tax planning an exit strategy planning, very important in your overall financial plan, that is one of the reasons why the order in which you take your assets out in retirement is incredibly important. Let's speak about the big one, this is the tax tool that tripped everybody up. Qualified money. Qualified money is in any account that has a special tax structure on it. You probably know, you all have this, your TSP, this is a qualified account. It means the account is employer-sponsored. Your employer sponsors it. Individual sponsored plant is the IRA. It does not matter if it is a 401(k), TSP, I.R.A., or 50 of them, it is nullified. It is qualified in one of two ways. It is either qualified traditionally or it is qualified Roth .

This nomenclature is very important. It is not uncommon people say, I will stop contributing to my 401(k) and contribute to my Roth instead . That is inaccurate, they should stay, I will start contributing to my Roth 401(k) , it is still a 401(k), it is still an IRA. Roth is an adjective about how the account is taxed your TSP, whether traditional or Roth , is still a TSP. It is taxed one of two ways. The first way, the traditional way, simple, contributions are tax-deductible and distributions are taxed as ordinary income. Remember, nonqualified, if I bought a stock for $1000, and I sold it for $3000, only that $2000 gain would be taxable whenever I sold it. On a traditional account, if I bought a stock for $1000, I get a tax deduction for $1000 and my basis is zero. If I sold it for $3000, all $3000 would be taxable. Anything in your traditional IRA, traditional TSP, your tax basis is zero dollars . Which means, when you take the money out down the road, it is taxed as ordinary income. 100% of it. Roth , on the flipside, is different. You contribute after-tax dollars. The earnings are tax-deferred and your distributions are tax-free. If I put $5000 into a Roth IRA or TSP, and the growth of $30,000 over 30 years, and I take that $30,000 out, it is tax-free. I don't have to worry about ever paying taxes on it ever again. Those are the two ways that taxes are either traditional or Roth. We will talk about when to use either one in just a minute. I just wanted to set the base. Taxation of qualified money, traditional accounts, there are a couple of things you need to know, at age 72, you have to start taking a required minimum distribution. It is fully taxable and cannot be rolled into another qualified account, you have to distribute the money, the government will force you to take distributions from any traditionally qualified account. Upon your death, your spouse can inherit this account, and the same rules apply. However, if you move this to a nonspouse, they are required to distribute 100% of the account within 10 years of your death. This cannot be combined with any other qualified retirement accounts. So, if you have $1 million you be behind and you give that to somebody, they have two tax all $1 million within 10 years of your death. It makes the tax planning very interesting. Now you start thinking, this is a long-term taxation strategy going on. When thinking about the traditional account. On the flipside, the other side of the coin is the Roth . There is no requirement of distribution on Roth , you can keep it and not take the dollar out of it until you die unless it is a Roth TSP, that requires your RMD to be calculated . Regardless of it is traditional or Roth, it has to come out, there actually is a RMD on the Roth portion of the TSP. However, the distribution is tax-free . On the traditional side, the distribution is fully taxable. On the Roth side, the distribution is tax-free. Upon your death, your spouse can inherit the Roth croissant account as if it was theirs and nonspouse beneficiaries must distribute 100% of the account within 10 years of your death just like they are in the traditional peer however, it is a tax-free distribution. All it comes down to, everyone, is that a traditional will be fully taxable, Roth will be completely tax-free . It is a matter of when you pay the taxes. The other big thing is when you are 72 on a traditional account, the IRS will force you to take the money out. You have less control of traditional accounts. If you leave behind traditional accounts to second and third generations, it gets messy and the taxes add up. He planning considerations for qualified money, these are the questions you want to ask yourself now, today. Does it make sense to transfer your money? Employer-sponsored plans have extra restrictions that individual plans do not. Investment strategy should not be a factor as 01K is comparable to those of IRA. When you are in an employer-sponsored plan, there is employer-sponsored plans and individually sponsored plans. You can pretty much purchase any investment inside of an individually sponsored plan that you can inside of any other employer-sponsored plan, including TSP the investments in TSP , which I believe, shameless plug, in the next quarter I think we are giving a presentation on the TSP . But, you can purchase the same exact investments inside of an IRA you can inside of a TSP for the same cost, which is next to nothing. But an employer-sponsored plan has extra restrictions how you can take the money, how you can pass it on. You have to make the decision, do these extra restrictions make sense? Sometimes they do and sometimes they don't. That is an individual decision for everybody. You have to ask yourself, the TSP does not allow you to convert from traditional to Roth . The only way you can convert from traditional to Roth is to remove the money from the TSP to an IRA and converted then to Roth . If it was in an IRA, you could do that whatever you wanted. Ask yourself, how will the tax brackets change in the future? Consider whether you're in a better position to pay less in taxes today or less in the future. That is what it comes down to. At what marginal rate is the money inside my qualified account going to be taxed? If you were in a 22% tax bracket right now and we do an analysis and we find out that in retirement with the new tax law you will be at a 25% tax bracket, you are flushing 3% of your money down the toilet by not doing proper tax planning today. If it is the other way, take that into consideration with your planning and make sure you have an exit strategy to be as aggressive as you possibly can once you start living off of your IRAs and things like that. The exit strategy is so huge. Oftentimes, two separate things, our organization has experts that help people accumulate wealth from 20 to 55. And we have other experts that are completely different and how people set up from age 55 to 65, and then, sometimes other experts only specialize on the actual exit strategy of your money. As you are saving your money, you have to keep the exit strategy in mind because it is different. Understand if you are better position to pay taxes today or less taxes in the future, which way is the best way to go? Remember, the law is written in 2026 where taxes will increase. Remember that. Let's look at an example. As long as things stay inside of a qualified hat, you don't have to worry about paying taxes. You can take your 401(k) and a TSP, you can combine them down to one IRA . Make your life simple. You can invest it however you want. You can change investments, you can purchase and sell stocks, purchase property, sell property, you can do whatever you want inside of that account and there is no taxes that need to be paid. Until you physically pull the money out of the account and distributed to yourself. That is when the taxes, and a traditional IRA. You can move between the accounts and change investments, you can do all that stuff and there are no tax implications until the money physically comes out. That is different than nonqualified money. Whenever you make a decision, it triggers a tax event. If I purchase a stock for $1000 and sell it for $3000, I pay the taxes, on a dividend, I paid the taxes, if it is in a qualified account, you don't pay those taxes on any of that until you physically take out the money. Unless it is a Roth, and you already pay the taxes up front and don't have to worry about it . It is different for everybody. That is the difference between qualified and nonqualified money. And the questions you need to ask yourself. When are the taxes going to be paid? That is the most important question you can ask yourself. Our last section is kind of a catchall, other tax considerations. To recap, we have our gross income, we get our deductions, we have a marginal tax bracket to figure out what tax bracket we are in. And we are going to start saving money for retirement. We will do so by purchasing investments. Some will be nonqualified and some will be qualified. Am I going to make the right decision for traditional versus Roth ? And what am I going to do? What is the best way to handle this on the backend exit strategy? A few things you need to consider at different stages of your life, when is the best time to pay taxes? For a lot of you, I run a large financial organization, and a lot of folks that we help our aggressively paying taxes now. It makes sense and the situation. I will look at your situation and see if it makes sense for you. Roth conversion is a big thing right now . What does that mean all a Roth conversion is is moving a traditional account to a Roth account . The big kicker is, if you make the decision, you have to pay taxes when you do it. Employer-sponsored plans often limit the ability to convert from traditional to Roth , but you can contribute to the Roth portion of your employer-sponsored plan. When you are saving your money in your TSP, does it make sense to make it traditional or Roth ? I oftentimes say people say, I will do 5% traditional and 5% Roth. They play both sides of the coin. When you look at that, from 95% of the cases, that does not make sense, it is typically one or the other you want to do. Remember, the 5% match you get for your TSP, that only goes in the traditional side. Even if you .5% in the Roth, the employer money goes in the TSP. Ideally, you want to fill up the bucket you are in. Look at the picture I have, I am in a 22% tax bracket, I have already filled the 10% tax bracket and the 12% tax bracket and now I am in the 22% tax bracket., So I have room to go. If I leave the room on the table, in a few years, that 22% is 25%. Wouldn't it make sense to fill up the 22% bucket as much as I can now before he goes to 25%? And how do I do that, by converting money from a traditional account to a Roth account . But I have to pay the taxes. If you have a $100,000 traditional IRA, and you decide to convert all of that at 22%, you would only have $70,000 in a Roth IRA, because you have to pay the money in taxes, but it is the same thing. It can be mentally hard sometimes to say, I had $100,000 and now I only have $78,000, but you don't have the $100,000, you have a partner, that partner is the IRS. As long as the partner is in your life, they can change the percentage you owe depending on Congress, and other things, they can change that percentage and change the ownership at any time. Not only that, they will tell you how to get your money back later on down the road when you are older. Think about it as a business. Do you want a business partner that can change their percentage ownership stake at any time and have about 90% of say in when and how you can take the money back? Or do you want a business partner with clear-cut parameters? Same thing when it comes to taxes. That $100,000, $78,000 is the same, when are you going to pay the taxes? If you wait four years, the $100,000 is no longer $78,000, it is $75,000. You lost money. Think about it like maximizing the tax bracket you are in, make sure that you are going to do the right thing. Volatility can be your friend when it comes to tax planning. Many people are, 2000, holy cow, time flies, we had a dip in the stock market. People sold. It came back. That stock market did is prime time for tax planning. When your investments have a significant drop and you plan on holding them, converting them into is crucial. If the investment rises again, you will receive the money tax-free, if I have a traditional $10,000 account and in 2008, the market lost 40%, which he did, that $10,000 is all the way down to $6000. Let's say, at that point, I decided to convert the $6000 from traditional to Roth . Okay? Now, I can pay the taxes on the conversion and when the market rebounds, and the $6000 comes back up to $10,000, all $10,000 of my money is not tax-free. Before the crash, I had $10,000, all taxable, after the crash, I have $10,000 completely tax-free and only pay taxes on 60% of it. That is why working with a planner and somebody who understands it and working with a tax specialist and retirement planner can be valuable for people. Because there are thousands of dollars of missed opportunities during the volatility times. When the market dropped, the people I help, we were like going crazy, it was madness trying to get money convert over. It was such a huge drop in a short time. It was kind of like a tax gift. We were planning on holding the investment anyway, let's pay taxes on them while they're down, so when they get back to their precrash level, you just made a bundle of tax-free money. Use volatility to your advantage when it comes to taxes. Of course, a couple of last slides. Taxes and Social Security. This is something you have to think about. Social Security is taxable, up to 85%, some people think it is tax-free, you paid into your whole life and now they will tax you on the money you get back to but that depends on all other forms of income, including pension, rental income, tax-free distribution, even Roth TSP distributions . Roth IRAs are exempt from this. That means the less taxable provisional income you have, the less Social Security is taxed. I say all that to say that you could be in a situation where you take some money out of an IRA and your tax bill goes up significantly. I am only in the 22% tax bracket, I took $10,000 out and had to pay almost $3000 of taxes, why? Because you took a taxable asset out, which drove the tax on your Social Security to go up. You have to be very careful and you have to integrate Social Security into your tax plan. With a strong pension, sometimes it does not play a factor. But you should be aware of this. And see, maybe if there is a way to pay more taxes now, I can set myself up to be tax-free in the future. Everybody is different. You have to know that that is what is going on with taxes and Social Security. A couple other strategies that you may want to consider. The order in which you take your assets is critical. Letting traditional accounts grow may seem well and good, you are 65, you are retired, living life, taking from your nonqualified account, you had your pension, you are not paying a ton of taxes, and all of a sudden you turn 72 and a lifetime of savings is taxed. Letting traditional accounts grow could result in higher lifetime taxes, passing on traditional assets is one of the worst things you can do. Maybe spend traditional assets and save nonqualified assets. Work with your advisor to ensure you have the proper bucket of money. For example, which makes sense, spending nonqualified money in the first years of retirement, enjoying lower capital gains rates and delaying taking traditional IRA money until you are 72 when the RMD kicks in ? Or aggressively taxing traditional IRA money in the early years, reducing your RMD, leaving a tax-free inheritance behind due to stepped-up basis? It is different for everybody but these are questions you and your advisors should be talking about and answering. Lastly, I say all this with a giant caveat, there are multiple proposals in the house, literally things where they will eliminate potential conversion of nondeductible IRAs to 401(k)s, the thing like the back door Roth, and tax planning strategies we may use are going away . Also, there is the elimination of stepped-up basis, that is a hot issue right now. I have seen a lot of companies selling, a lot of famous people and really rich people, when they do it it makes the news, they are cashing out stocks to get rid of their money now so it does not hit them when they die. Speed up the expiration date on the current tax table. Nothing can be predicted. Just know that these things are always looking. We can only do the best with what we have now. That is why it is crucial to work with people that you know and trust and are well versed in all aspects of the game. Oftentimes, we rely on financial advisors for an investment portfolio and we feel like we are getting a plan. If that plan does not include everything which you spoke about with regards to taxes, we are really missing the boat. And potentially losing a significant portion of your wealth over time to the federal government. Which is also fine because I like to drive on my throat and go to national parks. Plan for the current marginal tax brackets to expire, potentially much sooner than 2045. Determine whether your money is qualified arid nonqualified and understand how it will be taxed over the long-term. Conduct an income analysis of your retirement situation to see how your taxable accounts integrate with Social Security. Remember that taxation does not end with you, it can be passed on to the next generation. Keep an eye on the tax changes and keep your plan dynamic. Resources for you, the IRS website, the different apps and good articles and podcasts. The Institute for financial education, that is me, my nonprofit I am a founder and owner of. If you want any advice, counseling, or need to speak with us, we are here and available for you. Go to that website and let us know. You can find our contact information on there. Our door is open. Making sure you will be okay no matter what. Also, you have your EAP. Cynthia, you want to say something and I will get to the questions.

Thank you, Andrew, such important information. Yes, if you want more information on this or other health and wellness topics, give us a call or visit us online, FOH4You.COM . We are available to help you or your family work through personal work-related legal or financial issues. If your question does not get answered today, you can call EAP for a financial consultation at no cost to you. Support is available 24/7 and services are confidential. The copy of the slides, resources, and a certificate of attendance will be emailed to you within 24 hours after the webinar today. All content will be available on FOH4You.COM and one to two weeks. We have a few minutes for questions and, Andrew, I will let you start that off right now.

All right, sounds good. Questions about why it should be focused the on the marginal rate whether than the effective rate. The effective rate is just math. Just, how much did I pay in taxes with my total gross income? But not all of your total gross income is taxable as you have a deduction maybe health expenses, interest, other things. That is variable. Also, like the example on the PowerPoint where it said, if I take an extra $20,000 out, if I am basing my effective rate and using that as a number, maybe I wait. Furthermore, things like, Social Security, things like, if you do or do not have to pay capital gains taxes, they are focused on your marginal rate and not your effective rate. Effective rate is simply math. It is a number you back into. Versus a marginal rate, the actual tax rate that you will pay on a financial decision, period. If you are making a financial decision, you want to know what you are doing. Regarding itemized deductions, can you deduct health insurance premiums, no. Medical deductions are like actual physical payments to the doctor. Things of that nature. Your regular health insurance, no. Head of household, I am married but I file separately, can I do head of household? You both have to file separately and have to do the same thing. Meaning, itemize or take the standard deduction. You cannot file separately, one spouse take the standard and one spouse take the itemized. You cannot do that. If they catch you doing that, you are in a world of hurt. Where'd you get the effective rate from? That is just math. If my gross income is $100,000 per year and I realize I paid $5000 in taxes, my effective rate is 5%. It is simply what do I pay in taxes over my gross income, that is my effective rate. The effective rate will change over every decision that you make. If I take an extra $2000, my effective rate of 85.6%. If I have an extra kid and get an extra tax credit, my effective rate may be 4.1%. It is always changing. Marginal rates are constant. This is a question about your thoughts on compound interest and TSP for pretax dollars going up? That is an important question and that is a really -- I cannot tell you how important this is to understand when it comes to deciding between traditional or Roth, time value of money and compounding interest, that has absolutely no bearing on your decision to do traditional or Roth. It is hard without a whiteboard and calculations to show that mathematically, but the compound interest in the time value of money has absolutely no -- nothing to do with traditional or Roth decision, it is all the tax rate period., in a traditional, you can save more money because you are not paying taxes now, you can earn more interest, but all you'll have to do is pay interest on the -- pay taxes on the backend, mathematically, it comes down to when will the rate be better? Here is a question, you don't pay taxes on gains every year on stocks and other nonqualified investments, rather you pay once you sell? Correct. You will pay interest. When you get interest on bank accounts, you will pay taxes on that, but if you have an actual investment, you will not pay taxes until you actually sell it. It is called realized and unrealized. Okay? This is a good question, does Roth Roth count towards our $6000 cap? It is separate, you can contribute up to like $20,000 or $27,000 if you are over 50 years old to your TSP, you can go Roth or traditional, does not matter . That is the entire amount you can contribute to your employer-sponsored plan. Your individually sponsored plan, the IRA, the $6000 cap, that is separate. You can put $27,000, theoretically, put $27,000 into your Roth TSP and money in your Roth as well, as long as certain qualifications are met. Federal employees do not have a RMD until after employment? There is no RMD on your employer-sponsored plan if you are still working at that age that is true. All your other money, it does count. If you retire, that RMD starts what is the benefit of moving money into the TSP when you can purchase the same investment into an IRA? None. There is no real benefit. No benefit other than maybe some psychological benefit for some folks. But there is zero financial benefit to do that. Can you have a Roth night account and another TSP outside of that ? Yes. You can ultimately have a Roth TSP and a Roth IRA. For clarification, a good question, you mentioned Roth is tax-free but doesn't want to your slide say earnings on a Roth are tax-deferred ? True, they are tax-deferred and tax-free, the tax deferral was just saying that you can buy and sell stuff inside of a Roth in it does not trigger an event you will never pay any additional taxes on contributions to a Roth , or any earnings. You never pay taxes on any of it again. Because you do not get a tax reduction. You pay taxes from the front end. You pay with after-tax dollars. Are you saying you can invest -- yes, TSP has a Roth and traditional, you can do either or both. Is there a tax provision for taking money from TSP for first-time homeowners? Yes, TSP has special loans you can take if you are purchasing a home in addition to other reasons. Does the state you retire make a difference in these tax laws? Not what we talked about today, it is all federal, but every state will have a tax law different as well. Every state has its own tax laws. You have to be sure where you will retire and how that affects it. Everything we talked about today is federal. One last question and I will let you all go, when converting a Roth, can use the same money to pay the taxes? Yes, you can pay the taxes with that as long as you are over 59.5 years, if you are under, you have to fight other money or you could be subject to the penalty. Good questions. I will do the other questions later. Thank you for having me and we will see you next time.

Andrew, thank you, you got a lot of questions answered. I wanted to remind everybody that all the materials will be sent to you within 24 hours. They will also be on FOH4You.COM . Remember, you will get a pop-up survey when you close the webinar today. You can make any comments to us, we do read them, and we appreciate your feedback. Once again, thank you, Andrew, for presenting today and thank everyone for taking the time to participate. Have a wonderful rest of your day. [Event Concluded]