

Senior Outlook Today

Better Living for the Ageless Generation

5 Ways to Increase Your Tax-Free Income

By Bill Demaree November 5, 2014

When considering the things to keep in mind when trying to increase your tax-free income from a senior perspective, there are several options to examine.

1. ROTH IRA

This is a great first option, you don't get the tax deduction going in, but you pull it out tax-free later on which is the opposite of a traditional IRA. More often than not, when you are preparing to retire you are in a higher tax bracket than you were when you first started your IRA so it would make the most sense to get taxed when you start off rather than on the back end.

Many seniors put off their requirement of distribution because they have enough funds available, so they really don't need the income. In that situation, it's ideal to convert an existing IRA to a Roth.

2. THE ROTH CONVERSION

This takes the existing IRA and puts it into a Roth. You certainly wouldn't want to convert the whole amount. For instance, if you have a half million dollars in a traditional IRA and converted all of that, it would put you in a 40% tax bracket, that could be a big hit. I also want to mention that if this is the path you take you will need to have funds outside your IRA to pay the taxes on that withdrawal.

I always refer to seniors as in the "preservation and distribution" phase of financial planning. They've already accumulated most of what they're going to accumulate. So, they have to be very careful with the funds they are now working with. Since my clients aren't in the accumulation age group I work diligently at the preservation stage. My clients don't need that volatility. They can't afford to take losses like in '08, or in '01-'02.

3. LIFE INSURANCE

This is a great avenue to provide tax-free income. As far as contributions, if you are a senior and haven't retired yet, there's a limitation on how much you can put into a Roth. If you're over age 50, you can put up to \$6500 per year into a traditional IRA or a Roth. The problem that I have with some of my clients is that they'd like to put more in, but they're restricted, so life insurance is an ideal avenue to take. There are less restrictions on the amount you can put into your life insurance and at a later date, pull it out in the form of a tax-free loan. The most popular is a Universal Index life product, these types of products are designed to help them when the market is doing well, more importantly, when the market goes south, they don't have any losses. I always refer to them as "heads you win and tails you break even." It's the best of both worlds!

4. TAX-FREE MUNICIPAL BONDS

Although the bond market isn't at its highest this is still a tax free vehicle that can aide to protecting your retirement fund.

5. SOCIAL SECURITY

With all of the negativity surrounding collecting Social Security it still isn't something we want to ignore. It is in your best interest to talk to a local advisor and find out when the best time is to take your Social Security or if deferring it is the best option. Keep in mind that the longer you defer the more your benefit will increase until you reach the age of 70.

Like I had mentioned, every household situation may vary so what works for some may not work for all. The bottom line is that, there are options out there that can increase that retirement nest egg without putting what you have worked so hard to accumulate at risk.



Indianapolis based Demaree Retirement Services, specializes in safeguarding and growing assets for clients in or approaching retirement. Bill Demaree, owner and founder of Demaree Retirement Services, is recognized in Indianapolis as *Your Retirement Guy*. He has been helping individuals, couples, and families transition from the accumulation phase of retirement to wealth preservation for more than 28 years.

For more information visit demareeretirementservices.com