Tax Strategies
SALES KIT

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TAX TABLES

2019 and 2020

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2019 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,700	$ 0	10%	$ 0
9,700	39,475	970.00	12%	9,700
39,475	84,200	4,543.00	22%	39,475
84,200	160,725	14,382.50	24%	84,200
160,725	204,100	32,748.50	32%	160,725
204,100	510,300	46,628.50	35%	204,100
510,300	----------	153,798.50	37%	510,300

MARRIED FILING JOINTLY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 19,400	$ 0	10%	$ 0
19,400	78,950	1,940.00	12%	19,400
78,950	168,400	9,086.00	22%	78,950
168,400	321,450	28,765.00	24%	168,400
321,450	408,200	65,497.00	32%	321,450
408,200	612,350	93,257.00	35%	408,200
612,350	----------	164,709.50	37%	612,350

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 13,850	$ 0	10%	$ 0
13,850	52,850	1,385.00	12%	13,850
52,850	84,200	6,065.00	22%	52,850
84,200	160,700	12,962.00	24%	84,200
160,700	204,100	31,322.00	32%	160,700
204,100	510,300	45,210.00	35%	204,100
510,300	----------	152,380.00	37%	510,300

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,700	$ 0	10%	$ 0
9,700	39,475	970.00	12%	9,700
39,475	84,200	4,543.00	22%	39,475
84,200	160,725	14,382.50	24%	84,200
160,725	204,100	32,748.50	32%	160,725
204,100	306,175	46,628.50	35%	204,100
306,175	----------	82,354.75	37%	306,175

TRUSTS AND ESTATES RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,600	$ 0	10%	$ 0
2,600	9,300	260.00	24%	2,600
9,300	12,750	1,868.00	35%	9,300
12,750	----------	3,075.50	37%	12,750

SOCIAL SECURITY PAYROLL TAX

	Minimum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$132,900	6.2%	$8,239.80
Self-Employed	$132,900	12.4%	$16,479.60

MEDICARE PART A PAYROLL TAX

	Taxable Wage Base	Tax Rate	Maximum Tax
Employee	Initial $250,000 (joint filers)	1.45%	$3,625.00
	Initial $125,000 (married filing separately)	1.45%	$1,812.50
	Initial $200,000 (all others)	1.45%	$2,900.00
	Wages over $250,000 (joint filers)	2.35%	(no maximum)
	Wages over $125,000 (married filing separately)	2.35%	(no maximum)
	Wages over $200,000 (all others)	2.35%	(no maximum)
Employer	All wages	1.45%	
Self-Employed	Initial $250,000 (joint filers)	2.9%	$7,250.00
	Initial $125,000 (married filing separately)	2.9%	$3,625.00
	Initial $200,000 (all others)	2.9%	$5,800.00
	Wages over $250,000 (joint filers)	3.8%	(no maximum)
	Wages over $125,000 (married filing separately)	3.8%	(no maximum)
	Wages over $200,000 (all others)	3.8%	(no maximum)

2020 INCOME AND PAYROLL TAX RATES

SINGLE TAXPAYER RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,875	$ 0	10%	$ 0
9,875	40,125	987.50	12%	9,875
40,125	85,525	4,617.50	22%	40,125
85,525	163,300	14,605.50	24%	85,525
163,300	207,350	33,271.50	32%	163,300
207,350	518,400	47,367.50	35%	207,350
518,400	----------	156,235.00	37%	518,400

MARRIED FILING JOINTLY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 19,750	$ 0	10%	$ 0
19,750	80,250	1,975.00	12%	19,750
80,250	171,050	9,235.00	22%	80,250
171,050	326,600	29,211.00	24%	171,050
326,600	414,700	66,543.00	32%	326,600
414,700	622,050	94,735.00	35%	414,700
622,050	----------	167,307.50	37%	622,050

HEAD OF HOUSEHOLD RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 14,100	$ 0	10%	$ 0
14,100	53,700	1,410.00	12%	14,100
53,700	85,500	6,162.00	22%	53,700
85,500	163,300	13,158.00	24%	85,500
163,300	207,350	31,830.00	32%	163,300
207,350	518,400	45,926.00	35%	207,350
518,400	----------	154,793.50	37%	518,400

MARRIED FILING SEPARATELY RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 9,875	$ 0	10%	$ 0
9,875	40,125	987.50	12%	9,875
40,125	85,525	4,617.50	22%	40,125
85,525	163,300	14,605.50	24%	85,525
163,300	207,350	33,271.50	32%	163,300
207,350	311,025	47,367.50	35%	207,350
311,025	----------	83,653.75	37%	311,025

TRUSTS AND ESTATES RATES

Taxable Income		Tax Before Credits		
Over	But not over	Flat amount	+%	Of excess over
$ 0	$ 2,600	$ 0	10%	$ 0
2,600	9,450	260	24%	2,600
9,450	12,950	1,904	35%	9,450
12,950	----------	3,129	37%	12,950

SOCIAL SECURITY PAYROLL TAX

	Minimum Taxable Wage Base	Tax Rate	Maximum Tax
Employee	$137,700	6.2%	$8,537.40
Self-Employed	$137,700	12.4%	$17,074.80

MEDICARE PART A PAYROLL TAX

	Taxable Wage Base	Tax Rate	Maximum Tax
Employee	Initial $250,000 (joint filers)	1.45%	$3,625.00
	Initial $125,000 (married filing separately)	1.45%	$1,812.50
	Initial $200,000 (all others)	1.45%	$2,900.00
	Wages over $250,000 (joint filers)	2.35%	(no maximum)
	Wages over $125,000 (married filing separately)	2.35%	(no maximum)
	Wages over $200,000 (all others)	2.35%	(no maximum)
Employer	All wages	1.45%	
Self-Employed	Initial $250,000 (joint filers)	2.9%	$7,250.00
	Initial $125,000 (married filing separately)	2.9%	$3,625.00
	Initial $200,000 (all others)	2.9%	$5,800.00
	Wages over $250,000 (joint filers)	3.8%	(no maximum)
	Wages over $125,000 (married filing separately)	3.8%	(no maximum)
	Wages over $200,000 (all others)	3.8%	(no maximum)

CORPORATE TAX RATE

Taxable income is taxed at a flat rate of 21%.

ALTERNATIVE MINIMUM TAX

Taxpayers are subject to an "alternative minimum tax" (AMT) instead of the regular income tax when they have substantial "preference income." This is income that is treated favorably under the regular income tax. Basically, the taxpayer must pay whichever tax is higher—the regular tax or the AMT.

Filing Status	2019 Exemption	2020 Exemption
Single or head of household	$71,700	$72,900
Married filing jointly	$111,700	$113,400
Married filing separately	$55,850	$56,700

The exemption amounts are phased out for higher-income taxpayers. The income thresholds are:

2019 - Married filing jointly - $1,020,600 All other taxpayers - $510,300
2020 - Married filing jointly - $1,036,800 All other taxpayers - $518,400

AMT Income in Excess of Exemption 2019/2020	AMT Rate
First $194,800* / $197,900	26%
Above $194,800 / $197,900	28%

*$97,400 / $98,950 for married persons filing separately

KIDDIE TAX ON UNEARNED INCOME

	2018	2019	2020	Income Tax Bracket
First	$1,050	$1,100	$1,100	No Tax
Next	$1,050	$1,100	$1,100	Child's Bracket
Amounts Over	$2,100	$2,200	$2,200	Parent's Bracket

The "kiddie tax" applies to: a) a child under age 18; b) a child age 18 whose earned income does not exceed one-half of his or her support; or c) a child age 19-23 whose earned income does not exceed one-half of his or her support, and who is a full-time student. Furthermore, the child does not file a joint income tax return and has at least one living parent at the end of the tax year.

INCOME TAXATION OF SOCIAL SECURITY BENEFITS

Retired taxpayers with incomes over certain threshold amounts are subject to income tax on their Social Security retirement benefits. The special tax base for determining whether a taxpayer's benefits are subject to tax equals one-half of Social Security benefits plus all other income (including tax-exempt income).

Filing Status	Tax Base	% of Benefits Taxed
Single or head of household	$25,000 - $34,000	50%
	Over $34,000	85%
Married filing jointly	$32,000 - $44,000	50%
	Over $44,000	85%
Married filing separately	Depends on whether the spouses live together during the tax year	

For example, a married couple filing jointly has an adjusted gross income of $30,000, tax-exempt interest of $3,000, and receives $24,000 in Social Security benefits. The special tax base for the couple equals $45,000, and $6,850 of the Social Security benefits are taxable (.50 x $12,000 = $6,000; .85 x $1,000 = $850; total $6,850).

STANDARD DEDUCTION

Amount - The standard deduction is a flat amount that a taxpayer may deduct in lieu of itemizing deductions. The standard deduction amount for each taxpayer category is:

Taxpayer Status	2019	2020
Single	$12,200	$12,400
Married filing jointly	$24,400	$24,800
Head of household	$18,350	$18,650
Married filing separately	$12,200	$12,400

Age 65 or Blind - Taxpayers who are age 65 or over, or who are blind, may take an additional standard deduction (provided they do not itemize). For both 2019 and 2020, the additional standard deduction amount is $1,300 if married or $1,650 if the person is unmarried and not a surviving spouse.

ITEMIZED DEDUCTIONS

Interest Expense - Most personal interest paid is not deductible, with certain important exceptions:

Deductible

1. Mortgage interest on one or two residences up to $750,000 of indebtedness (applies only to new mortgages taken out after December 15, 2017; older mortgages remain tied to the $1,000,000 cap)
2. Points on home mortgages
3. Business interest
4. Investment interest up to net investment income

Not Deductible

1. Auto loan interest
2. Credit card interest
3. Home equity loan interest
4. Most other consumer loan interest
5. Prepaid interest other than points on home mortgages

State and Local Taxes - Itemizers may deduct either state and local income taxes, or state and local sales taxes. Also, itemizers may deduct state and local real property taxes and personal property taxes. The combined deduction for state property and income taxes is capped at $10,000. Taxpayers may not deduct state and local taxes in calculating the AMT unless they are deductible in computing adjusted gross income ("above-the-line" deductions, not itemized).

Medical and Dental Expenses - Expenses paid for nearly all medical, dental and vision care during the year, and not reimbursed by insurance or other means, are deductible by itemizers to the extent that the total of such expenses exceeds 7.5% of AGI in 2019 and 2020.

Losses - Individuals can deduct two basic types of losses: 1) business losses incurred in the taxpayer's unincorporated business, or 2) investment losses if the investment was originally motivated by profit. Casualty and theft losses are not deductible except for declared national disasters.

DEDUCTION FOR QUALIFIED BUSINESS INCOME

Owners of pass-through entities are taxed on business income at their individual income tax rates, but may claim a 20% deduction of their share of the business income—even if they elect to use the standard deduction instead of itemizing.

A number of "specified service trades or businesses" do not qualify for the deduction, subject to the following thresholds on qualified business income:

	2019	2020
Married filing jointly	$321,400	$326,600
Married filing separately	$160,725	$163,300
Single	$160,700	$163,300
Head of Household	$160,700	$163,300

CAPITAL GAINS AND DIVIDENDS

2019 Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends

Tax Rate	Single	Married (Joint)*	Head of Household	Estate or Trust
0%	$0 - $39,375	$0 - $78,750	$0 - $52,750	$0 - $2,650
15%	$39,376 - $434,550	$78,751 - $488,850	$52,751 - $461,700	$2,651 - $12,950
20%	over $434,550	over $488,850	over $461,700	over $12,950

2020 Maximum Tax Rate on Long-Term Capital Gains and Most Corporate Dividends

Tax Rate	Single	Married (Joint)*	Head of Household	Estate or Trust
0%	$0 - $40,000	$0 - $80,000	$0 - $53,600	$0 - $2,650
15%	$40,001 - $441,450	$80,001 - $496,600	$53,601- $469,050	$2,651 - $13,150
20%	over $441,450	over $496,600	over $469,050	over $13,150

*One half of these amounts in the case of married filing separately.

Holding Period - The long-term rate generally applies to gains on the sale of capital assets held for more than one year.

Short-Term Capital Gains - Net short-term capital gains (on sales of capital assets held for one year or less) are taxed at ordinary income rates.

Collectibles - Long-term capital gain from the sale of collectibles is taxed at a top rate of 28%.

Capital Losses - After capital gains and losses are netted against one another, any remaining net capital loss may be used to offset ordinary income up to $3,000 per year. Any excess net capital loss may be carried over and used in future years.

Sale of a Principal Residence - A seller of any age who has owned and used real property as a principal residence for at least two of the last five years can exclude from gross income up to $250,000 ($500,000 if married filing jointly) of gain realized on a sale.

Additional Tax on High-Income Taxpayers - Individuals with more than $200,000 in income ($250,000 for a married couple filing jointly), who also have investment income, will pay an additional tax of 3.8% on net investment income or the excess of modified adjusted gross income over the threshold amount (whichever amount is less). Investment income is defined as the sum of gross income from items such as interest, dividends, annuities, royalties, and rents, as well as net gain attributable to the disposition of property (i.e., capital gains).

DEDUCTIONS FOR CONTRIBUTIONS TO PUBLIC CHARITIES

Type of Property Contributed	Deemed Amount of Contribution	Percentage Limitation[1] 2019/20
Cash	Actual dollar amount	60%
Appreciated ordinary income property[2] or appreciated short-term capital gain property[3]	Donor's tax basis	50%
Appreciated long-term capital gain property[4]		
(a) General rule	Fair market value	30%
(b) Election made to reduce amount of contribution	Donor's tax basis	50%
(b) Tangible personal property put to unrelated use by donee charity	Donor's tax basis	50%

1 The applicable "percentage limitation'' applies to the donor's contribution base, which is the donor's adjusted gross income (AGI) determined without regard to any net operating loss carryback. The limitation is applied on an annual basis. Any deductible contributions that exceed the current year's limitations may be carried over and deducted in the five succeeding tax years, subject to the percentage limitations in those years.

2 "Ordinary income property" is property that would produce ordinary income if sold by the individual.

3 "Short-term capital gain property" is property that would produce short-term capital gain if sold by the individual.

4 "Long-term capital gain property" is property that would produce long-term capital gain if sold by the individual.

INDIVIDUAL RETIREMENT ACCOUNTS

Traditional IRA

Contribution Limit - $6,000 ($7,000 for taxpayers age 50+) in 2019 and 2020. Note: For tax years beginning in 2020, the age 70½ limit on making traditional IRA contributions is eliminated.

Deduction Limit on Qualified Retirement Plan Participants -

- Taxpayers who do not participate in qualified retirement plans can deduct contributions to an IRA.
- Taxpayers who do participate in qualified retirement plans are subject to a reduced deduction based on modified adjusted gross income (MAGI).
- In 2019, the MAGI phase-out of the deduction for single taxpayers begins at $64,000 and the deduction is lost at $74,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $103,000 and the deduction is lost at $123,000.
- In 2020, the MAGI phase-out of the deduction for single taxpayers begins at $65,000 and the deduction is lost at $75,000. The MAGI phase-out of the deduction for married taxpayers filing jointly begins at $104,000 and the deduction is lost at $124,000.

INDIVIDUAL RETIREMENT ACCOUNTS (continued)

Roth IRA

Contribution Limit - $6,000 ($7,000 for taxpayers age 50+) in 2019 and 2020.

Contribution Limit Based on Modified Adjusted Gross Income - The amount taxpayers can contribute to a Roth IRA is subject to a MAGI phase-out.

- In 2019, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $122,000 and no contribution is permitted if MAGI is $137,000 or more. The MAGI phase-out on Roth IRA contributions for married taxpayers filing jointly begins at $193,000 and no contribution is permitted if MAGI is $203,000 or more.
- In 2020, the MAGI phase-out on Roth IRA contributions by single taxpayers begins at $124,000 and no contribution is permitted if MAGI is $139,000 or more. The MAGI phase-out on Roth IRA contributions for married taxpayers filing jointly begins at $196,000 and no contribution is permitted if MAGI is $206,000 or more.

Deduction Limit - There is no deduction for a contribution to a Roth IRA.

DOLLAR LIMITS FOR QUALIFIED RETIREMENT PLANS

	2019	2020
Defined Contribution Plans - Annual additions limit for defined contributionplans [IRC Sec. 415(c)]	$56,000	$57,000
Defined Benefit Plans - Annual benefit limit for defined benefit plans [IRC Sec. 415(b)]	$225,000	$230,000
401(k) - Annual limit on deferrals [IRC Sec. 402(g)]	$19,000	$19,500
Plus: age 50+ catch-up	$6,000	$6,500
403(b) - Annual limit on deferrals [IRC Sec. 402(g)]	$19,000	$19,500
Plus: age 50+ catch-up	$6,000	$6,500
Salary Reduction SEPs (SARSEPs) - Annual limit on elective deferral [IRC Sec. 402(g)]	$19,000	$19,500
Plus: age 50+ catch-up	$6,000	$6,500
Annual Limit on Elective Deferrals to 457 Plans - [IRC Sec. 457(b)(2)(c)(1)]	$19,000	$19,500
Plus: age 50+ catch-up	$6,000	$6,500
Maximum Annual Compensation - Amount of employee compensation that may be taken into account by plan formula (QRPs, 403(b), SEPs) [IRC Sec. 401(a)(17)]	$280,000	$285,000

DOLLAR LIMITS FOR QUALIFIED RETIREMENT PLANS (continued)

	2019	2020
Nondiscrimination Rules - For "highly compensated employees" [IRC Sec. 414(q)(1)]	$125,000	$130,000
Annual Compensation Subject to SEP Discrimination Rules [IRC Sec. 408(k)(3)(c)]	$280,000	$285,000
Compensation Threshold for SEP Participation - [IRC Sec. 408(k)(2)(c)]	$600	$600
Annual Limit on Elective Deferrals to SIMPLE Plans - [IRC Sec. 408(p)]	$13,000	$13,500
Plus: age 50+ catch-up	$3,000	$3,000

REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

Starting in 2020, the required beginning date for RMDs is now age 72 (up from age 70½). Those who turned 70½ in 2019 or earlier remain subject to the previous minimum distribution rules and must take an RMD in 2020 and beyond.

Note: This change to the RMD rules does not affect the rules for making Qualified Charitable Distributions—donors may still make QCDs directly from an IRA to charity starting at age 70½.

An individual who inherits retirement account assets must now distribute those assets within 10 years of the account owner's death, with no RMDs required during those 10 years. However, the following "Eligible Designated Beneficiaries" are excluded from this change and remain subject to the previous rules, which allow them to "stretch" payments over their life expectancy:

- Surviving spouses
- Minor children (until they reach the age of majority)
- Disabled or chronically ill individuals
- Individuals less than 10 years younger than the decedent

ESTATE & GIFT TAXES

2019 and 2020 Gift and Estate Tax Rates:

Over	But not over	Flat Amount	+%	Of excess over
$0	$10,000	$0	18%	$0
$10,000	$20,000	$1,800	20%	$10,000
$20,000	$40,000	$3,800	22%	$20,000
$40,000	$60,000	$8,200	24%	$40,000
$60,000	$80,000	$13,000	26%	$60,000
$80,000	$100,000	$18,200	28%	$80,000
$100,000	$150,000	$23,800	30%	$100,000
$150,000	$250,000	$38,800	32%	$150,000
$250,000	$500,000	$70,800	34%	$250,000
$500,000	$750,000	$155,800	37%	$500,000
$750,000	$1,000,000	$248,300	39%	$750,000
$1,000,000	————	$345,800	40%	$1,000,000

Estate Tax	2019	2020
Top Estate Tax Rate	40%	40%
Estate Tax Applicable Exlusion Rate	$11,400,000	$11,580,000

Portability: The estate executor can elect to allocate the unused portion of a decedent's estate tax applicable exclusion amount to the surviving spouse.

Gift Tax	2019	2020
Top Gift Tax Rate	40%	40%
Annual Gift Tax Exclusion	$15,000 per donee	$15,000 per donee
Annual Gift Tax Exclusion for a Noncitizen Spouse	$155,000	$157,000
Lifetime Gift Tax Applicable Exclusion Amount	$11,400,000	$11,580,000

e-Pocket TAX TABLES

2019 and 2020

Protective®
Life Insurance Company

Income protection grid

Assumes the lump sum shown below earns a rate of 6% and a 20% effective tax rate on the investment earnings.

Annual Income Provided

The initial annual income is shown in the chart. It is assumed to grow at a 3% rate each year.

Years Of Income Provided	5	10	15	20	25	30	35	40	45	50
$18,000 $1,500/month	86,961	166,706	239,834	306,894	368,390	424,783	476,496	523,918	567,406	607,284
$24,000 $2,000/month	115,948	222,275	319,779	409,192	491,187	566,377	635,328	698,558	756,541	809,713
$30,000 $2,500/month	144,935	277,844	399,724	511,491	613,983	707,971	794,160	873,197	945,676	1,012,141
$36,000 $3,000/month	173,922	333,412	479,669	613,789	736,780	849,565	952,992	1,047,837	1,134,811	1,214,569
$42,000 $3,500/month	202,909	388,981	559,613	716,087	859,576	991,159	1,111,824	1,222,476	1,323,946	1,416,997
$48,000 $4,000/month	231,896	444,550	639,558	818,385	982,373	1,132,754	1,270,656	1,397,116	1,513,082	1,619,425
$54,000 $4,500/month	260,883	500,119	719,503	920,683	1,105,170	1,274,348	1,429,488	1,571,755	1,702,217	1,821,853
$60,000 $5,000/month	289,870	555,687	799,448	1,022,981	1,227,966	1,415,942	1,588,320	1,746,394	1,891,352	2,024,281
$66,000 $5,500/month	318,857	611,256	879,392	1,125,279	1,350,763	1,557,536	1,747,152	1,921,034	2,080,487	2,226,710
$72,000 $6,000/month	347,844	666,825	959,337	1,227,577	1,473,560	1,699,131	1,905,984	2,095,673	2,269,623	2,429,138
$78,000 $6,500/month	376,831	722,394	1,039,282	1,329,876	1,596,356	1,840,725	2,064,816	2,270,313	2,458,758	2,631,566
$84,000 $7,000/month	405,818	777,962	1,119,227	1,432,174	1,719,153	1,982,319	2,223,648	2,444,952	2,647,893	2,833,994
$90,000 $7,500/month	434,805	833,531	1,199,172	1,534,472	1,841,949	2,123,913	2,382,480	2,619,592	2,837,028	3,036,422
$96,000 $8,000/month	463,792	889,100	1,279,116	1,636,770	1,964,746	2,265,507	2,541,312	2,794,231	3,026,163	3,238,850
$102,000 $8,500/month	492,779	944,669	1,359,061	1,739,068	2,087,543	2,407,102	2,700,144	2,968,871	3,215,299	3,441,278
$108,000 $9,000/month	521,766	1,000,237	1,439,006	1,841,366	2,210,339	2,548,696	2,858,976	3,143,510	3,404,434	3,643,707
$114,000 $9,500/month	550,753	1,055,806	1,518,951	1,943,664	2,333,136	2,690,290	3,017,808	3,318,149	3,593,569	3,846,135
$120,000 $10,000/month	579,740	1,111,375	1,598,895	2,045,962	2,455,933	2,831,884	3,176,640	3,492,789	3,782,704	4,048,563

The information presented is hypothetical and not intended to project or predict investment results.

North American Company
for Life and Health Insurance
Since 1886

Life

Financial objectives discussion guide

Confidential

Date: ______________________________

1. PERSONAL OVERVIEW

	Client 1	Client 2
Name		
Gender		
Date of birth		
Address		
Home phone		
Work phone		
Cell phone		
Email		
Preferred contact method and time		
Occupation		
Business owner?		

Please provide me with a general overview of your financial situation and experience including any disappointments and achievements.

____

____

____

List any recent events in your life related to you, your loved ones or your financial situation. Examples include: change in marital status, death of a family member, health concerns, change in employment, change in income, new investments, etc.

____

____

____

Tell me about your current retirement plan.

What would your retirement look like if we worked together? Think about where you'd live during the various stages of your retirement, how you'd spend your typical days, what activities or hobbies you'd be involved in, etc.

Who have you relied on for financial guidance?

	Insurance professional	Broker or Financial advisor	Accountant	Attorney
Name				
Firm name				
Phone				
How did you meet?				
How long have you been associated?				
When did you last meet?				
Rate satisfaction Level from 1 – 5 with 1 being poor and 5 being excellent				

Your financial concerns

I'd like to understand your current financial concerns and know about the relationships in your life that may be impacted by these concerns. First, let me know if any of the following items are of concern to you and, if so, how they rank in order of importance.

Concern	Level of importance – Check appropriate column				
	1 None	2 Minimal	3 Somewhat	4 Very	5 Urgent
A. Income protection for my family					
B. Funding children's education[1]					
C. Outliving your assets in retirement					
D. Leaving a legacy for heirs					
E. Providing for extended family and/or dependents with special needs					
F. Estate planning/wealth transfer					
G. Charitable giving					
H. Concern about market volatility					
I. Concern about yields on savings or other fixed vehicles					
J. Affording to retire					
K. Business continuation					
L. Executive benefits for employees					
M. Loss of key employee or partner					
N. Affording in home health care or nursing home care					
O. Other:					

Additional comments: ______________________________

____

Your relationships

Based on your concerns, list others who you are supporting or plan to support financially. When identifying your relationship with these individuals, be as specific as possible from a legal perspective (i.e. "daughter of previous spouse" vs. "step-daughter", "son-in-law's child from a previous marriage" vs. "grandchild", etc.).

Name	Relationship	Gender	Date of birth	Social security number*	Concern (use letter from previous chart)

*Will be required if a life insurance transaction results from this conversation.

Now that we've discussed your personal situation, I'm going to ask you for a lot of data. Before we move on though, is there anything else that you'd like to share?

2. CURRENT FINANCIAL SITUATION

Pre-retirement earnings and benefits	Client 1	Client 2
Annual salary		
Bonus		
Other income		
Annual value of employer paid benefits/ contributions		
Health insurance		
Life insurance		
Disability insurance		
Other:		

General assets

Description	Current value	Owner (Client 1, Client 2 or J – joint, T - trust)	Plan to use for retirement?	Plan to pass on to heirs?
Residence				
Other property				
Automobiles				
RV/other				
Savings account				
Certificate of deposit				
Bonds				
Mutual funds				
Stocks				
Business interest				
Other:				
General assets total				

Note: A separate chart for Retirement Assets follows.

Retirement assets

Description	Current value		Annual contributions			
	Client 1	Client 2	Client 1	Client 1's employer	Client 2	Client 2's employer
401(k)						
403(b)						
Pension plan						
Employee stock plan						
Traditional IRA						
Roth IRA						
Annuities						
Life insurance						
Other:						
Retirement assets totals						

Liabilities

Description	Amounted owed	Duration
Mortgage 1		
Mortgage 2		
Home equity loan		
Credit cards		
Student loans		
Line of credit		
Business loan		
Other:		
Liabilities		

Net worth

(Assets ____________ + Retirement assets ____________ = ____________) – Liabilities ___________ = Net worth ___________

Taxes

	Current	Expected at retirement
Federal tax bracket		
State tax bracket		

3. COLLEGE FUNDING NEEDS[1]

Current college funding sources

Saving vehicles	Current value
529 Plan	
Savings accounts	
Certificate of deposit	
Sources from family (grandparents, etc.)	
Future potential sources (scholarships, grants, loans, student aid, other?)	
Life Insurance	
Other:	

Expenses	Estimated cost
Tuition	
Housing	
Food	
Books	
Supplies (computer, pens, notebooks, other?)	
Fees (activity, parking, other?)	
Transportation	
Other:	

4. INSURANCE REVIEW

Do you currently have coverage under any of the following types of insurance policies? Indicate the number of policies if you have more than one of any type.

Type	Client 1	Client 2
Life insurance		
Disability insurance		
Long term care insurance		

How did you purchase this coverage? (i.e. from the same representative, multiple representatives, on-line, other)

How did you come to a decision on the amount of death benefit coverage you currently have.

What life changes have occurred since you bought these policies? (i.e. marriage, children, mortgage, other?)

When was the last time you reviewed your beneficiary designations?

Let's review the insurance policies that you current have as well as any annuities that you referenced earlier.

NOTE: Use additional sheet(s) for multiple policies/contracts.

Life insurance coverage

Current coverage	Client 1 (insured)	Client 2 (insured)
Owner*		
Beneficiary(ies)*		
Issuing insurance company		
Policy issue date		
Product type		
Death benefit		
Annual premium		
Underwriting classification		
Riders (type and reason for having them):		
For permanent life insurance:		
Death benefit guarantee		
Cash accumulated value		
Cash surrender value		
Surrender charge period		
Guaranteed interest rate		
For term life insurance:		
Level term period		
Years remaining of initial level term period		
Years remaining for eligible conversion privilege		

*Be sure to list trusts if appropriate.

Disability insurance coverage

Current coverage	Client 1 (insured)	Client 2 (insured)
Issuing insurance company		
Annual premium		
Monthly benefit		
Inflation adjustment?		
Offset by social security?		

Long term care insurance coverage

Current coverage	Client 1	Client 2
Issuing insurance company		
Annual premium		
Daily benefit (in-home)		
Daily benefit (care facility)		
Maximum lifetime benefit		
Inflation adjustment?		

Annuity contracts

Current coverage	Client 1	Client 2
Issuing insurance company		
Current value		
Cost basis		
Growth rate		
Other:		

5. DISCUSSION SUMMARY

Is there anything that we haven't discussed that you feel is important for me to know?

Next appointment

Date: ______________________________

Time: ______________________________

Place: ______________________________

The content of this material is not intended sell, discuss the risks, recommend, or provide any type of advice relative to securities. Nor is it intended to recommend the liquidation of specific securities, or identify specific securities that could be used to fund a life insurance product.

Neither North American Company nor its agents give legal or tax advice. Please consult with and rely on a qualified legal or tax advisor before entering into or paying additional premiums with respect to such arrangements.

1 The primary purpose of life insurance is to provide a death benefit to beneficiaries. Because of the uncertainty surrounding all funding options except savings, it is critical to make personal savings the cornerstone of your client's college funding program. However, even a well-conceived savings plan can be vulnerable. Should your client die prematurely, your client's savings plan could come to an abrupt end.

To protect against this unexpected event, life insurance may be the only vehicle that can help assure the completion of a funding plan. In addition to the financial protection aspect of insurance, the tax-deferred buildup of cash values can be part of your client's college savings plan. Generally, if the policy is not a Modified Endowment Contract then tax-free withdrawals can be made up to the contract's cost basis. Moreover, if the policy is not a Modified Endowment Contract, then loans in excess of the cost basis are also tax free as long as the policy remains in force.

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Next appointment

Date: ______________________________

Time: ______________________________

Place: ______________________________

NOTES

PROPERTY RECEIPT

This receipt should be left with the client should the financial representative obtain copies of the client's insurance policies.

The following policies have been provided by the client(s) to the financial representative for review. Those policies will be returned to the clients by _______________(date).

Issuing company	Policy number	Insured	Policy owner

Client #1 printed name | Client #1 signature | Date

Client #2 printed name | Client #2 signature | Date

Financial representative printed name | Financial representative signature | Date

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Life

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Advanced Matters

Income Tax Implications of Living Benefits

Over the past two decades, life insurance products have come to include benefits payable during the life of the insured as well as at death. More recently, hybrid life insurance with long term care (LTC) or chronic illness riders has proved popular in the marketplace, with sustained double-digit growth in product sales from 2009–14.[1] This early payout is called a living benefit (also known as accelerated death benefit, or ADB). Living benefits on a policy may be triggered when the insured experiences a qualifying chronic, critical or terminal illness. Exact requirements for living benefits depend on life expectancy and the terms of the life insurance contract. However, since the income tax-free receipt of life insurance proceeds is usually described as dependent on the death of the insured, the taxation of these living benefits has raised questions.

This document will examine some of the potential tax implications with regard to qualifying health events and policy ownership. In general:

- **Terminal illness or chronic illness/long term care benefits** should be income tax-free if the death benefit would have been income tax-free upon the death of the insured. These benefits would be taxable to the business for business-owned policies.
- **Critical illness benefits** should generally be income-tax free when premiums are paid by the individual insured rather than by an employer.

To Find Out More:

Terminal/chronic illness benefits are governed by Internal Revenue Code § 101(g) and are treated like an acceleration of the death benefit.

Critical illness benefits are treated like health insurance benefits under Internal Revenue Code § 104

Long term care benefits are governed by Internal Revenue Code § 7702B and sec. 101(g). To sell products with long term care benefits, producers must generally be licensed to sell long term care in the state where the contract is sold.

Taxation of Benefits Based on Policy Ownership

The table below compares some of the differences in taxation based on ownership of the life insurance policy:

	Insured owns policy	Employer owns policy
Terminal Illness	Not taxable as income[2]	Even if notice and consent requirements of IRC § 101(j) are followed, benefits paid to employer are taxable[3]; but may be deductible by employer and taxable to employee if paid to employee as reasonable compensation
Chronic Illness / LTC	Not taxable if less than per diem limit or actual long term care costs[4], depending on contract terms	Taxable as income to employer[3]; but may be deductible by employer and taxable to employee if paid to employee as reasonable compensation
Critical Illness	Not taxable as income when insured pays premium[5]	Most likely not taxable as income to employer[6]; but may be deductible by employer and then taxable to employee if paid to employee as reasonable compensation
Death Benefit	Not taxable as income[7]	Taxable unless IRC § 101(j) requirements met including notice and consent provided; for C-Corp may be subject to alternative minimum income tax

[1] LIMRA, *2014 Individual Life Combination Products Annual Review*

[2] IRC § 101(g)(1)(a)

[3] IRC § 101(g)(5)

[4] IRC § 101(g); IRC §7702B

[5] IRC sec. 104(a)(3)

[6] IRC § 104(a)(3), and Rugby Productions, Ltd. v. C.I.R., 100 T.C. 531 (1993)

[7] IRC § 101(a)

Third-Party Ownership

Living benefits are normally free from income tax even when the insured is not the owner. Some exceptions to the income tax free nature of living benefits when a third party is the owner of the contract are:

- business related policies. Terminal and chronic illness long term care benefits may not be exempted from income tax.
- if the policy has become subject to the transfer for value rule.[8] While critical illness benefits may fall outside the statutory transfer for value rule, they may also become taxable if the owner acquired the policy for money or in exchange for services or property after inception of the policy.[9]
- corporate owned policies. These may cause or increase the Alternative Minimum Tax (AMT) by including annual increases in cash values and death benefits in AMT tax.

MEC with a Long Term Care Rider

Generally, MEC's follow the LIFO (last in, first out) rules for taxation so that any loans or withdrawals from a MEC result in taxable gains being distributed first before the nontaxable return of basis. However, when LTC benefits are paid out of a MEC from a LTC rider, the benefits received by the insured for long term care are not taxable because they are considered LTC rider benefits rather than withdrawals from the MEC.

In addition, one can do a tax-free 1035 exchange from a MEC contract to a MEC contract with a LTC rider and thereafter receive benefits during lifetime for long term care without experiencing taxation of the benefits.

Lapsing a Policy After Receipt of Living Benefit

The general rules on surrender determine the tax consequences of allowing a policy to lapse, even after payment of an accelerated death benefit. When 100% of the policy face amount has been accelerated as a terminal illness benefit, the base policy and all riders will terminate.

When a policy lapse occurs after a chronic illness claim or long term care claim, there is no taxable income related to prior living benefit payments as they are considered a tax-free accelerated death benefit. Similarly, prior critical illness benefit payments are not taxable on a later lapse of the policy. *(NOTE: This differs from the tax treatment of the lapse of a policy with an outstanding loan in excess of basis in the policy. In that scenario, the outstanding loan balance is included as part of the amount realized, and the result is additional ordinary income to the policy owner.)*

Qualified Plans

If life insurance with accelerated death benefit riders is owned by a qualified plan, the plan documents should address living benefit riders.

- **Long term care/chronic illness and critical illness riders** may not be considered by the IRS to be permissible incidental benefits in a qualified plan.
- **Terminal illness riders** in a qualified plan require attention. To the extent that a life insurance policy inside a qualified plan has cash value when the participant is terminally ill, the distribution of living benefit payment from the plan could be viewed as a pro rata distribution of death benefit and cash value.

Insureds and plan trustees should consult with their tax advisors to evaluate the tax consequences of plan ownership of a life insurance policy with living benefit provisions.

[8] IRC § 101(a)(2). Please see our Advanced Matters "Policy Transfers" (OLA 2249) for more details on transfer for value.

[9] *Peoples Finance & Thrift Co. v. C.I.R.*, 12 T.C. 1052, 1055 (1949), *aff'd* 184 F.2d 836 (5th Cir. 1950)

ADVANCED MATTERS

Federal Income Tax Reporting

Transamerica reports the payment of living benefits when required by the IRS on forms 1099-LTC and 1099-R. Taxpayers must consult with their professional legal and tax advisors to determine if benefit payments are taxable or not and prepare their tax returns accordingly.

Summary

With the increasing popularity of hybrid life insurance products with chronic, critical, terminal and long term care benefits, it is important to be aware of the issues that may arise due to tax consequences of these living benefits. Policies owned by businesses, policies in qualified plans, and any other policies not owned by the insured all require careful review so that the value of these benefits is understood and realized.

8 Things You Should Know About Social Security Benefits

1 Did you know you no longer receive your annual Social Security statement in the mail every year? You will receive a statement every 5 years, and then every year beginning at age 60. Go to **www.socialsecurity.gov/mystatement** to access your statement at any time. It's important that you review your statements on an annual basis with your advisor to make sure everything is accurate.

2 Did you know that failing to sign up for Medicare when you turn 65 could result in a **10% penalty** added to your monthly Part B premium?

3 Did you know that if you are paying into Social Security, you gain access to **survivors insurance**? Planning for survivors could be an integral aspect of your financial plan since it can provide supplemental income to a widow, widower and children.

4 Did you know that part of your social security benefit may be **federally taxable**? However, most states and local authorities do not tax Social Security benefits.

5 Did you know that even if your wife/ husband does not have **enough work history to qualify** for Social Security or Medicare, she/he can still receive benefits at full retirement age?

6 Did you know that **money withdrawn from your IRA or pension** or other investments will not be considered earnings by the Social Security Administration, so they will not affect the amount of Social Security benefits you receive? While withdrawals aren't considered earnings, they may impact how your Social Security earnings are taxed.

7 Did you know that **returning to work** after receiving benefits—even on a part-time basis—may increase your benefit amount?

8 Did you know that **creditors** (credit card, mortgage and auto loan companies) cannot garnish your Social Security benefits to pay off debts?

Before you begin making critical decisions about your Social Security benefits, it's important for you to know all the details that will bring the bigger picture of Social Security and your retirement into focus.

Additional information on next page.

Source: www.SocialSecurity.gov

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Understanding Social Security

Guide for Advisors

A Look at the Big Picture

For Financial Professional Use Only. Not for Use With Consumers.

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Is Your Clients' Picture of Retirement Incomplete?

Building retirement income plans for your clients is a process that requires bringing a spectrum of income sources together to create a well-composed picture of how those assets will provide for everyday income needs. However, many advisors often leave one important element — Social Security — out of the picture entirely.

Whether it is due to a lack of understanding of Social Security, decreased confidence in its longevity, or other reasons, leaving Social Security benefits out of the frame could result in an incomplete retirement income picture for your clients.

The retirement benefits provided by Social Security can be substantial. Even if those benefits will not be a primary income source for your clients, it's important that they make some key decisions about those benefits prior to retirement. Advisors who can educate their clients about their options with Social Security benefits are poised to remain a part of their clients' financial planning picture well into the future.

Understanding Social Security from Protective Life

That's why Protective Life offers the Understanding Social Security program. Packed with a variety of resources, the program offers tools to help you learn about the key aspects of the Social Security program and consumer material to help your clients better understand Social Security. Additionally, it provides a full array of educational materials to help you educate your clients on their options as they prepare to receive Social Security benefits.

In This Guide You'll Find the Following Information:

Social Security Basics

Social Security covers an estimated 96 percent of Americans. Initially designed in the 1930s as a retirement safety net, the program has grown to provide benefits to retirees, workers who become disabled and families in which a spouse or parent dies. According to the Social Security Administration, approximately 168 million people currently work and pay Social Security taxes and over 60 million people receive monthly Social Security benefits.

> FACT | **Today, on average, Social Security benefits account for 40 percent of a retiree's income.**

The facts cited on this page sourced from ssa.gov.

While it was designed as a program for retirees, it is not meant to be the only source of retirement income. On average, Social Security benefits account for about 40 percent of retiree's income.

The actual amount of Social Security benefits paid in retirement is based primarily on the highest 35 years of wages earned and the recipient's age at retirement. Throughout their working years, your clients have been accumulating Social Security credits. The credits are based on the amount of earnings.

In 2020, workers will receive one credit for every $1,410 of earnings, up to the maximum, which is four credits per year. In order to collect retirement benefits, an individual needs to have accumulated 40 credits (equivalent to 10 years of work).

SOCIAL SECURITY: HOW IT WORKS

When people work, they pay taxes into Social Security. That tax money is used to pay benefits to:

1. People who already have retired
2. People who are disabled
3. Survivors of workers who have died
4. Dependents of beneficiaries

The money a worker pays in taxes is not held in a personal account for personal use later. Taxes that are currently being collected are being used now to pay people who are getting benefits today.

The facts cited on this page sourced from ssa.gov.

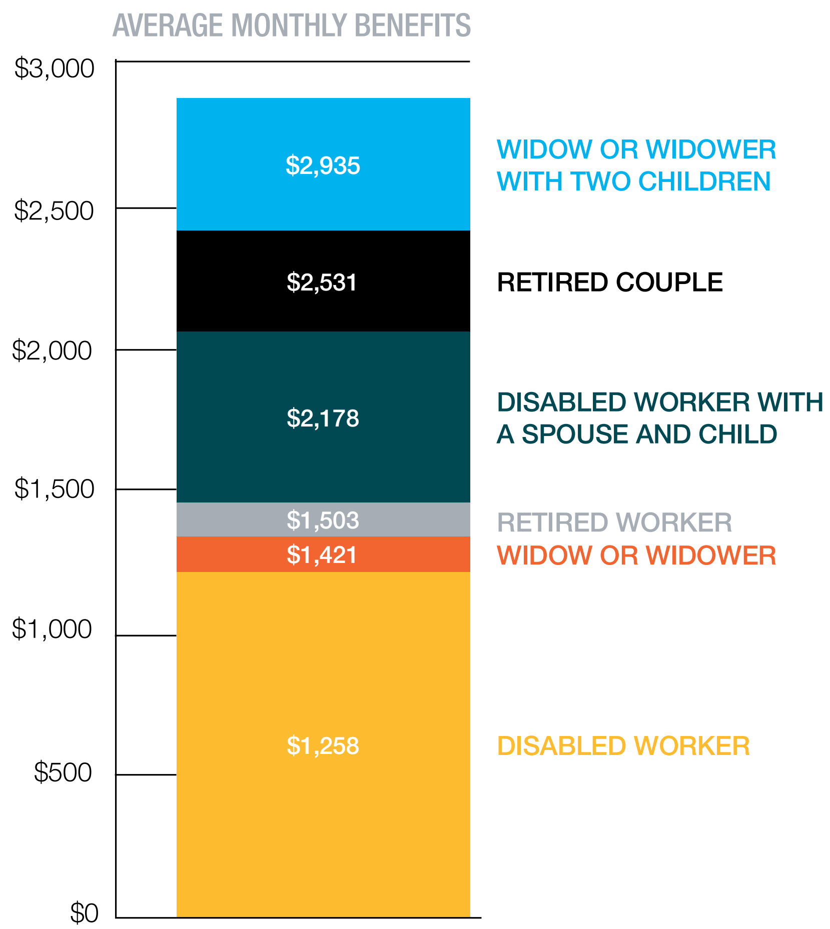
The Benefits

Your typical client, a life-long, high-wage earning individual (someone who has always paid the maximum amount toward the "Federal Insurance Contributions Act (FICA), making their first benefit claim at age 66 could expect to receive a maximum benefit in 2020 of $3,011 monthly. This equates to $36,132 over the course of a year. A lifelong, high-wage earner who held off filing for benefits until age 70 would expect to collect $47,694 in 2020. While these are maximums for 2020, the average benefits are also substantial. See the chart below for average benefits in 2020.

Once benefits begin, these amounts are adjusted periodically for inflation and the payments are guaranteed to last the individual's lifetime or their spouse's, whichever is longer.

The benefit amounts could be of particular significance for two-earner couples. Both spouses are entitled to the full benefit they earned and contributed taxes toward throughout their working lives.

AVERAGE 2020 SOCIAL SECURITY BENEFITS



Help Clients Understand Their Benefits

To get an estimate of their benefits, your clients can go to ssa.gov/mystatement. There, you can walk them through registering to see their annual statement, where they will find an estimate of future benefits based on their earnings record. Also on the ssa.gov site, there are tools and calculators to determine benefit amounts based on earnings and when a client plans on filing for benefits. For more in depth resources and tools, go to myprotective.com/socialsecurity, where you'll have access to all of the Understanding Social Security materials and tools from Protective Life.

Spousal Benefits

If an individual qualifies for spousal benefits, they will receive the benefit they earned through their own wage. In addition, if 50% of their spouse's benefit is greater than their own benefit — they will receive their benefit, plus the difference between that benefit and 50% of their spouse's benefit. For example, if a working husband merits $24,000 in annual benefits, his nonworking or lower-wage earning wife could receive at least another $12,000 a year in spousal benefits.

When one spouse dies before the other, the survivor has another choice to make. If they've been receiving benefits on their own earnings record and their deceased spouse had a higher benefit, they can "upgrade" to the higher benefit as the survivor.

2020 Social Security Benefits

Maximum benefit for retirees at age 66: $3,011 monthly, or $36,132 annually.

When to File for Benefits

When considering when to take benefits, clients must consider many factors, and should consult a Social Security professional if they need advice. Things to consider: the client's health, their work and family situations, other sources of retirement income and their overall financial picture.

FACT | **Today, 67 is the new 65 when it comes to full retirement age.**

In general, a worker can begin receiving benefits at full retirement age, which is a number that varies based on the year a person was born. For most, that age is somewhere between 65 and 67.

YEAR OF BIRTH	FULL RETIREMENT AGE
1943 - 1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

The facts cited on these pages sourced from ssa.gov.

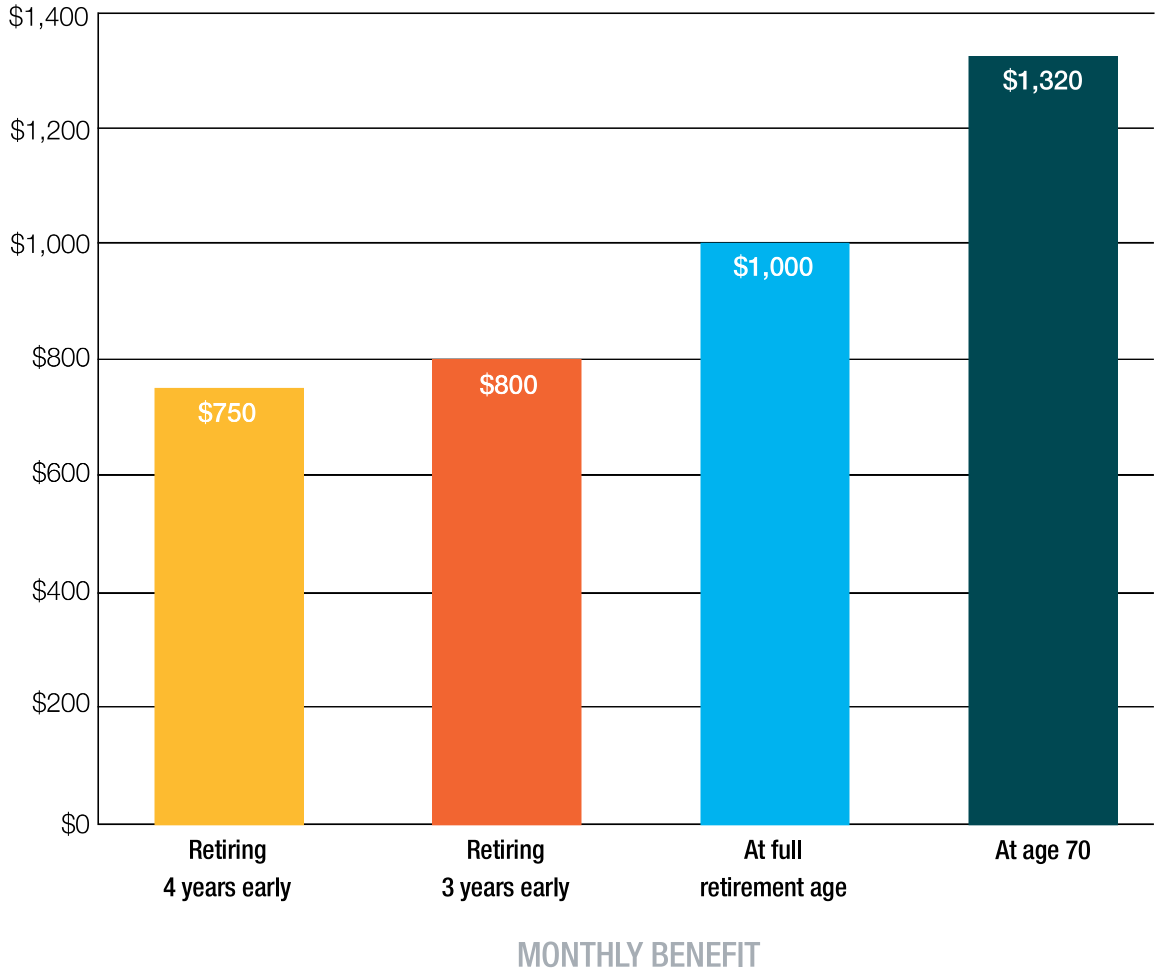
Filing Early

Although there is a full retirement age guideline, workers can begin filing for benefits at age 61 years 9 months, with benefit payments beginning at age 62. But, beginning benefits at age 62 will result in those benefits being significantly reduced from what they would be if the retiree waited until full retirement age to claim them. And, the reduction in benefits is permanent. That is, for the remainder of their lifetime, benefits will be reduced.

For example, if a person whose full retirement age is 66 decides to take benefits at 62, they will be reducing their benefits by roughly 25 percent. If the retiree's full retirement age is 67, the reduction is even more severe: 30 percent. Any reduction in benefits can be costly, given that the average retiree can expect to spend 30 years in retirement.

Delaying Social Security benefits mainly pays off if your client outlives the life expectancy tables. Of course, probable life span is not the only factor that your clients should consider. You can help your clients see the bigger picture by running their underlying financial circumstances through several "what if" scenarios.

FILING FOR BENEFITS: SOONER OR LATER?



Here is a quick overview of some situations that will likely favor taking benefits sooner rather than later. However, each client's situation is unique, and they should consider their own circumstances.

Health concerns

For those clients in poor health or under financial duress, filing early isn't going to be as much of a choice as a necessity.

Already retired

For those who are no longer working and have little reason to think they will be working again — and where retirement savings are inadequate to support their income needs — filing early will probably make sense. Still, advisors should calculate whether it makes more financial sense to spend savings during the first few years of retirement, and delay filing in order to access higher lifetime Social Security benefits later. This is especially true for single clients.

Lower-earning spouse

The lower-earning member of a double-income couple will want to consider taking benefits early. For them, filing early is not as limiting, since they can "upgrade" their benefits by filing for spousal benefits on the higher earning spouse's maximized benefit. If they survive their spouse, they can switch to his higher full benefit upon his death.

Parents of school-age children

Filing early may also be beneficial when a client still has minor children living at home (or a child with a disability that began prior to age 22). In such cases, delayed parenthood offers a bonus: children are entitled to receive benefits if their parents are receiving benefits. In fact, this source of income can be a welcome way to fund future education costs.

Plans for a career change

Someone launching a second career or starting a business may benefit from filing early because wages in the early years of such activities tend to be low. In other words, even though they will be working full-time, the earnings limits could have a minimal impact on their benefit level. It should be noted that the earnings limits (earnings are reduced by $1 for every $2 earned in excess of the limit until the recipient reaches his or her full retirement age) apply to earned income, not to income realized from investments or money generated from capital gains.

Receiving Benefits While Still Working

Sometimes, your client will want to begin taking benefits while they are still working. While this is an option, your client should be aware of what this will mean for their benefits now, and in the future.

Your client needs to know:

- If a worker files to receive Social Security benefits while still working, those benefits will be subject to an earnings limit as long as the individual is under their full retirement age.
- Those who claim benefits prior to their full retirement age while still earning wages are subject to an earnings limit test. Benefits are reduced at a rate of $1 for every $2 earned above the limit. In 2020, that limit is $18,240.
- The reduction is less severe in the tax year in which you reach the full retirement age. For the portion of the year you were under the full retirement age, benefits are only reduced $1 for every $3 earned over the larger limit. In 2020 that limit is $48,600. After your birthday that year, the limits no longer apply.

All About Taxes

The Social Security Administration reports about 56% of its recipients pay taxes on their retirement benefits. Social Security benefits are likely to be taxable for those recipients who have income from other sources, such as pensions, retirement accounts and personal savings.

FACT | **Today, individuals receiving benefits who have a total income of more than $25,000 will have to pay federal taxes on their Social Security benefits.**

There is a calculation to determine whether a client will have to pay taxes on their benefits, and this will need to be determined each year when their tax return is being prepared. As their advisor, you can help estimate the amount of any potential taxes, and recommend strategic moves the client can make to lessen their tax liability.

Since the actual percentage of benefits that will be taxed each year will vary with the amount of other income your clients report, you can help your clients estimate the percentage by using the following equation.

EXAMPLE TAX ESTIMATE EQUATION

___________	+	All income from wages, pensions and investments
___________	+	Any non-reportable tax-exempt income
___________	+	Any other exclusions to income
___________	+	50% of the anticipated Social Security benefit for the tax year
___________	=	**The result is the total provisional income that applies to the tax liability calculation for your clients.**

If provisional income is:

- **$32,000 or less** for joint filers ($25,000 for single filers), Social Security benefits are free of federal taxation, though state taxes may still apply.
- **Between $32,000 and $44,000** for joint filers ($25,000 and $34,000 for single filers), up to 50% of Social Security benefits must be reported on Form 1040.
- **Over $44,000** for joint filers ($34,000 for single filers), up to 85% of the benefits will be taxed as ordinary income.

When instructed, the Social Security Administration will automatically withhold money for taxes from each benefit check. Otherwise, quarterly estimated tax payments will be expected by the IRS.

The facts cited on these pages sourced from ssa.gov.

Beware the Pitfalls of Delaying Income

When it comes to managing the impact of taxes on their clients' Social Security benefits, advisors are somewhat limited. Clients can delay realizing income in any one year by:

- Laddering CD or annuity maturities to come due in future years
- Postponing withdrawals from IRA accounts, if possible
- Avoiding the realization of capital gains
- Managing income generation

However, pushing income into future years may just make the tax burden larger in those years, conceivably pushing the client into a higher income tax bracket.

Benefits Reduction vs. Taxation of Benefits

The taxability of benefits is different from the reduction of benefits for those still working. Under the earnings limit reduction, benefits are reduced $1 for every $2 in wages earned over a set limit (in 2020, that limit is $18,240). But even though this limit disappears once the client reaches full retirement age (between 65 and 67, depending on when they were born), the tax liability is a life-long consideration.

The Bottom Line

Between the earnings limit reduction and the tax liability on benefits, you may find that clients still involved in the workforce at a professional level are not likely to see much of an advantage in taking early retirement benefits from Social Security.

Medicare and Special Situations

The Social Security program is not limited to providing benefits to retirees. There are many special situations in which individuals are entitled to benefits. By familiarizing yourself with the situations below, you can be prepared to educate clients on how Social Security can fit into their financial plans before and during retirement.

FACT | **Today, Social Security is much more than a retirement program, providing benefits to millions of Americans who are disabled or have other special situations.**

The facts cited on these pages sourced from ssa.gov.

Medicare

Filing for Medicare

Filing for Medicare goes hand-in-hand with filing for Social Security. In fact, enrollment may be made through Social Security's offices. Both programs work to support older Americans throughout retirement, yet there is a difference. While the benefits available through Social Security are fairly straightforward (though deciding how to maximize them is complicated), Medicare is far more complex.

What is Medicare?

Medicare mainly provides coverage to those who are at least 65 and have paid Medicare payroll taxes for a minimum of 10 years. However, based on certain health factors, it may also be accessible to individuals who do not meet the payroll tax requirements. For others, it can be obtained through the payment of an additional premium. For most of your clients, Medicare is not an all-inclusive insurance solution. And depending on the Medicare plan coverage combination they choose, they are likely to need additional, privately arranged coverage.

Timing is Essential

Enrollment must be completed about 3 months prior to turning age 65. Even if your client is still working, Medicare needs to be addressed. Similarly, even if your client is not working and has decided to postpone taking Social Security benefits until their full retirement age or beyond, not enrolling in Medicare could result in substantial penalties.

The ABCs and Ds of Medicare

Part A: Hospital Insurance

Part A is intended to help offset the expense of being admitted to a hospital. In addition to covering inpatient hospital care, in some instances it will cover follow-up nursing home, hospice and home care. The premiums that pay for this insurance were already paid as part of the Social Security taxes withheld from your clients' paychecks during their working years.

Part B: Medical Expense Coverage

This component covers necessary medical care, such as physicians' services, and helps offset some of the expenses not covered by Part A, such as preventive care. As with Part A, it has annual deductible and co-payment requirements. However, this part of the plan is optional and monthly premiums must be paid throughout retirement to maintain its coverage. In 2020, Part B coverage typically cost $135.50/month, but the premium would be higher for higher-wage earners. Paying the premium is easy — it is taken directly out of Social Security checks unless otherwise instructed. While coverage is optional, there is a 10% penalty assessed for every year past 65 that a retiree does not enroll (unless they have been enrolled in an employer plan).

Part C: Medicare Advantage Plans

These are alternative plans to the original Medicare Plans A plus B. The providers that execute these plans for Medicare function more like the HMO and PPO plans offered by employers: some allow only "in-network" care, while the others allow service through anyone who has agreed to the Medicare payment plan. To opt for this coverage, which has an additional premium, your client still needs to be enrolled for Parts A and B. Whereas a privately obtained Medigap policy is recommended for those insured under Parts A and B, Part C is intended to cover that insurance need as well (excluding prescription drugs).

Part D: The Prescription Drug Benefit

This part is also optional. It is only accessible for additional premiums, and those fees escalate with any delay in enrollment. For those not already covered under a policy that offers at least as much coverage as Medicare Part D, they increase by one percent of the monthly premium for each month that passes until enrollment. Even if your client does not have much in the way of prescription drug expenses, it may be more economical in the long run to enroll at age 65. Also, enrollment reopens every year so that seniors can reevaluate their drug plans and adjust accordingly for the year ahead. With multiple providers available in each state that clients can choose from, researching providers and comparing plans to anticipated needs is something they will need help with.

For clients already receiving Social Security benefits when they turn 65, Medicare Part A will start automatically. The optional coverage, however, requires separate enrollment several months prior to their 65th birthdays. For everyone else, including those who are still working, enrollment is still required. The exception is that if your clients' private insurance at least matches Medicare coverage, enrollment in the plan may be put on hold. But there are many complex rules, so being able to compare policies to current Medicare rules and coverage would be a great service to offer your clients as they near their 65th birthdays.

The facts cited on these pages sourced from ssa.gov.

Special Situations

There are special situations in which Social Security benefits will vary from regular retiree benefits. By familiarizing yourself with the situations below, you can be prepared to help clients understand how Social Security can fit into their financial plans before and during retirement.

Divorced

Though a former spouse may no longer be part of their ex's day-to-day life, their Social Security benefit may be able to support a former husband or wife for the rest of their lives, providing the following conditions are met:

- The marriage lasted at least 10 years
- The divorce has lasted at least two years
- The former spouse is entitled to benefits
- The claiming ex-spouse is unmarried
- The claiming ex-spouse is at least 62
- The claiming ex-spouse cannot qualify for a higher benefit on their own earnings record

If these conditions are met, the ex-spouse may file for spousal benefits (half their former spouse's benefit) despite being divorced, even if that divorce was decades ago. Doing so does not impact the amount of the former spouse's benefit, nor his or her current spouse's ability to receive benefits. The former spouse does not even have to file for benefits first; he or she just needs to be at least 62.

Survivor benefits are also available based on a former spouse's earnings record if:

- The ex-spouse is at least 60 (or 50 and disabled)
- Was married to the deceased at least 10 years
- Is not entitled to a higher benefit on their own record

If the surviving ex-spouse remarries after age 60 (50 if disabled), the marriage does not disqualify the ex-spouse from receiving benefits on their deceased spouse's earnings record. Again, payment to the divorced spouse has no impact on the benefits of a widow or any children who might also qualify for survivor benefits.

Employed by Federal, State or Local Government

At one time, Social Security benefits were not available to these workers, including many teachers, because they were covered under different retirement programs. But that distinction is rapidly being phased out. Clients who expect to receive a government pension and who may not have been paying into the Social Security program throughout their entire working lives may still receive Social Security benefits. But benefits will be reduced to reflect the shortened participation in the Social Security program. Social Security maintains a separate website specifically geared towards answering questions for retiring federal, state and local government employees. It may be found at: ssa.gov/gpo-wep.

Disabled

These clients may already be receiving benefits when they reach the full retirement age. Their benefits will automatically switch from disability to retirement, requiring no further action on their part.

Living Abroad

When working abroad for a U.S. company, or a company affiliated with a U.S. company, Social Security taxes may be subject to withholding by both the U.S. and the host country. But for those countries that have signed an agreement with the U.S., benefits coverage will be assigned to either the U.S. or the foreign country. For clients who have worked outside the U.S., a little extra digging may be required to determine if retirement benefits from another country will be a factor, and what the rules are for receiving them.

Pensioners

Unless your client is receiving a pension from the federal government, or from a state or local government that was not participating in the Social Security system during their employment there, the receipt of a pension will not impact the amount of benefits received from Social Security. The reason is simple: these clients paid into Social Security through FICA, so they are entitled to the benefits they earned.

Widows and Widowers

Survivor benefits have different age restrictions. Widows and widowers may begin receiving Social Security benefits at age 60 (or at age 50 if they are disabled), but the recipients have the option of switching to their own full benefits upon reaching their full retirement age, if those are higher.

Second-Act Careers

It should be noted that Social Security benefits are calculated by averaging the highest 35 years of earnings. Clients who make mid-life career switches into lower paying careers could see their eventual benefit level lowered through that action. While it is unlikely this would be a deal breaker for anyone, it may be a potential consequence worth noting if a client is trying to determine what potential financial consequences could arise from a career change.

Self-Employed

Whether a client works for themselves or for someone else, and regardless of their age, earned wages are subject to FICA withholding. That is true even for someone in their 70s. The rules for claiming benefits, and the amount of benefits to be received, are the same as for those who were salaried throughout their careers.

The facts cited on this page sourced from ssa.gov.

Next Steps

Social Security is just one element of a larger retirement strategy, unique for each client. In addition to the Understanding Social Security program, Protective offers a variety of retirement income planning products and resources to help you educate your clients as they enter the pre-retirement and retirement process. For more information, talk to your Protective Life representative.

Check out all our Understanding Social Security resources at **myprotective.com/socialsecurity.**

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Understanding Social Security

Planning Opportunities

Minimizing Taxation of Benefits

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Minimizing Taxation of Social Security Benefits

Understanding how taxes affect your clients' Social Security benefits can help you enhance their plans for retirement. See how a tax-deferral strategy can help maximize their benefits.

Meet Beth Brown

Age: 62 | Wants to begin taking her annual Social Security benefit of $18,000

Beth's provisional income calculation looks like this:

Pension		Portfolio Earnings ($200,000)		Interest on Municipal Bonds		50% of Social Security Benefit		**Total Provisional Income**
$15,000	+	$12,000	+	$1,500	+	$9,000	=	**$37,500**

Since Beth is single and her provisional income is greater than $34,000, up to 85% of her benefit may be subject to tax.

Annual Social Security Benefits		Benefits Taxed as Income		**Total Taxable Benefit**		Federal Tax Rate		**Total Tax**
$18,000	x	85%	=	**$15,300**	x	25%	=	**$3,825**

Get Started: Help clients estimate what percentage of their benefits may be taxed.

CALCULATING PROVISIONAL INCOME

All income from wages, pensions and investments	+	Any non-reportable tax-exempt income	+	Any other exclusions to income	+	50% of anticipated Social Security benefit	=	**Total Provisional Income**

CALCULATING BENEFITS TAXED AS INCOME

PROVISIONAL INCOME*	Joint Filers	$0 - $32,000	$32,001 - $44,000	$44,001 +
	Single Filers	$0 - $25,000	$25,001 - $34,000	$34,001 +
BENEFITS TAXED AS INCOME		0% (State taxes may still apply)	50%	85%

* Source: IRS Publication 915 (2016)

How can Beth minimize taxes?

Beth can move a portion of her provisional income-generating assets into a tax-deferred annuity. If Beth invests $100,000 in a Protective Life indexed annuity, half of her previous portfolio earnings are now excluded from her provisional income calculation, reducing the taxation of her benefit.

50% of $200,000 portfolio → $100,000 Protective Life Indexed Annuity

After this move, Beth's new provisional income calculation looks like this:

Pension		Portfolio Earnings ($100,000)		Interest on Municipal Bonds		50% of Social Security Benefit		**Total Provisional Income[1]**
$15,000	+	$6,000	+	$1,500	+	$9,000	=	**$31,500**

With Beth's new provisional income calculation, up to 50% of her benefit may be subject to tax. The amount of tax on her benefit may be reduced by more than 40%.

Annual Social Security Benefits		Benefits Taxed as Income		**Total Taxable Benefit**		Federal Tax Rate		**Total Tax**
$18,000	x	50%	=	**$9,000**	x	25%	=	**$2,250**

$1,575 tax savings!

Contact our Annuity Sales Desk for more information: **888.340.3428.**

[1] Any income from the indexed annuity will be included in provisional income tax calculations for the tax year, potentially resulting in higher taxation of the benefit.

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Providing All the Tools for Your Success℠

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