5525 Green Bay Road
Kenosha, WI 53144-3737

PPG PARTNERS, L.L.C.
Certified Public Accountants and Consultants

Telephone: 262/657-2060
Fax: 262/657-2080
www.ppgpartners.net

Business Hours: PPG Partners will be closed at **12:00 noon on Fridays through the end of the year**

Thank You, Clients!

We would like to thank *you*, our treasured client, for allowing us to provide you with tax services this year. We appreciate your business and enjoy working with and assisting you with your tax returns.

We are committed to providing you with the highest quality of tax preparation and excellent service, and hope that your experience during the 2015 tax season has been pleasant.

Once again, thank you for your business. We look forward to continuing to work with you throughout the year.

401(k) Alternatives for High Income Earners

Every time you get a paycheck and contribute to your 401(k), your future tax burden increases. This isn't necessarily a bad thing, as tax deferred growth and the immediate tax savings it provides can be tremendously valuable. Older generations rely/relied on the 'three-legged stool' of pensions, Social Security and personal savings. With the phase-out of the traditional pension, there are more retirees with just personal savings and Social Security. And now when you ask younger generations what they expect out of social security, most know it's a house of cards and realize that they'll have to rely more on their personal savings.

This is a problem for two reasons:

The first reason is the burden of saving for retirement is becoming placed more and more on the average American worker. This is a problem because not only do you have to be diligent in making monthly contributions, you also have to be smart in how you invest. Ultimately, it's then up to you to create your own distribution plan.

The second problem is the increasing amount in 401(k)s and similar retirement plans. One can just imagine Uncle Sam salivating when he looks at that number and sees it's well in the trillions. This huge number is rapidly growing, as it's the main source of saving and makes up the majority of most people's retirement assets. Not only do you have to plan efficiently to take distributions out of these plans, but you have to be aware of the tax implications as well. Where are future tax rates going?

So let's discuss two of the alternatives that provide tax diversification for future retirement income.

- Continued on page 2 -

- Continued from page 1 -

The Roth

The Roth 401(k) and Roth IRA are kind of the opposite of your traditional 401(k)s and IRAs. When you put money in, you have to pay tax on it, but when you take money out, it's tax free. The reason why most people opt for the traditional plans is because it provides tax savings today, and most people like postponing their payments to Uncle Sam.

There are two major downsides to these plans for the higher income earning demographic, which could be roughly defined as singles making $100,000+ or married couples earning $150,000 or more. The first is that there are limits as to how much you can put in, and the second is if you're in a higher tax bracket, it's going to cost you a lot of money in upfront taxes.

One way to contribute to these plans is using Roth Conversions, which means you convert a lump sum of traditional IRA money into a Roth IRA, and try to pay the taxes from your savings. The preferred time to do this is after retirement when your income is lower, and preferably between that date and the time you turn 70½, because that's when you are required to start taking money out. This allows you to convert potentially larger sums of money at potentially lower tax rates, while insulating you from future tax rate changes.

There are two sneaky ways for higher income earners to stash more money in Roths: Backdoor Roths and Deferred Roth Contributions. The Backdoor Roth means you contribute to a nondeductible IRA and immediately convert it over to a Roth. The deferred route means contributing after tax to your 401(k) and then shifting those contribution dollars into a Roth IRA when you roll the money out. The problem with these two options is, with the government catching on, these doors are likely to be closed in the near future.

Life Insurance

This is a highly debated concept in the financial planning community, and it needs to be set up properly for it to be effective. Under Section 7702 of the tax code, life insurance is allowed to accumulate tax deferred, and you're allowed to take tax free loans from it if set up properly. It may make sense for some, but for others it has no place in their retirement plan. Higher income earners with a decade or more until their planned retirement date may find this strategy to be a better fit.

Many high income earners already have a need for life insurance and are looking for a place to save extra dollars. Why not kill two birds with one stone and buy a policy that not only provides you with a death benefit, but also acts as a supplement to your 401(k) by providing the ability to take tax-free loans from it? Why not kill three birds with one stone and get the death benefit, tax-free loan income, and use an insurance policy that can provide extra income in the event of chronic or critical illness? But just like the Roth, it is after tax money and there are cons with this strategy as well.

The moral of the story? Start thinking of ways to diversify your future tax burden, especially if the bulk of your money is tied up in pre-tax retirement plans. The time to start diversifying with these strategies is now, because there is always the possibility of future legislative changes that won't allow this. Based on legislative history with life insurance, the expectation is that the existing plans would be grandfathered in.

This information was modified from an article on Investopedia.com. Please note that PPG Partners, LLC is not a financial advisory firm.