

***Tax-Sensitive Portfolios and Withdrawal Strategies:
A Formula for Retirement Planning Success***

By: Robert S. Keebler, CPA, MST, DEP

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Financial advisors are well versed in the art of financial planning and understand the importance of growing and managing a “nest egg” (i.e. retirement assets) for retirement. Although the importance of managing the nest egg during the accumulation years is understood, what many may not realize is that management of the nest egg, including the positioning of retirement assets during the distribution years and the order and mix in which withdrawals are made, is just as important and can have a profound impact on the duration of the executive’s withdrawals and the longevity of their retirement assets.

Therefore, this critical issue will explore the relatively new concept of tax-efficient withdrawal strategies, including the importance of a distribution portfolio and the building blocks of tax-deferred growth and tax-sensitive asset allocation. Accordingly, this section will begin with an overview of the basic account tax structures and their corresponding income tax attributes.

Overview of the Basic Retirement Vehicles

In order for the financial advisor and their executive clients to fully understand the dynamics of asset allocation and tax-sensitive withdrawal strategies, they must first have a working knowledge of the different tax structures (i.e. retirement vehicles) in which retirement assets may be invested. Therefore, the following section briefly introduces the various retirement vehicles accompanied by a short description of each vehicle and its federal income tax attributes.

Outside Taxable Accounts

An outside taxable account is nothing more than a portfolio of securities, not housed within a tax-favored structure, which is afforded no special tax treatment. Investment income earned on the securities is generally taxable when received (i.e. the investment earnings receive no tax deferral). Furthermore, because the investment income is subject to income tax in the year received, in order to accurately state the outside taxable account’s rate or return and compare it to tax-advantaged accounts, the financial advisor must factor in the “tax-drag” which encumbers the outside taxable account. A detailed discussion of “tax-drag” is presented in the following section.

Deductible Traditional Individual Retirement Account ("IRA")

The deductible Traditional IRA is a tax-favored account which creates the opportunity for an investor’s retirement assets to accumulate faster than they would in an outside taxable investment account. The increased growth is achieved as a result of the tax-deferral on the appreciation and earnings within the account and the tax-deductible nature of contributions to the account.¹ Furthermore, the net benefit of a Traditional IRA contribution may be augmented if the individual invests in an outside taxable account any income tax savings which result from the income tax deduction received on the contribution.

Non-Deductible Traditional Individual Retirement Account ("IRA")

The non-deductible Traditional IRA is essentially an IRA in which the contributions are not deductible for federal income tax purposes.² Although the contributions to a non-deductible

Traditional IRA are never tax deductible, the appreciation and earning within the account are afforded tax-deferral consistent with the deferral afforded Traditional IRAs. Thus, assets within a non-deductible Traditional IRA grow faster and at a higher rate of return than assets in an outside taxable investment account. However, the financial advisor must be cautioned because on an after-tax basis, the non-deductible Traditional IRA generally does not outperform the outside taxable account. In fact, over time, it may perform worse.

This result may occur because of the nondeductible nature of the contributions and also because of the taxation of the IRA earnings. Due to the fact that the contributions are nondeductible, there is no upfront tax savings to invest in a taxable account, as is the case with deductible Traditional IRAs. The loss of this investment decreases the overall performance of the nondeductible IRA making the after-tax performance generally no better and potentially worse than the performance of an outside taxable account. Second, due to the less favorable taxation of the portion of the IRA earnings which constitute qualified dividends and capital gains, the performance of the nondeductible IRA as compared to an outside taxable account also declines. This occurs because the qualified dividend and capital gain portion of the IRA loses its favorable income tax treatment (i.e. taxed at ordinary income rates of 10%-35% instead of favorable capital gain rates of 5%-15%).

Roth Individual Retirement Account ("Roth IRA")

The Roth IRA is an IRA account in which contributions are never tax deductible, but distributions are generally received completely tax-free.³ A Roth IRA allows for the appreciation and growth to accumulate tax-free, which enables the assets within the account to accumulate significantly faster than they would in an outside taxable investment account. Moreover, the Roth IRA allows the investor to create a future tax-free source of withdrawals which will not affect his marginal income tax bracket during retirement. Furthermore, IRC §408A, which codifies the Roth IRA, allows contributions to be made to a Roth IRA after the investor has attained the age of 70 ½ and does not mandate required minimum distributions (RMDs) be withdrawn when the taxpayer reaches age 70½.

Traditional 401(k) Plan

The Traditional 401(k) plan is a tax-favored account in which contributions are made on a pre-tax basis and the appreciation and earning within the account are afforded tax-deferred growth.⁴ These tax attributes allow for the assets within the plan structure to accumulate faster than they would in an outside taxable account.

Roth 401(k) Plan

In 2006, the tax structure known as the Roth 401(k) plan became available. From an income tax standpoint, this tax structure is very similar to the Roth IRA. Contributions are made from after-tax dollars and qualified distributions are generally received income tax-free. Therefore, the basic advantage of the Roth 401(k) plan is that assets are allowed to accumulate in the plan tax-free and qualified distributions are received tax-free.

Tax-Deferred Annuities

A tax-deferred annuity is popular retirement asset which generally is purchased from an insurance company. Essentially a contract, a tax-deferred annuity provides the investor with the right to receive annual (or more frequent) payments over his life or for a guaranteed number of years, and is generally purchased years before the investor retires. Therefore, the tax deferred annuity allows funds to accumulate tax-deferred because the investor generally does not pay income tax on the annuity payments until they are received during retirement.

Deferred Compensation Plans

Deferred compensation plans are basically treated in the same manner as employer profit sharing plans for income tax purposes. Thus, contributions are made on a pre-tax basis and distributions are included in ordinary income when received.

Defined Benefit Plans

A defined benefit plan (i.e. pension plan) is an employer sponsored retirement plan in which contributions are made with pre-tax dollars. Furthermore, distributions from a defined benefit plan will almost always generate ordinary income in the year received. Thus, there is a great need for tactical, tax-sensitive asset allocation planning when defined benefit plans are part of the retirement distribution equation.

Through a cursory review of the above account tax structures, the financial advisor will recognize that the various retirement accounts provide unique and distinctive income tax ramifications for the investor. Additionally, it will become evident that the various retirement accounts can be grouped into one of three categories or “baskets,” which include:

- taxable accounts,
- tax-deferred accounts, and
- tax-free accounts

Furthermore, a review of the retirement accounts should also reinforce the premise that tax-deferred accounts and tax-free accounts generally allow funds to accumulate faster than funds in an outside taxable investment account, and are therefore generally preferred to taxable accounts for retirement plan investing. The following section will discuss this premise and will also examine the reasoning behind the premise.

Increasing Wealth by Improving Tax Structures (i.e. Understanding the Power of Tax-Deferred Growth and the Encumbering Effect of “Tax-Drag”)

As a general axiom of financial planning, most investors will achieve a stronger financial position and increase their overall wealth faster if they invest in tax-deferred or tax-free accounts prior to investing in taxable accounts. By and large, this is predominantly true because, as illustrated by the following chart, assets in tax-favored account tax structures, such as Traditional and Roth IRAs, grow faster than assets in outside taxable accounts due to the deferral of income tax on the appreciation and earnings in these accounts. Stated another way, due to the tax-drag

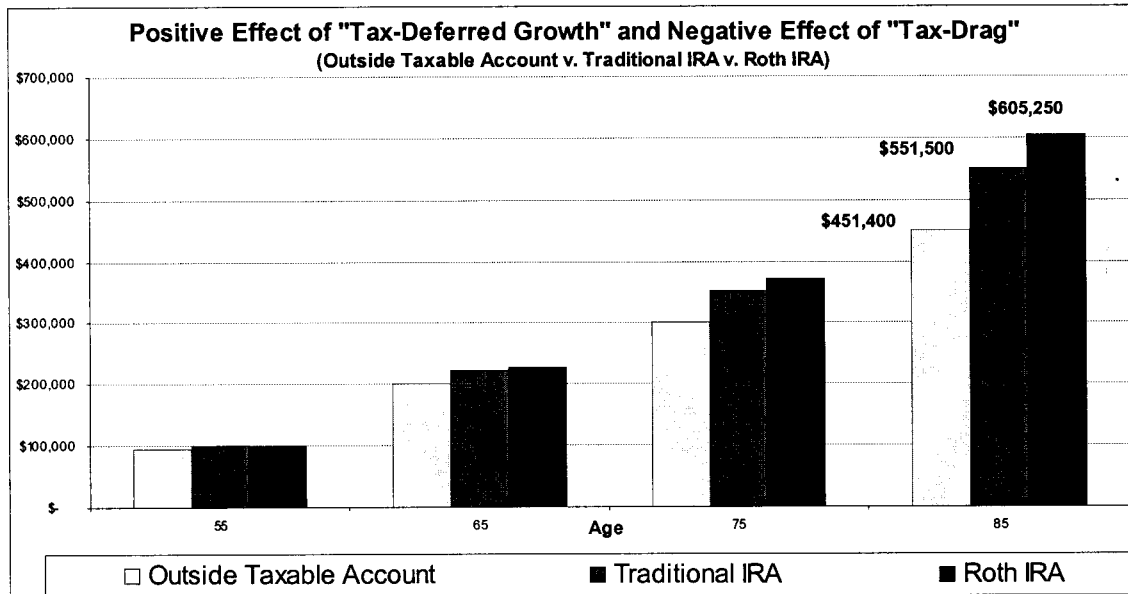
that encumbers outside taxable accounts, assets in tax-favored accounts accumulate faster than assets in outside taxable accounts.

The “tax-drag” that burdens outside taxable accounts can fundamentally be defined as the reduction in the portfolio’s rate of return for the annual income tax liability imposed on the growth and earnings in the account. For example, assume that an investor has a stock portfolio which has an 8% rate of return and the investor is in the 25% marginal income tax bracket. Therefore, in this example, the “tax drag” on the investment portfolio is 2% (i.e. $8\% \times 25\%$). Furthermore, the after-tax rate of return of the investment is 6% (i.e. $8\% - 2\%$). By understanding the after-tax rate of return an investment is earning, a financial advisor can truly compare “apples to apples.” With this knowledge, the financial advisor is better equipped to ascertain which retirement vehicles will allow the executive to increase their wealth and position themselves favorably in structuring a distribution portfolio.

As a visual assist, the following example illustrates the power of tax deferral and the detrimental impact of tax-drag through a comparison of equal investments in a Roth IRA, a Traditional IRA, and an outside taxable investment account. As is evidenced by the below example, over time, the Roth IRA and the Traditional IRA both outperform the equivalent investment in the outside taxable investment account. This occurs because of the tax-deferral afforded the Roth and Traditional IRA and the “tax-drag” which hampers the taxable account’s growth.

Example of the Positive Effect of Tax-Deferred Growth on Investments in Traditional and Roth IRAs and the Negative Effect of “Tax-Drag” on Outside Taxable Investments:

Nancy, age 40, would like to determine if she should invest equivalent amounts in either a Roth IRA, a Traditional IRA, or an outside taxable investment account. She would contribute the maximum amount of \$4,000 per year to either the Roth IRA, Traditional IRA, or the investment account until she reaches age 65. Nancy is currently in the 25% income tax bracket (15% long-term capital gain) and has chosen a portfolio with a 1.45% non-qualified dividend and 3.55% growth rate of return. The following bar graph depicts the after-tax asset balance that Nancy would accumulate if she continued to make the maximum contribution each year to either the Roth IRA, the Traditional IRA, or the outside taxable investment account.



In the above example, Nancy accumulated more wealth and achieved a stronger financial position by investing in the Roth IRA as compared to the Traditional IRA or the outside taxable investment account. Although she also achieved a stronger financial position by investing in the Traditional IRA as compared to the outside taxable account, due to the tax-free nature of the Roth IRA, investing in the Roth IRA allowed her to amass the greatest amount of after-tax wealth.

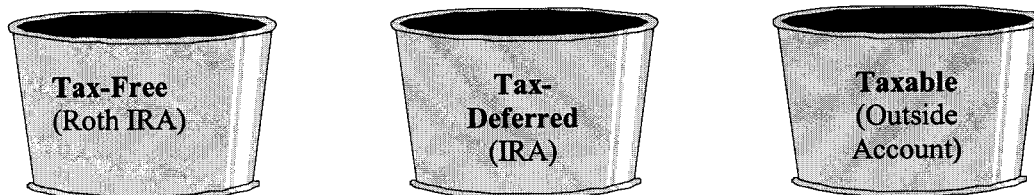
In only 45 years, Nancy was able to create approximately \$153,850 more wealth by making the decision to invest in the tax-free (i.e. Roth IRA) account before investing in the taxable account (i.e. outside taxable investment account). Additionally, if Nancy would have chosen to invest in the tax-deferred (i.e. Traditional IRA) account before investing in the taxable account (i.e. outside taxable investment account), she would have amassed approximately \$100,100 more wealth. Therefore, this example evidences the principle that, due to the tax-drag on the taxable account and the corresponding tax-free and tax-deferred favor afforded the Roth and Traditional IRA, an investor will generally benefit by investing in a tax-free or tax-deferred account prior to investing in a taxable account.

Structuring a Distribution Portfolio

Not only does investing in tax-deferred and tax-free accounts allow the investor to achieve an enhanced financial position, but it also allows the investor to create a "distribution portfolio" in preparation for the execution of a tax-efficient withdrawal strategy. Generally, when investors are primarily motivated by wealth accumulation the financial advisor will help the executive establish an "accumulation portfolio."

However, when executives are preparing for retirement, they will benefit by converting their accumulation portfolios into and structuring a reasonably balanced “distribution portfolio.” Fundamentally, this means that the financial advisor will assist the executive in establishing three “baskets” of retirement assets from which to withdraw funds from prior to and during retirement. By structuring their retirement assets in such a way, the executive will not only be able to avail themselves of tax planning opportunities before and during their retirement, but they will also afford themselves the ability to employ tax-sensitive withdrawal strategies and extend the duration of their withdrawals and the life of their retirement assets.

The Three “Baskets” of a Properly Structured Distribution Portfolio



Although the “optimum” distribution of retirement assets between the three baskets is investor specific and is driven by each executive’s unique set of income and wealth characteristics in light of their financial needs, most executives will benefit by structuring their retirement assets this way.⁵ As such, the prudent financial advisor should work collaboratively with the executive’s CPA to determine the “optimum” asset distribution for the executive.

After analyzing the different retirement vehicles, understanding the importance of tax-deferred growth, and establishing the need to develop a three basket distribution portfolio, the important building-block of wealth creation must be understood before we can delve into an analysis of tax-efficient withdrawal strategies.

Appreciating the Benefit of Tax-Sensitive Asset Allocation

In simplest terms, tax-sensitive asset allocation is the positioning of individual assets or categories of assets into various investment tax structures (i.e. retirement accounts) based upon income tax considerations. If not already established, a tax-sensitive asset allocation strategy is one of the first steps the financial advisor should take when assisting their executive clients in the creation of a retirement plan.

In general, when employing a tax-sensitive asset allocation strategy, the executive will achieve an enhanced financial position if they structure their investments, to the extent possible, in the following manner:

- **Stock should be held in a Roth IRA or taxable outside investment account**
 - Stocks generally have a higher rate of return and have the potential to appreciate faster than bonds. Holding stocks in a Roth IRA allows the appreciation and growth to accumulate and be received tax-free. Alternatively, placing the stocks in a taxable account instead of a Traditional IRA, allows the gains to be taxed at the favorable capital gains rates instead of losing the favorable attribute and being taxed at the potentially less favorable ordinary income tax rates.

- **Bonds should be held in a Traditional IRA**
 - Bonds are an ordinary income asset and will therefore be taxed as ordinary income. Accordingly, they should be placed in an outside taxable account. Although placing bonds in a Roth IRA would allow the income to be received tax-free, in order to create three baskets of assets at retirement, the bonds should be placed in the Traditional IRA with the stocks being placed in the Roth IRA for the reasons discussed above.

- **Fast appreciating assets should be held in a Roth IRA**
 - Placing fast appreciating assets in a Roth IRA allows the investor to remove the appreciation from their gross income and realize the gain without the payment of income tax.

- **Actively managed stocks should be held in an outside taxable account or alternatively in a Roth IRA**
 - Positioning actively managed stocks in this manner allows the investor to employ a loss harvesting strategy and offset capital gains with capital losses. Alternatively, this positioning allows the investor to eliminate the payment of tax on the capital gains.

- **Ordinary income assets should be held in a Traditional IRA or Deferred Compensation Account**
 - Due to the fact that distributions from Traditional IRAs are already taxed as ordinary income, and there is no risk of foregoing a favorable tax attribute, an executive would benefit by placing ordinary income assets in a Traditional IRA. Further, this positioning allows the investor to defer the recognition of the income until RMDs are withdrawn.

- **Employer stock (NUA stock) should be held in an outside taxable account**
 - Placing NUA stock in a taxable account ensures that the favorable long-term capital gains rates are utilized. If NUA stock were alternatively placed in a Traditional IRA, the favorable tax attribute would be lost and the income would be taxed at the less favorable ordinary income tax rates.

- **Tax-Exempt investments should be held in an outside taxable account**
 - Due to the fact that there is no income tax liability associated with a tax-exempt asset, the asset should be placed in a taxable account. There is no advantage to placing the asset in a Roth IRA account, and if the asset were placed in a Traditional IRA the favorable tax-free treatment would be lost.

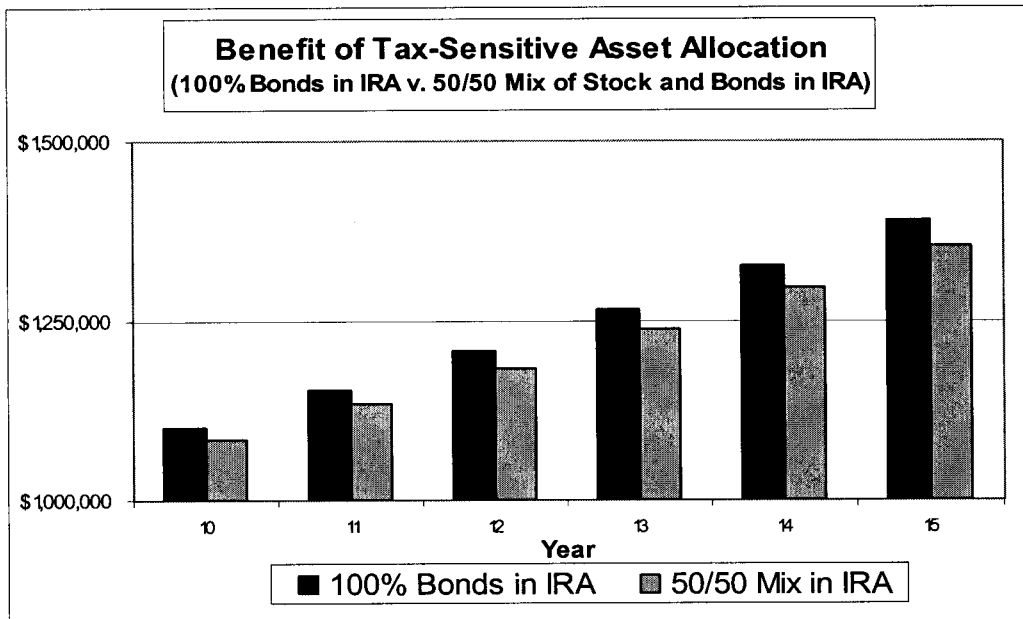
- **Index Funds and Exchange funds should be held in an outside taxable account**
 - Placing index funds and exchange funds in an outside taxable account allows the investor to employ a loss harvesting strategy and offset capital gains with capital losses. Furthermore, because these assets produce little or no taxable income, there is no drawback to placing them in an outside taxable account.

As a visual assist in understanding the power of tax-sensitive asset allocation, the following example illustrates the increased wealth an executive may attain simply by employing a tax-sensitive asset allocation strategy.

Example of the Benefit of Employing a Tax-Sensitive Asset Allocation Strategy:

Gail, age 46, has a Traditional IRA and also an outside taxable investment account, each with a balance of approximately \$400,000. Currently, both her Traditional IRA and her outside taxable account are invested 50% in stock and 50% in bonds. Gail is wondering if she would benefit by employing a tax sensitive asset allocation strategy with her Traditional IRA and outside taxable account. Assume for the purposes of this example that both the stocks and bonds in her accounts generate a 5% return and that Gail is in the 25% ordinary income tax bracket (15% for capital gains).

The bar graph below depicts the additional after-tax wealth that Gail would amass simply by employing the above discussed tax-sensitive asset allocation strategy and positioning 100% of her bonds in her Traditional IRA and 100% of her stock in her outside taxable investment account. While Gail immediately benefited from employing this strategy, over a period of fifteen years, Gail would amass approximately \$36,000 more wealth simply by positioning her assets in a tax efficient manner.



Extending the Life of Retirement Assets Through Tax-Sensitive Withdrawals

The establishment of a distribution portfolio and the corresponding positioning of assets into the three “baskets” will afford the executive the ability of employ a tax-sensitive withdrawal strategy. With the determination of the optimal order and mix in which retirement assets should be withdrawn to produce the most favorable overall income tax result at the foundation of the withdrawal strategy, the utilization of this strategy may enable the executive to markedly increase the duration of his withdrawals and extend the longevity of his retirement assets.

Although the long-term goals and income and wealth attributes of each executive are unique, most executives will generally benefit by employing a tax-sensitive withdrawal strategy which adheres to the following order:

- Withdraw funds first from taxable accounts (i.e. outside taxable investment accounts),
- Withdraw funds next from tax-deferred accounts (i.e. Traditional IRAs), and
- Withdraw funds last from tax-free accounts (i.e. Roth IRAs)

While it will not always be advantageous for the executive to adhere to this withdrawal order, as will be discussed below, generally speaking, employing this withdrawal strategy may extend the duration of withdrawals and increase the longevity of the executive’s retirement assets. This result occurs primarily due to the power of tax-deferred growth and the encumbering effect of tax drag.

By withdrawing funds from taxable accounts first, the funds in the tax-deferred and tax-free accounts are allowed to experience continued tax-deferred and tax-free compounded growth,

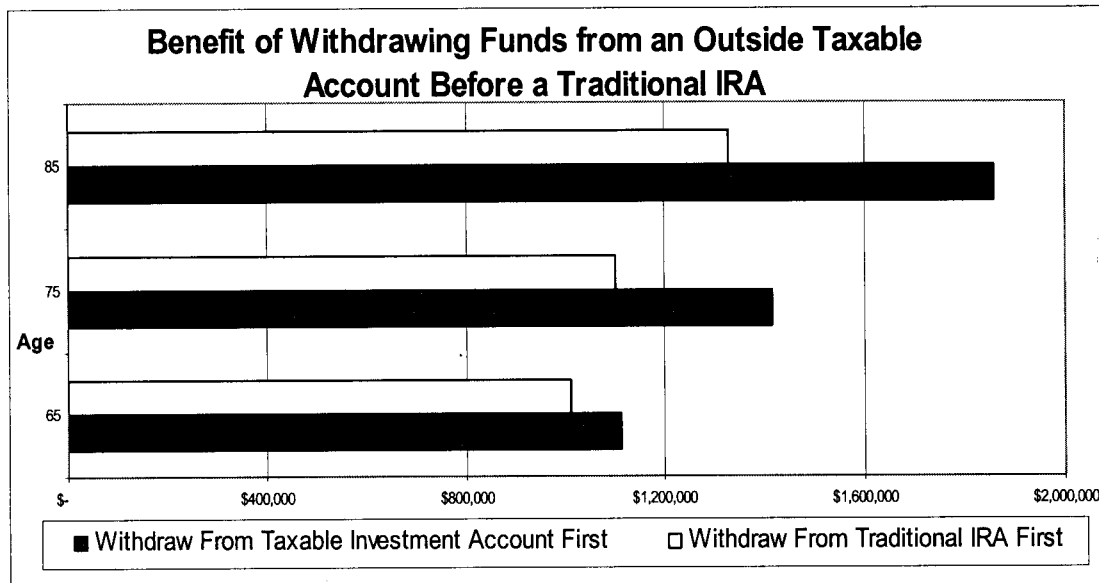
respectively, which increases the size of the account and thus extends the duration of the withdrawals.

The following example demonstrates the effectiveness of this strategy by comparing the withdrawal of funds from a taxable account first to the withdrawal of funds from a tax-deferred (i.e. Traditional IRA) account first. As is illustrated by the below graph, withdrawing funds first from a taxable account extends the duration of the overall withdrawals by increasing the overall account balance.

Example of the Effectiveness of Withdrawing Funds from an Outside Taxable Account Before Withdrawing Funds from a Tax-Deferred Account

William, age 60, has a Traditional IRA with a balance of \$500,000 and a non-qualified, outside taxable investment account with a balance of \$500,000. William would like to begin withdrawing funds from his accounts and he is seeking advice as to which retirement account he should withdraw funds from. Currently, William's only other source of income is Social Security benefits in the amount of \$10,000 per year. He would like to withdraw \$50,000 a year on an after-tax basis to supplement his Social Security income.⁶ As the following graph illustrates, by employing the tax-efficient withdrawal strategy described above, and withdrawing funds from his taxable account first, he would increase the duration of his withdrawals and extend the longevity of his retirement assets.

The following bar graph represents the total balance William would have in both his retirement accounts if he withdrew funds first from his taxable account compared to the balance he would have in his retirement accounts if he withdrew funds first from his Traditional IRA.



As is illustrated by the above chart, William will benefit substantially by withdrawing funds from his outside taxable account first instead of withdrawing funds from his tax-deferred (i.e. Traditional IRA) account first. If William were to continue to follow this tax-efficient withdrawal strategy, and withdraw funds from his taxable account before his tax-deferred account, by the time he attained the age of 85, he would have accumulated approximately \$530,300 more assets.

Notwithstanding the above, there are situations in which the executive may benefit by withdrawing funds from a tax-deferred account prior to withdrawing funds from a taxable account. Generally, there are two main instances in which the executive may benefit by applying this strategy:

- to manage income tax brackets and minimize income tax
- to prevent the required minimum distribution “time bomb”

Utilizing Tax-Deferred Funds to Manage Income Tax Brackets and Minimize Income Tax

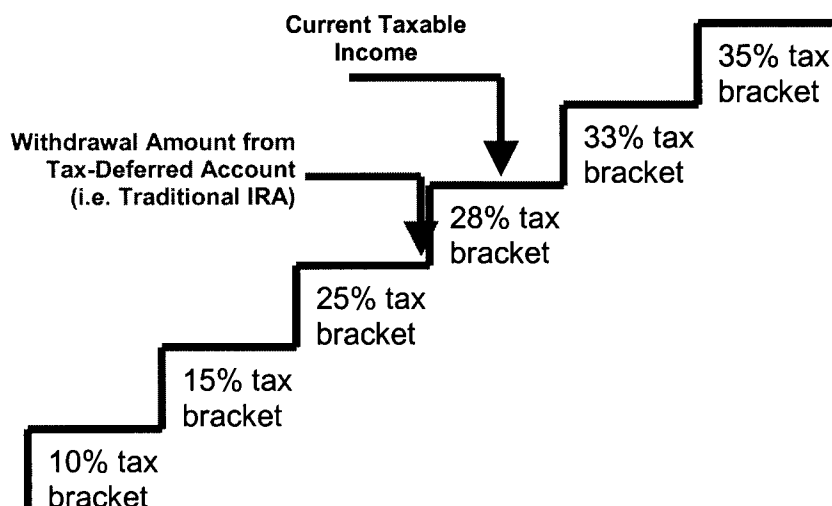
In order to manage income tax brackets and minimize overall income tax, the executive could first withdraw funds from their tax-deferred accounts up to but not exceeding an amount which fills up their 15% federal income tax bracket, and then focus the remainder of withdrawals on taxable accounts. However, due to the fact that many executives have higher taxable incomes, they may benefit by instead withdrawing sufficient funds from their tax-deferred accounts to fill up their 25% federal income tax bracket. The financial advisor should be aware that the benefits of utilizing this strategy may be decreased or lost altogether if the executive withdraws funds

from their tax-deferred account in amounts exceeding the 15% or 25% marginal income tax brackets⁷.

The benefit of this strategy is derived through the payment of income tax on the distributions at the lowest marginal income tax rates and the maximization of the lowest marginal income tax brackets. By allowing the retired executive to be taxed currently on the distributions at lower income tax rates instead of being taxed in the future on the distributions at higher income tax rates, the executive is able to minimize his overall income tax liability. Thus, this strategy is especially effective for executives who anticipate a large increase in their future projected marginal income tax rates. For example, if an executive is currently in the 15% marginal income tax bracket and is anticipating an increase in his marginal income tax rate to 25% due to the onset of RMDs, the executive would benefit and effectively minimize his overall tax liability by withdrawing funds currently and paying tax at the 15% tax rate instead of the higher 25% tax rate in the future.

While this strategy will be most effective in the short-term, for the strategy to be effective in the long-term the executive will generally want to reinvest the withdrawn funds into a taxable account instead of consuming them. Additionally, the financial advisor should note that generally only tax-deferred funds and not tax-free funds (i.e. from a Roth IRA) should be utilized in the execution of this strategy. Roth funds should generally not be utilized for this purpose because, due to the fact that Roth distributions are not subject to income tax, there is no incentive to withdraw the funds currently to take advantage of lower marginal income tax rates. Furthermore, although income tax brackets may be managed by the utilization of nominal Roth funds in unison with tax-deferred funds, the use of larger portions of Roth funds for this purpose is generally not prudent. This is because the opportunity cost of forgoing the compounded tax-free growth generally outweighs the tax benefit achieved through the use of tax-free funds in the management of income tax brackets. Therefore, the prudent executive will adhere to the general principle that tax-free funds should be withdrawn last.

Diagram of the Utilization of Tax-Deferred Funds to Manage Tax Brackets and Minimize Income Tax for Higher Net Income Executives



Utilizing Tax-Deferred Funds to Prevent “Bracket Creep” and the Required Minimum Distribution “Time Bomb”

Another instance in which an executive may benefit by withdrawing funds first from a tax-deferred account before a taxable account is to prevent what has been referred to as “bracket creep” and the resultant Required Minimum Distribution (RMD) “time bomb.” When a taxpayer refrains from taking any distributions from their Traditional IRA before their Required Beginning Date (RBD), the retirement account is allowed to experience uninterrupted growth. This uninterrupted growth equates to a large IRA balance which produces correspondingly larger distributions that, when received, may push the executive into a higher marginal income tax bracket (i.e. “bracket creep”) and increase the executive’s overall income tax liability (i.e. the resultant RMD “time bomb”). In order to prevent this from occurring, the executive may benefit by occasionally making small withdrawals from their Traditional IRA to manage not only the size of the account but also the size of the future Required Minimum Distributions. Furthermore, when these withdrawals are taken before or early in retirement, when the executive may be in a lower income tax bracket, the withdrawals will be taxed at a lower marginal income tax rate which may provide tax savings to the executive.

Conclusion

The way an executive manages their retirement nest egg during retirement is just as important as the way they manage their nest egg while planning for retirement. Through the integration of tax-deferred growth and tax-sensitive asset allocation, an executive will be positioned to capitalize on the benefits of employing a tax-sensitive withdrawal strategy. Through following

the general principle of taxable first, tax-deferred second, and tax-free last; the executive may effectively extend the duration of their withdrawals and the longevity of their retirement assets.

¹ Presently, tax deductible IRA contributions cannot exceed the lesser of the deductible amount (\$4,000 for 2005-2007, or \$5,000 for an individual who has attained the age of 50 by the end of the tax year) or the taxpayer's compensation included in gross income.

² An individual's (and/or their spouse's) active participant in an employer-sponsored qualified retirement plan or having an AGI which exceeds the threshold amount will result in a contribution to an IRA being classified as non-deductible.

³ In 2007, an investor's maximum allowable Roth IRA contribution is generally \$4,000 (increased to \$5,000 for an investor who has attained the age of 50) and is phased out between certain levels of MAGI, which is AGI modified into a MAGI computation. Although beyond the scope of this whitepaper, the phase out levels and a detailed analysis of the MAGI computation can be found in Sections 408A(c) and 219(g)(3) of the IRC.

⁴ In 2007, the maximum aggregate contribution amount a taxpayer can make to their 401(k) plans is \$15,500 (\$20,500 for those 50 years old or older).

⁵ The positioning of assets between the three baskets requires an investor specific, subjective analysis. Although the following is not an exhaustive list, in addition to the income and wealth characteristics of the executive, the analysis should also factor in the following: the executive's current and future expected marginal income tax rates, the taxability of Social Security benefits, the size of the executive's Traditional IRA and corresponding Required Minimum Distributions, the other sources of income available to the executive, and the executive's long-term goals.

⁶ For purposes of this example, the following assumptions apply:

- The annual return for both the outside taxable account and the Traditional IRA is 7% (3% ordinary income and 4% growth).
- Of the \$10,000 Social Security benefits William receives, 85% are taxable.
- William is in the 25% federal income tax bracket (15% capital gains) and for the purposes of this example the rates are static

⁷ The following chart is a summary of the current (i.e. 2007) ordinary income tax rates and each rate's corresponding income limitations.

	Single	Qualified Widow(er)	Married Filing Jointly	Married Filing Separately	Head of Household
10% Tax Rate	\$7,825	\$15,650	\$15,650	\$7,825	\$11,200
15% Tax Rate	\$31,850	\$63,700	\$63,700	\$31,850	\$42,650
25% Tax Rate	\$77,100	\$128,500	\$128,500	\$64,250	\$110,100
28% Tax Rate	\$160,850	\$195,850	\$195,850	\$97,925	\$178,350
33% Tax Rate	\$349,700	\$349,700	\$349,700	\$174,850	\$349,700
35% Tax Rate	> \$349,700	> \$349,700	> \$349,700	> \$174,850	> \$349,700