

How to Plan for Taxes in Retirement



Maryland Supplemental Retirement Plans

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Board's Website: MSRP.maryland.gov



Federal income tax laws are complex and subject to change. The information in this presentation is based on current interpretations of the law and is not guaranteed. It does not take into account the specific investment objectives, tax and financial condition, or particular needs of any specific person. Investors should work with their financial professionals to discuss their specific situations. Further, TEAM MSRP representatives do not give legal, investment, or tax advice.

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Agenda and Objectives



- Know the **sources of income** you may have in retirement
- Understand **federal** taxation on different sources of income:
 - State Retirement System Benefits (Your Pension)
 - Social Security income
 - 457(b), 401(k), and 403(b) plans – taxation on withdrawals
- Tax-free Roth withdrawals - considerations
- Anticipate Required Minimum Distributions at age 73 (2023 - 2033)
- Taxation on **non-retirement** investment accounts
- Maryland: “Pension Exclusion” and other tax credits for residents
- Strategies to consider to manage taxes



Determine your income and factor in taxes

It's not what you make but what you KEEP, that counts!

Monthly Income Worksheet

Write a dollar figure next to each relevant income source. You don't have to be exact. Make sure that the figure you write down is the amount you receive from each source on a *monthly* basis.

If you get a salary, be sure to use your take-home pay, not your gross pay. If you receive money from somewhere not listed, enter the source of that money along with the amount under "other income."

Monthly Income

Income Source	Your Income	Spouse/Partner's Income	TOTAL
Salary/Wages from Employment	\$	\$	\$
Salary from Self-employment	\$	\$	\$
Social Security Retirement Benefit	\$	\$	\$
Social Security Widow or Survivor's Benefit	\$	\$	\$
Pension Benefit	\$	\$	\$
IRA Income (distribution)	\$	\$	\$
Veterans' pensions	\$	\$	\$
Annuity Income	\$	\$	\$
Alimony	\$	\$	\$
Rental Property Income	\$	\$	\$
Investment Income (if same every month)	\$	\$	\$
Inheritance/Trust	\$	\$	\$
Gifts	\$	\$	\$
Other Income	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
	\$	\$	\$
TOTAL MONTHLY INCOME	\$	\$	\$

Will you have enough income to cover your expenses in retirement?

Taxes play a crucial role in determining your budget.



Tax Terms to Know

Gross Income

- Adjustments

= **Adjusted Gross Income (AGI)***

- Deductions (Standard or Itemized)

- Exemptions

= **Taxable Income**

x Tax Rate

= **Gross Tax Liability (Tax Owed)**

- Credits

- Taxes Already Paid (withholding or estimated prepayments)

= **Taxes Owed or Refunded**

*Modified AGI (MAGI) is AGI plus certain deductions that were originally subtracted from income



Source: [irs.gov](https://www.irs.gov)



Federal Taxes in Retirement-

It depends on the income source!



For most, Social Security benefits will be partially taxable.



State Retirement (Pension) System benefits are taxable.



Income from Traditional IRAs, 401(k), 457(b), 403(b) is taxable.



Most investment income from nonretirement accounts is taxable.



Annuity income is taxable if bought with pretax money.

The federal taxes you owe are determined by your adjusted gross income (AGI) and the tax brackets that apply to different portions of your income.

[Click HERE for the 2024 Tax Filing Quick Guide](#)

Source: IRS.gov (2024)



Be Prepared for Potential Tax Law Changes

Without reform, federal tax brackets will increase after 12/31/2025:

Current Rate	2026
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

Income thresholds that apply to the top tax brackets are likely to decline, which means that more of your income could be taxed at higher rates.

Plan accordingly. Seek the advice of a qualified tax professional who can provide personalized advice based on your specific financial situation. Source: Congressional Budget Office



Your State Retirement System Benefits

sra.maryland.gov



Register for
Online Access
using mySRPS

MEMBERS

- [Forms](#)
- [Benefit Handbooks](#)
- [Pamphlets](#)
- [Updating Your Beneficiaries](#)
- [Retirement Estimators](#)
- [Option and Annuity Factors](#)
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The screenshot shows the SRPS website homepage. At the top left is the SRPS logo. To its right is a navigation bar with a 'How Do I?' dropdown, a search box, and buttons for 'mySRPS Login' and 'Employer Login'. Below the navigation bar is a main menu with links for 'Members', 'Retirees', 'Employers', 'News', 'Investments & Financials', 'About', and 'Contact'. The main content area features a large image of an elderly couple walking on a beach. Below the image is a 'Welcome to your Maryland State Retirement and Pension System' message and an 'About' button. At the bottom, there are three resource cards: 'Members' (with links to PSB, Beneficiaries, Forms, Seminars, and Separating from Membership), 'Retirees' (with links to Payment Dates, Forms, Tax Withholding, Duplicate 1099-R, and Health Insurance), and 'Employers' (with links to Contributory Rates, Forms, Submitting Payroll, Enrollment & Withdrawal, and GASB No. 68). Each card has a 'More Resources' button.



Taxation of your Retirement System Benefits

- Retirement System Benefits are taxable at the **federal** level at your tax bracket
- There is also a Maryland **State** income tax on pensions (rate ranges between 2 and 7.75%, **local** taxes may add to this, and there may be some exclusions)
- SRA does not process tax withholding for other states

State Pick-up on retirement system benefits: While working, Members do not pay any federal taxes on their pick-up contributions during employment, so federal taxes must be paid at the level of your tax bracket during retirement. The Retirement Agency has included your pick-up contributions when computing the taxable amount of your pension for federal tax purposes.

When the pick-up amount reaches zero, “**EP USED**” will be printed in the pick-up block on your 1099-R. This usually occurs within a few years after the date of retirement.

For information about the State Pick-up, **[CLICK HERE](#)** (SRA Retiree News and Notes/January 2024) or contact SRA at 1-800-492-5909



Social Security: Set up Your Online Account

SSA.gov

Easy Transition to Login.gov

The image shows a screenshot of the SSA.gov website. At the top, a yellow banner contains a warning icon and the text: "Upcoming account changes: Switch to Login.gov or ID.me for sign in." Below this is the main navigation bar with the Social Security logo, links for "Benefits", "Medicare", and "Card & record", a search bar, and language options "Español" and "Sign in". The main content area features the heading "Securing your today and tomorrow" and three columns of options: "Prepare" (Check eligibility for benefits, Get a benefits estimate, Plan for retirement), "Apply" (Apply for benefits, Sign up for Medicare, Apply for SSI), and "After you apply" (Check application or appeal, Appeal a decision we made).

Overlaid on the right side of the screenshot is a smaller window titled "Create an Account or Sign In". It includes a link to "Create an account with Login.gov" and a light blue information box stating: "You only need one Login.gov or ID.me account. If you already have a Login.gov or ID.me account, do not create a new one. You can use your existing account to access Social Security services." Below this are three buttons: "Sign in with LOGIN.GOV", "Sign in with ID.me", and "Sign in with Social Security Username". A note specifies "For accounts created before September 18, 2021" and a link for "Don't know which option to sign in with?".



Social Security benefits are taxable based on your “Combined Income”

Your adjusted gross income (AGI)
 + nontaxable interest
 + ½ of your Social Security benefits
 Your "*combined income*"

Filing Status	Combined Income Range	Federal Taxation of Social Security Benefits
Single, Head of Household	Below \$25,000	NO taxes on Social Security income
	\$25,000 - \$34,000	Up to 50% of Social Security benefits may be taxable
	Above \$34,000	Up to 85% of Social Security benefits may be taxable
Married Filing Jointly	Below \$32,000	NO taxes on Social Security income
	\$32,000 - \$44,000	Up to 50% of Social Security benefits may be taxable
	Above \$44,000	Up to 85% of Social Security benefits may be taxable
lrs.gov		



Taxation on MSRP Pre-tax

457(b), 401(k), 403(b), 401(a) account withdrawals

20%

Federal income tax withholding is required on most withdrawals as a pre-payment of income taxes.

7.75%

Maryland State income tax withholding is required on most withdrawals.

Tax Form 1099-R mailed in January will show taxes withheld



Tax-free Roth 457(b) and 401(k) account withdrawals

Roth 457(b)/401(k) Plan distributions are not taxable if they meet the following rules and are deemed

“Qualified” Distributions:

- Must be Age 59 ½, or death, or disability
- Minimum of 5 years from the initial Roth deposit
- 457(b) Plans - you must **also** separate from State Service

Tax-free Roth withdrawals can help manage your taxes in retirement by keeping you in a lower tax bracket

Tax-free Roth withdrawals may also keep you under the limits for taxation of Social Security benefits and IRMAA (income-related monthly adjustment amount) for Medicare



Taxes on Required Minimum Distributions (RMDs) from non-Roth Retirement Accounts

- RMDs must start at age 73 (RMDs from MSRP Plans are not required if you are still working for the State at age 73)
- RMDs are taxed as ordinary income at your federal tax rate and are subject to 7.75% Maryland State taxation (excise tax of 25% for failure to take an RMD!)
- The RMD rules also apply to Individual Retirement Accounts (IRAs)



Taxes on Investment Accounts

(Non-Retirement)

Gains on investments held for **more than a year** are taxed at favorable **Long Term Capital Gains** tax rates (0, 15, or 20%)

The rate you'll pay on long-term capital gains depends on your **taxable income** and **filing status**.

Click <https://www.irs.gov/taxtopics/tc409> for the most recent information



Maryland “Pension Exclusion”

At age 65, you may be able to **subtract** some of your taxable pension and retirement annuity income when preparing your Maryland State income taxes. **Visit marylandtaxes.gov for programs for Rangers and Public Safety retirees.**



Example:

\$24,000 in Social Security income

\$20,000 in pension income

Pension exclusion maximum	\$39,500*
Social Security Income	<u>-\$24,000</u>
Pension income that is MD tax-free	\$15,500

*Amount for tax year 2024

Resource: Comptroller of Maryland - Marylandtaxes.gov



Additional Tax Incentives to Be Aware of

- **The *Retirement Tax Elimination Act*** offers a tax credit against **State** income taxes of \$1,000 for individuals over age 65 with incomes under \$100,000, and \$1,750 for couples with joint incomes under \$150,000
- **Property Tax Credit:** Contact your county government office for rules to qualify. In Harford County, for example, if you are age 65 and have lived in your home for at least 35 years, and your home has an assessed value of less \$600,000 or less, you can receive a 20% tax credit on your property taxes
- **Homeowner's Property Tax Credit:** Available to homeowners of all ages, the credit is based on income. Typically, homeowners with a combined gross household income of less than \$60,00 may qualify
- **The Homestead Credit:** Available to homeowners of all ages, it limits the increase in taxable assessments each year to a fixed percentage. Every county and municipality in Maryland is required to limit taxable assessment increases to 10% or less each year



Tax-efficient Withdrawal Strategies, etc.,

Various withdrawal strategies are available: examples:

- **The Conventional Withdrawal Order:** Taxable accounts first, then Tax-Deferred accounts (Traditional IRA/401(k)), and Tax-Free accounts (Roth) last
- **The “Proportional” Approach:** withdraw the same percentage from taxable, tax-deferred, and Roth accounts each year

Seek the advice of a qualified tax professional

- Taxes may vary by State

taxfoundation.org/state-income-tax-rates-2024/



- Consider deferring up to 85% of your unused Annual Leave payment to a pre-tax 457(b), 401(k), or 403(b) Plan upon separation from State service
- AARP Foundation Tax-Aide provides in-person and virtual tax assistance to anyone, free of charge, with a focus on taxpayers who are over 50 and have low to moderate income. There is no AARP membership requirement.

aarp.org/money/taxes/aarp



Key Takeaways

- Diversify! Choose investment accounts with a variety of tax treatments (pre-tax and Roth) so you can better control your taxable income in retirement.
- Plan your withdrawals in a tax-efficient manner: ask yourself, “how will this affect my tax liability for the year?”
- Consider Roth accounts, where qualified withdrawals are tax-free.
- Consider **converting** pre-tax accounts to Roth accounts during lower income years or before RMDs start. You’ll pay taxes on the converted amount; however, qualified withdrawals will be tax-free. This strategy can be a hedge against future higher tax brackets and can offer protection against additional premiums applied to Medicare Parts B and D.

Seek the advice of a qualified tax professional for advice based on your specific financial situation and goals



2024 Deferral/ Contribution Limits

Visit MarylandDC.com

Enroll, Increase
or review and manage
your MSRP account

	Maximum Deferral/ Contribution Limit	Deferral/ Contribution limit plus Age 50 Catch-up	Special 457(b) Catch-up Deferral Limit
YEAR 2024	If you're less than age 50 this year, you may defer/contribute as much as...	If you're at least age 50 this year, you may defer/contribute as much as...	For the 3 years prior to your retirement year, you may defer as much as...
Roth/Pre-tax 457(b)	Combined \$23,000	Combined \$30,500	Combined \$46,000
Roth/Pre-tax 401(k) Pre-tax 403(b)	Combined \$23,000	Combined \$30,500	Combined \$30,500
TOTAL	\$46,000	\$61,000	\$76,500

Minimum deferral/contribution is \$5.00 per pay period.

Increase deferrals/contributions when you pay off major bills, receive a bonus/salary increase, and at least annually.



Contact Nationwide for Assistance



457(b), 401(k), 403(b)

To register for
Educational Webinars
visit
MSRP.Maryland.gov

To enroll or make updates:
Visit the Plan Website
MarylandDC.com

Call Customer Service:
1-800-545-4730 or
Contact Your Local Nationwide
Retirement Representative...



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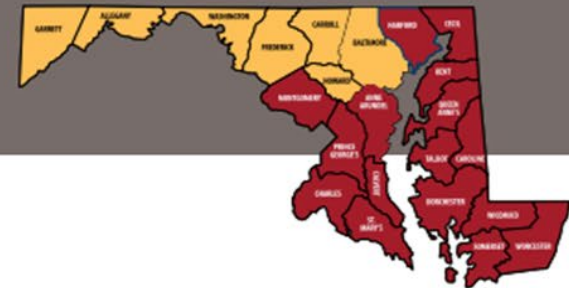
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