

# Tax Focused Financial Planning



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A private wealth advisory practice of Ameriprise Financial Services, LLC

# Agenda

1. Roth Conversions

2. Direct Indexing

3. 1031 Exchange

4. Cash Balance Plans



# Roth Conversions



# Roth Conversions – Who & When?

## ➤ Who is this for?

- Can be very broadly applicable
- Young Retirees
- Large Pre-Tax Retirement Savings
- Legacy Focused

## ➤ When can it makes sense?

- Pre-Social Security and/or Pre-Required Minimum Distribution Age
- Low taxable income years
- Low tax rate environment
- Clients that live well within means





# One Big Beautiful Bill Act

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# Key changes for *all tax filers*

## 2025:

- **Lower tax rates** extended
- **Higher standard deduction** amounts extended
- **SALT deduction cap** temporarily increased
- **Green energy tax credits** eliminated

## 2026:

- **Estate and gift tax exclusion** extended
- **Charitable deduction** for non-itemizers and floor for itemizers



### Advice spotlight

Individuals with high state income taxes may now benefit from itemizing.

# The advantages of *tax diversification*

- More control over your financial picture
- Help your assets last longer
- Flexibility in accessing retirement income

## Tax-free

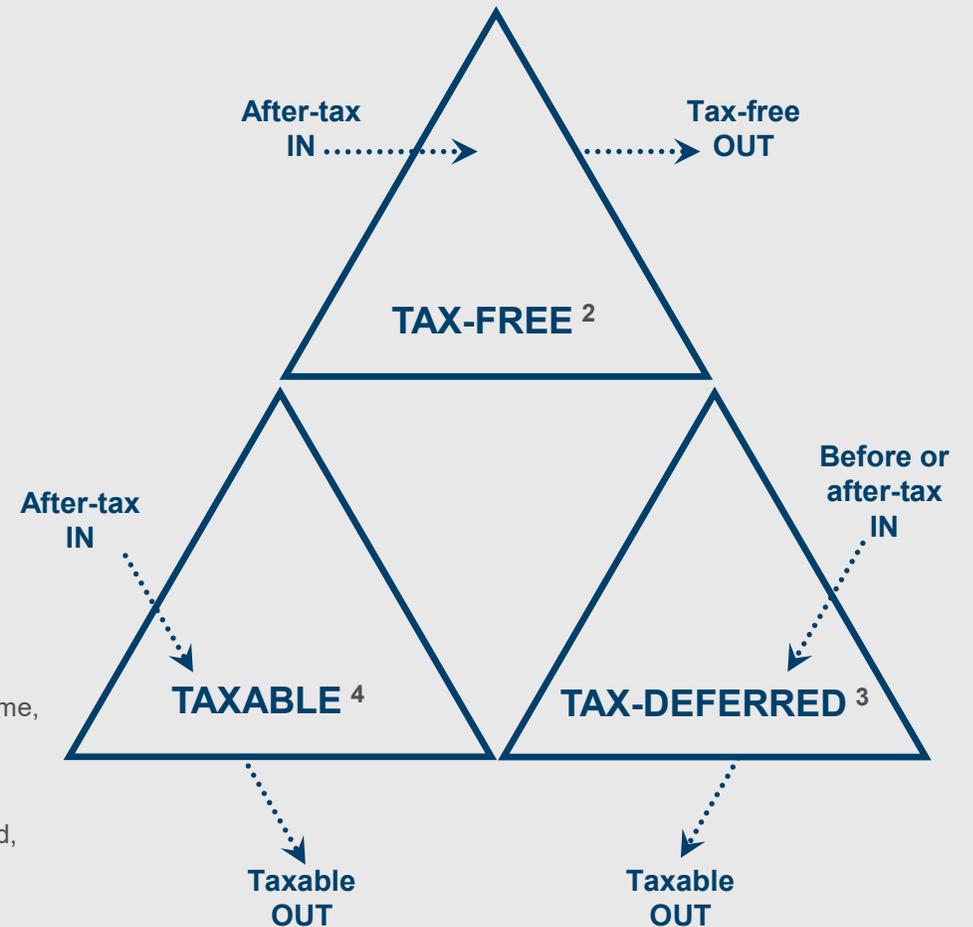
Investments and insurance using **after-tax dollars** for tax-free growth<sup>2</sup>

## Tax-deferred

Investments using **before- or after-tax dollars** for tax deferred growth<sup>3</sup>

## Taxable

Investments **using after-tax dollars** for taxable income<sup>4</sup>



<sup>2</sup> Certain tax-exempt income may be subject to the alternative minimum tax, or state or local taxes. Taxable income, including capital gains or losses, may be incurred.

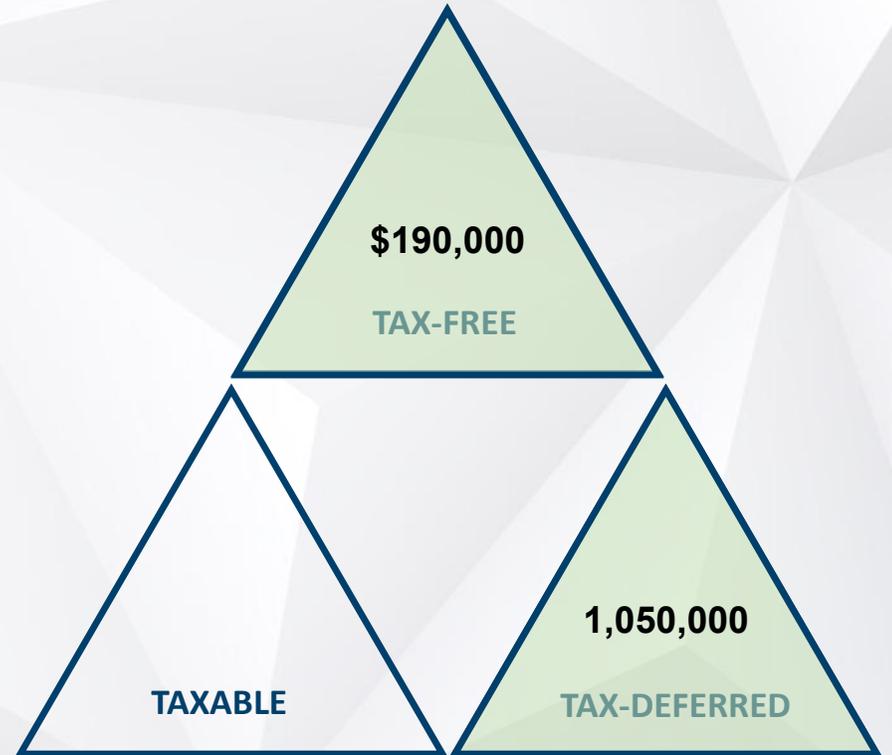
<sup>3</sup> Withdrawals before age 59½ may result in tax and a 10% IRS penalty on the taxable portion of distributions.

<sup>4</sup> Dividends and long-term capital gains may be taxed at a lower rate. Interest may be taxable even if not received, for example, if from a CD or OID. For certain short-term debt instruments, interest is taxed at maturity. Death proceeds generally are not subject to income tax. Partial or full surrenders from a life insurance contract (and in some cases loans) may be subject to income tax to the extent of earnings.



# Roth Conversions – An Example

- Mr. & Mrs. Jones
- 71 & 72 Years Old
- Total Social Security Income of \$60,000
- Annual Living Expenses \$51,500
- Majority of Assets are Pre-Tax
- Legacy Focused
- Charitable, but projected RMD's are above desired QCD Amount



# Roth Conversions – An Example

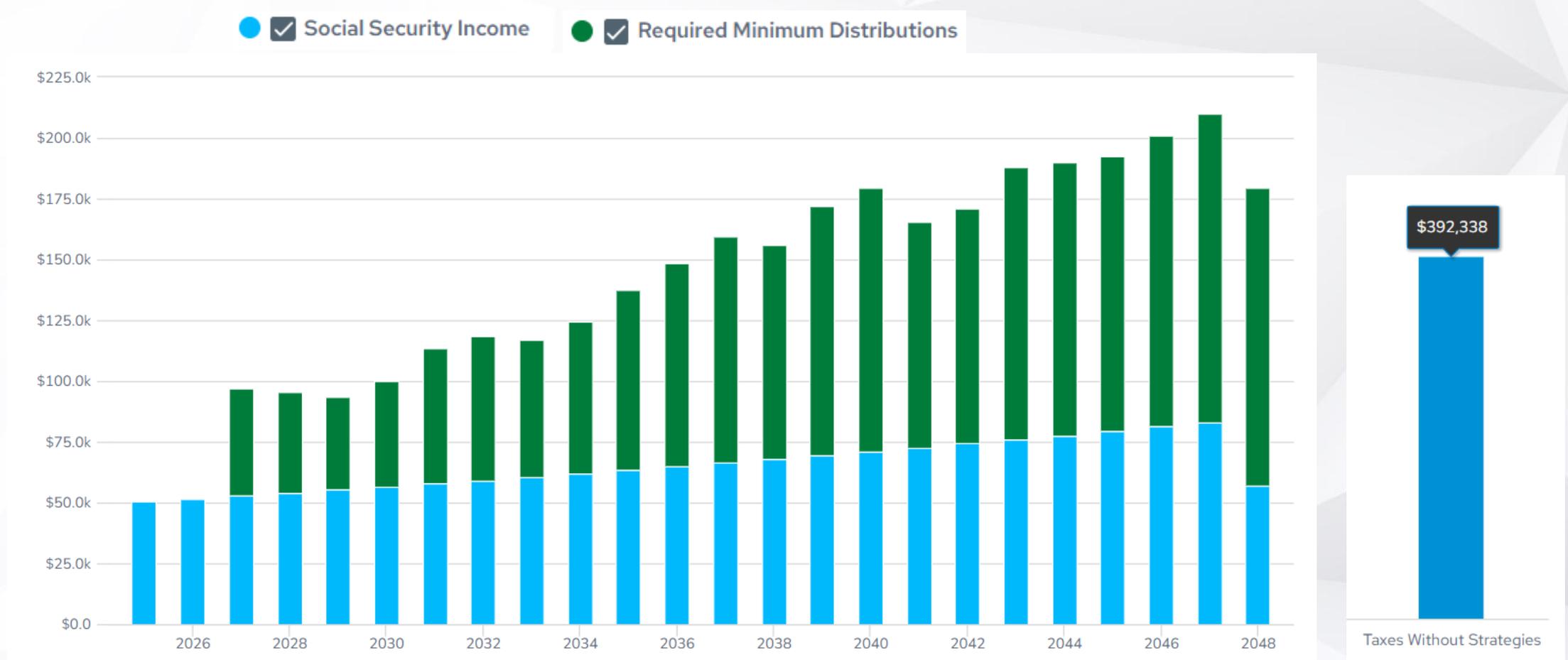
1,050,000  
Pre-Tax  
IRA

Jones Projected Annual Cash Flow

	2027	2028	2029	2030	2031	2032
	73 / 74	74 / 75	75 / 76	76 / 77	77 / 78	78 / 79
	\$41,417	\$42,370	\$43,345	\$44,341	\$45,361	\$46,405
Total Social Security	\$20,709	\$21,185	\$21,672	\$22,171	\$22,681	\$23,202
	\$62,126	\$63,555	\$65,017	\$66,512	\$68,042	\$69,607
	\$34,232	\$30,583	\$27,081	\$25,405	\$28,007	\$32,754
Total RMD's	\$0	\$0	\$0	\$0	\$0	\$0
	\$34,232	\$30,583	\$27,081	\$25,405	\$28,007	\$32,754
	\$96,358	\$94,138	\$92,098	\$91,917	\$96,049	\$102,361
	\$54,977	\$56,794	\$58,680	\$94,250	\$62,657	\$64,736
Total Lifestyle Needs	\$5,588	\$5,184	\$4,798	\$5,386	\$6,751	\$7,975
	\$60,565	\$61,977	\$63,478	\$99,635	\$69,408	\$72,710
Projected Surplus	\$35,793	\$32,160	\$28,619	(\$7,718)	\$26,641	\$29,650



# Roth Conversions – An Example

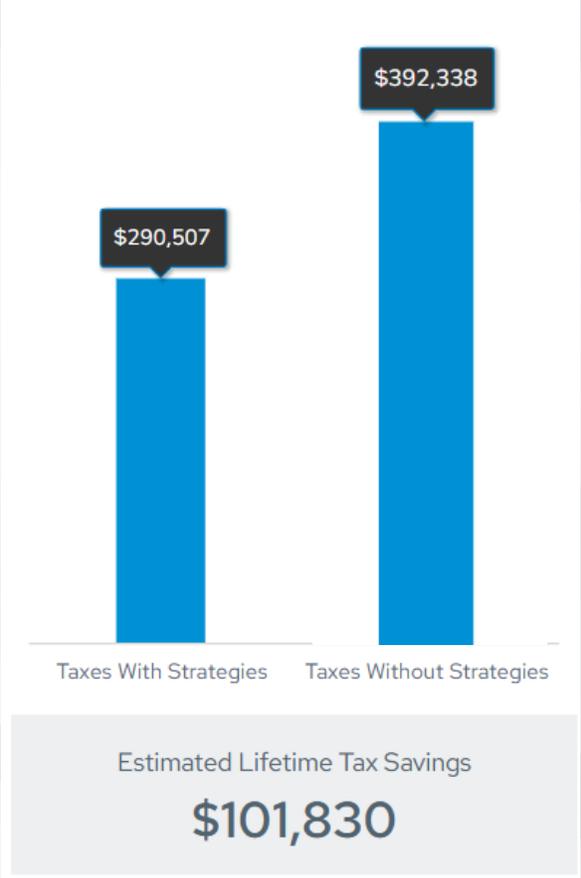
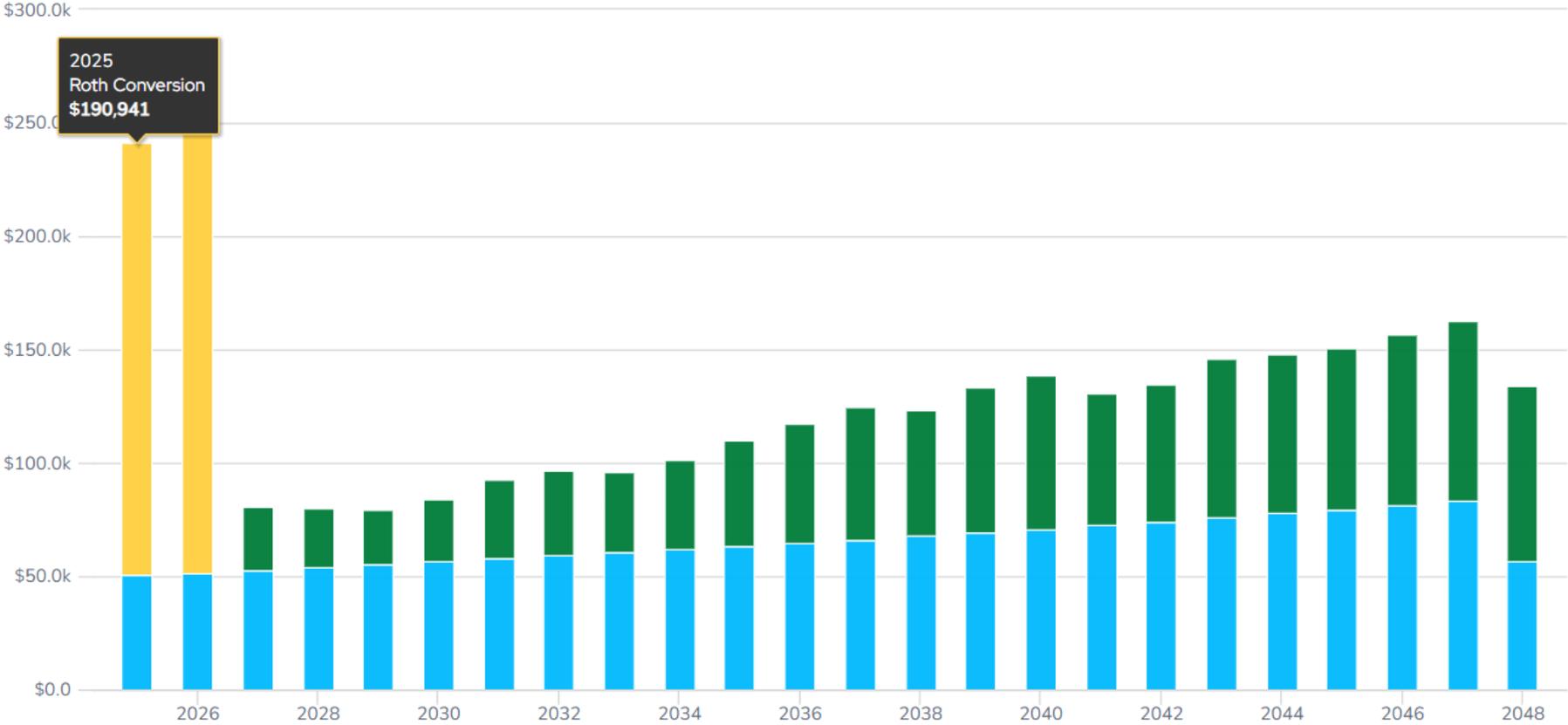


Baseline Scenario – No Conversion



# Roth Conversions – An Example

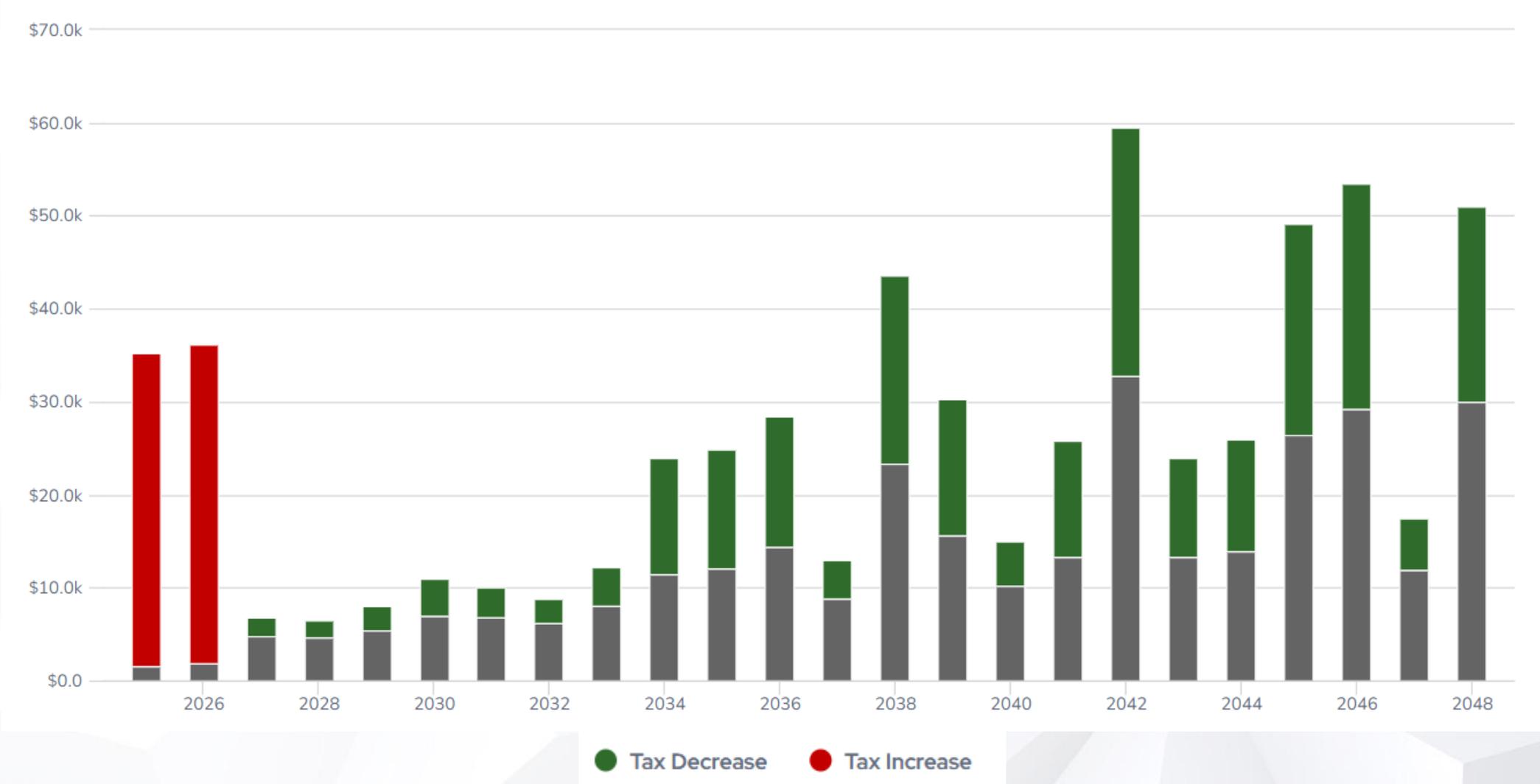
Social Security Income    
  Required Minimum Distributions



## Roth Conversion Scenario



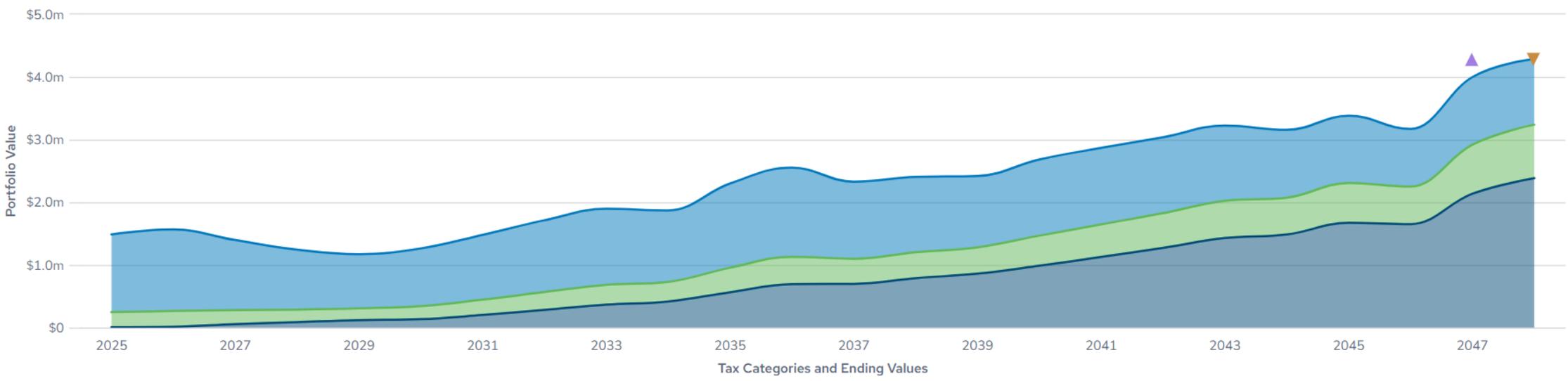
# Roth Conversions – An Example



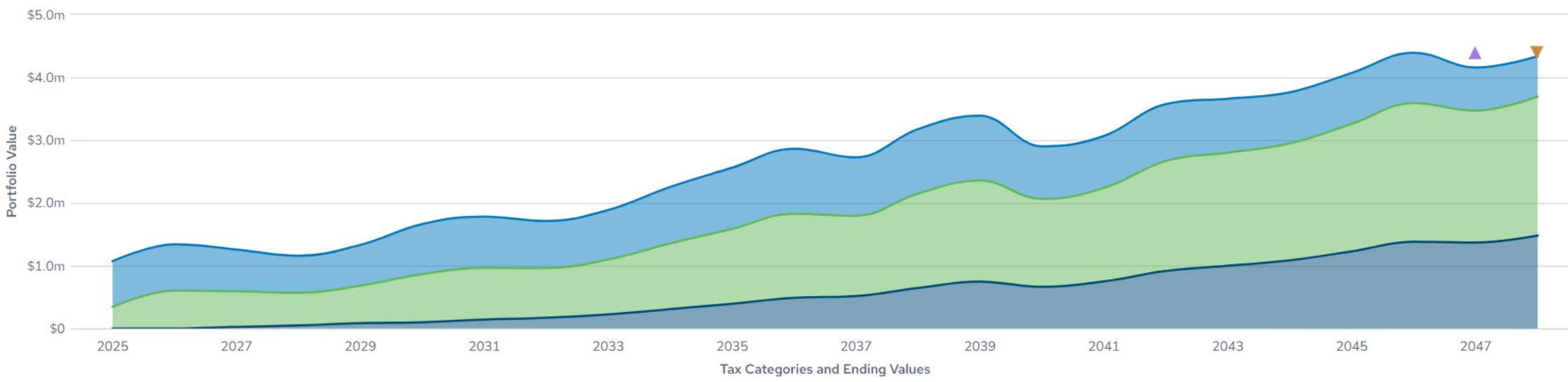
# Roth Conversions – An Example

Without Conversion

- Qualified
- Roth
- Taxable



With Conversion



# Roth Conversions – Key Considerations

- Client Goals & Values
- Asset location by tax treatment
- Age
- Current Tax Law
- Current and future income sources
- Cost/Benefit analysis of conversion (State, Federal, IRMAA, NIIT, impacts on deductions/credits, etc.)
- Current vs. Anticipated tax bracket
- Plans for Required Minimum Distributions
- Market environment



# Direct Indexing



# Direct Indexing – What is it? Who is it for?

## ➤ What is it:

- Investment Strategy that Involves buying individual stocks that make up an index with the goal being to mimic index performance, while creating tax alpha.

## ➤ Who is it for:

- Large After-Tax Portfolio (typical minimum \$200,000-\$250,000)
- Low Cost Basis Portfolios
- Highly Concentrated Portfolios
- Mutual Fund Portfolios that distribute gains annually
- High Income



# Direct Indexing Objectives

- Tax Loss Harvesting
- Index performance with low tracking error
- Portfolio Customization
- Capital Gains Control
- Transition Management

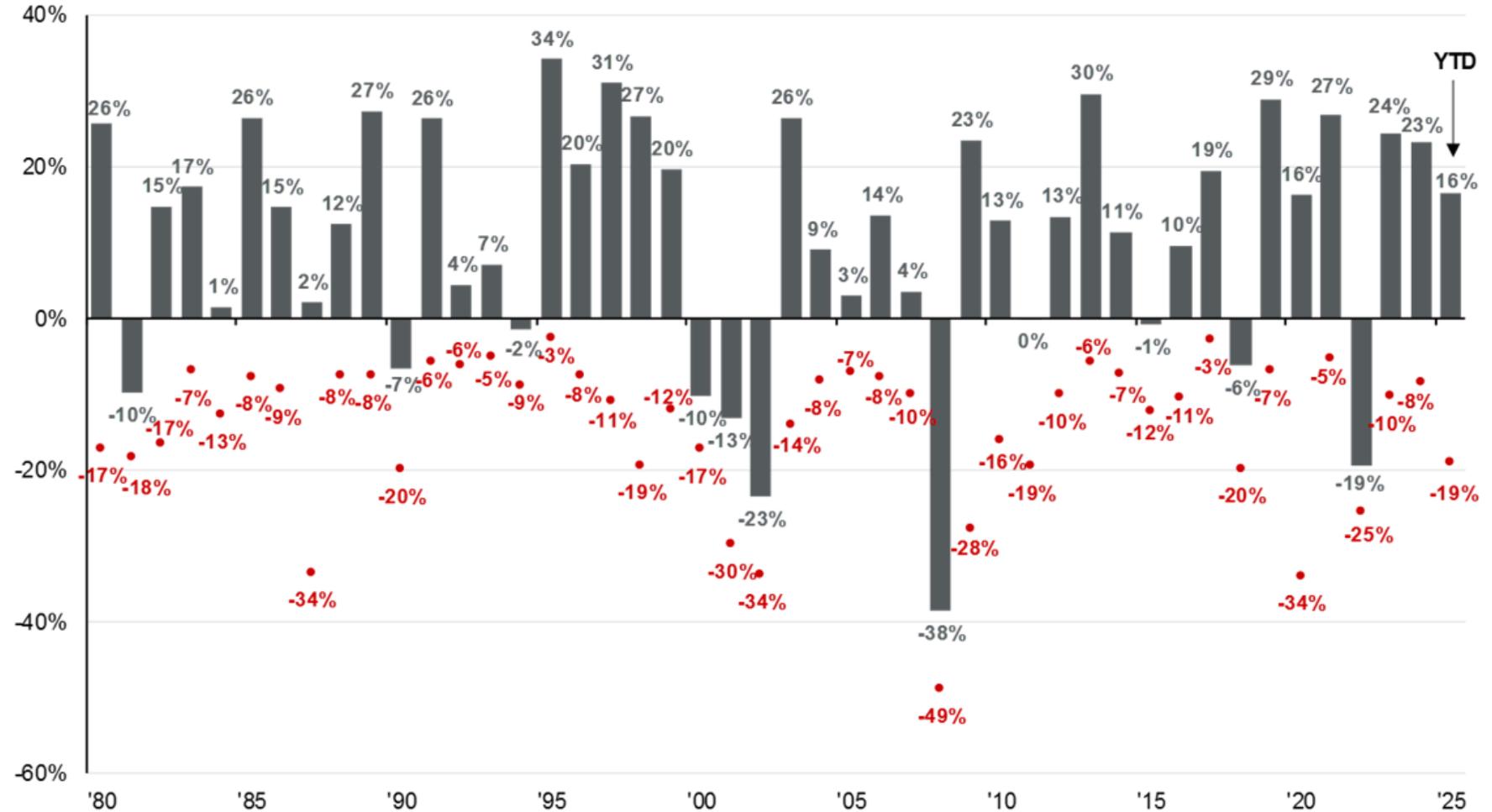


# Direct Indexing – taking advantage of market volatility

Even in instances where the S&P 500 has produced a positive annual return, there has always been some portion of the index that experienced a negative annual return – and negative returns provide tax loss harvesting opportunities.

## S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.1%, annual returns were positive in 34 of 45 years



Google

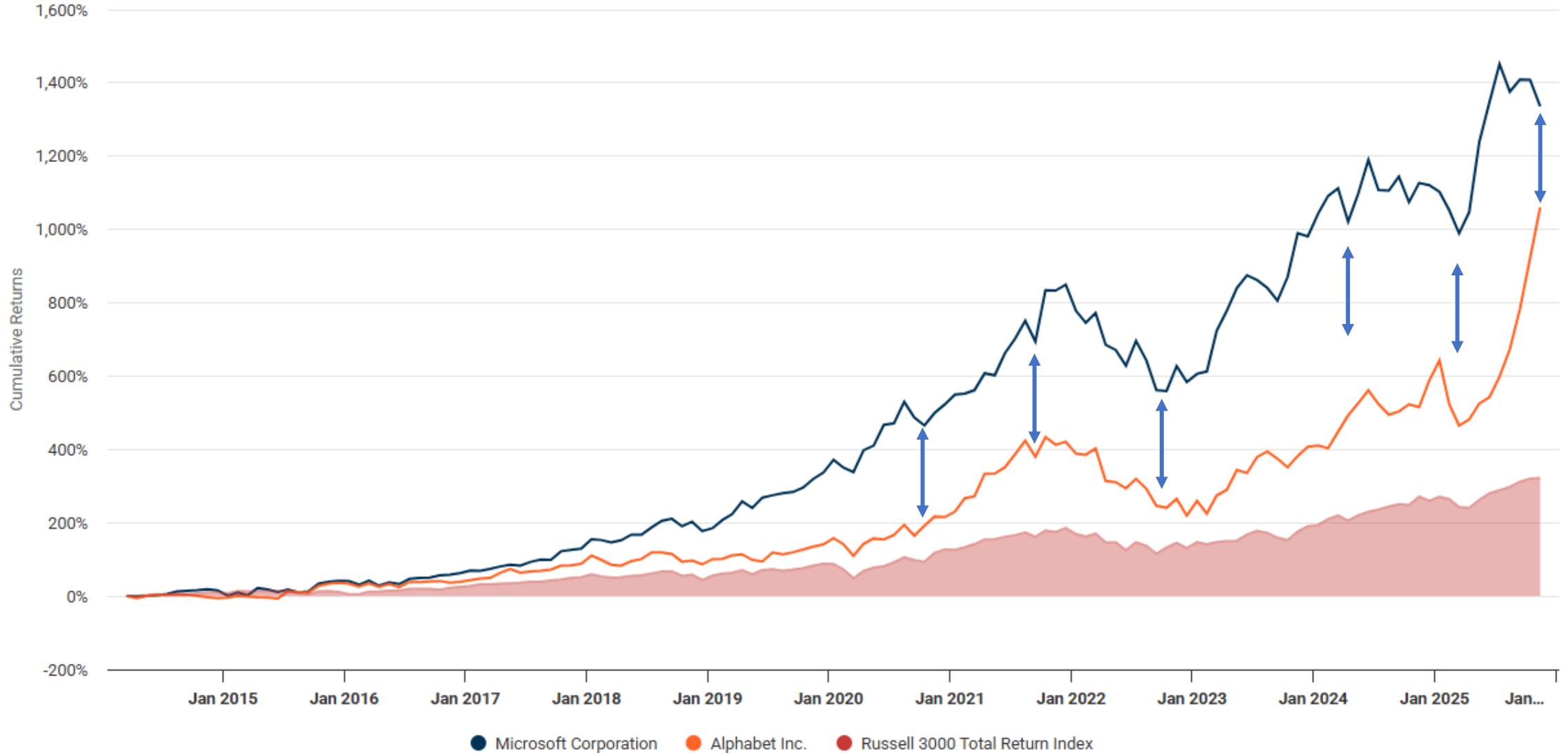
**vs.**



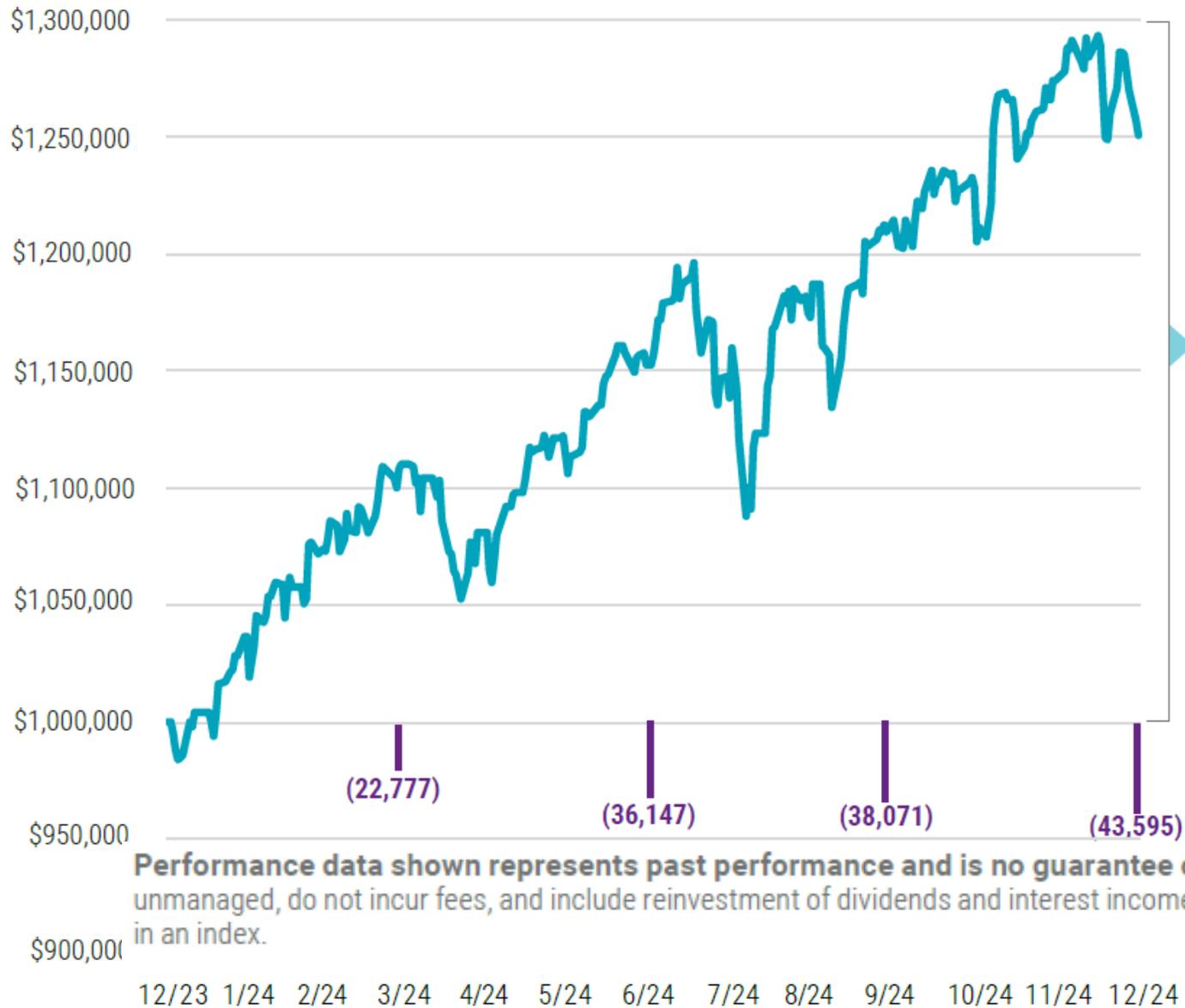
Microsoft

# Direct Indexing – GOOG vs. MSFT

## Total Return



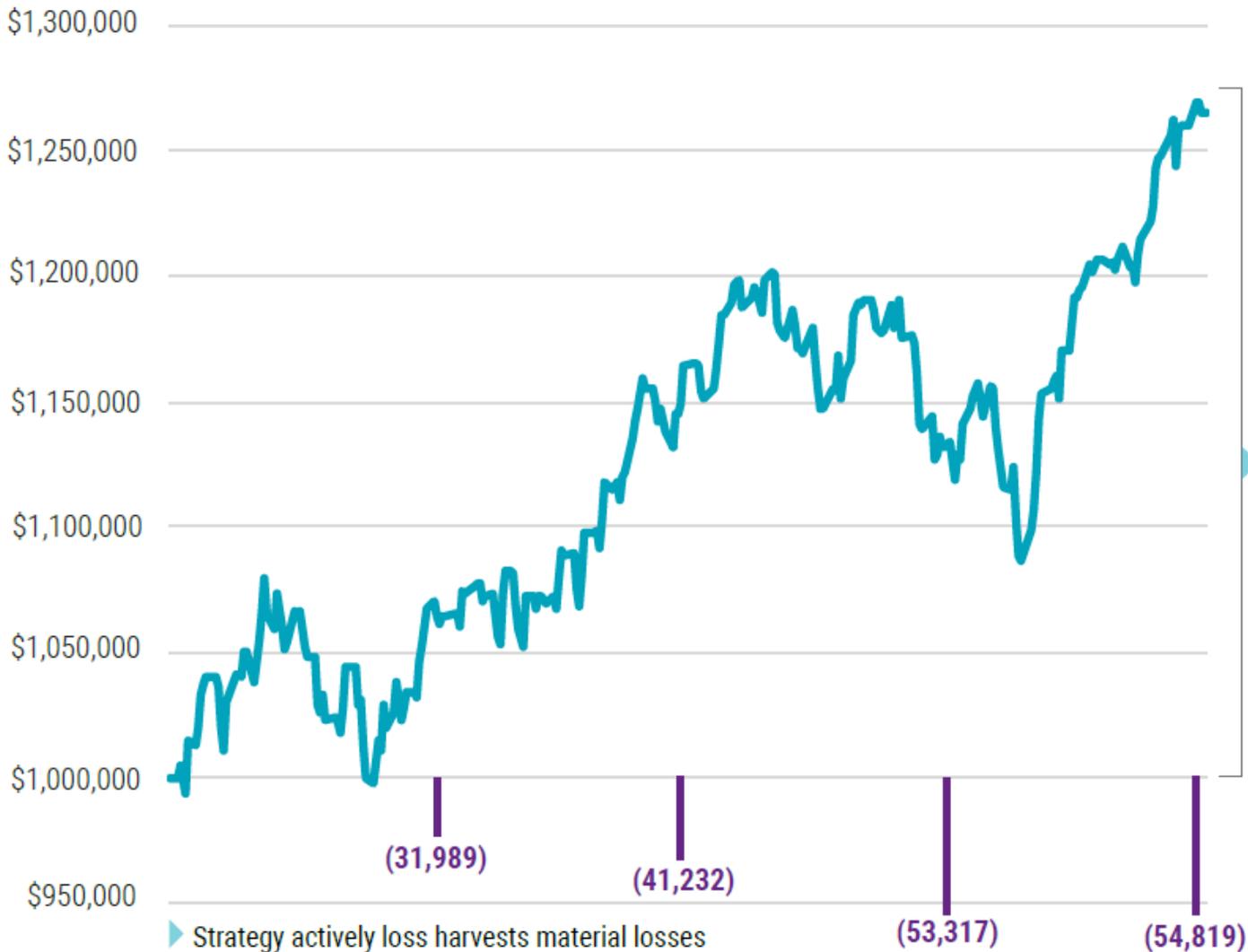
# Direct Indexing Historical Examples



## 2024:

- \$250,373 of pre-tax investment returns
- +2 bps of pretax excess returns
- \$43,595 of net realized losses
- \$17,787 of potential tax savings

# Direct Indexing Historical Examples



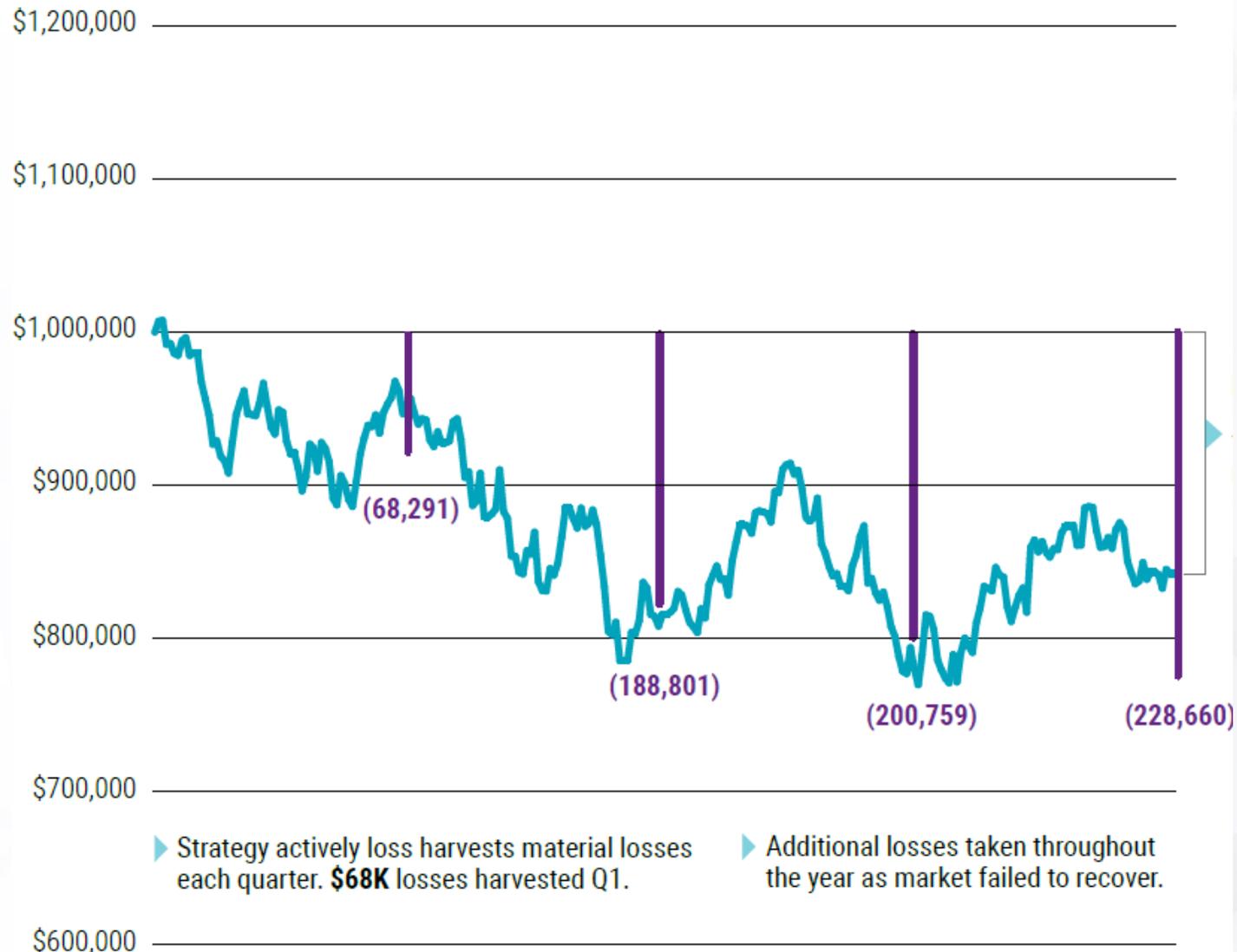
## 2023:

- \$265,095 pre tax investment returns
- +22 bps of excess returns
- \$54,819 net realized losses
- \$22,366 potential tax savings

▶ Strategy actively loss harvests material losses

**Performance data shown represents past performance and is no guarantee of future results.** Indexes are \$90 unmanaged, do not incur fees, and include reinvestment of dividends and interest income, if any. It is not possible to invest in an index.

# Direct Indexing Historical Examples



## 2022:

- ▶ **-\$157,348** pretax investment returns
- ▶ **+238 bps** pretax excess returns
- ▶ **\$228,660** net realized losses
- ▶ **\$93,293** potential tax savings

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# Direct Indexing Application

## 1. Tax Managed Equity Indexing

Direct Indexing strategies seek to track an index before taxes and outperform it after taxes, using tax loss harvesting not possible with an index mutual fund or ETF. Tax loss harvesting is a strategy for selling securities that have lost value to offset taxes on capital gains.

## 2. Account Transition Strategies

Direct indexing can help maximize or eliminate the tax consequences of moving assets to a new advisory firm or brokerage by accepting securities in-kind to fund the new account.

## 3. Unwinding Concentrated Positions

Selling off low-cost-basis securities can trigger unwanted capital gain taxes. Depending on your investment objective, tax situation, and time horizon, a direct indexing account can help strike the right balance between diversification and tax efficiency.

## 4. Portfolio Customization

For investors with specific tax or investment objectives, portfolios can be customized to favor or exclude specific sectors or securities.

## 5. Banking Losses to Offset Potential Future Capital Gains

Direct stock ownership through a separately managed account offers the ability to accrue current losses that can be used to offset capital gains from other portfolio investments, now or in future years.



# 1031 Exchange



# 1031 Exchange – What is it? Who is it for?

## ➤ What is it:

- A method that allows you to defer capital gains by exchanging highly appreciated investment or business-use property for fractional ownership in institutional-grade commercial properties.

## ➤ Who is it for:

- Investors who have highly appreciated real estate with low or no basis.
- Clients who want to transition out of active real estate management.
- Those who want to diversify their real estate portfolios with large scale, professionally managed commercial assets.
- Clients who want to avoid the complexities of transferring real estate wealth to the next generation.



# Who is Ares Wealth Management?



- ARES is a leading global alternative investment manager with over \$527 billion in assets under management.
- They have investment solutions across private credit, private equity, real estate and infrastructure.
- ARES was the first to market with a 1031 exchange solution that included a 721 exchange into a Real Estate Investment Trust (REIT)
- In it's 20+ year operating history, ARES has completed more than \$5.3 billion in 1031 exchanges.
- Investors have access to in-house 1031 specialists, a closing team and client service teams with decades of exchange experience.



# How does the ARES 1031 Exchange Work?

## 1. 1031 Exchange

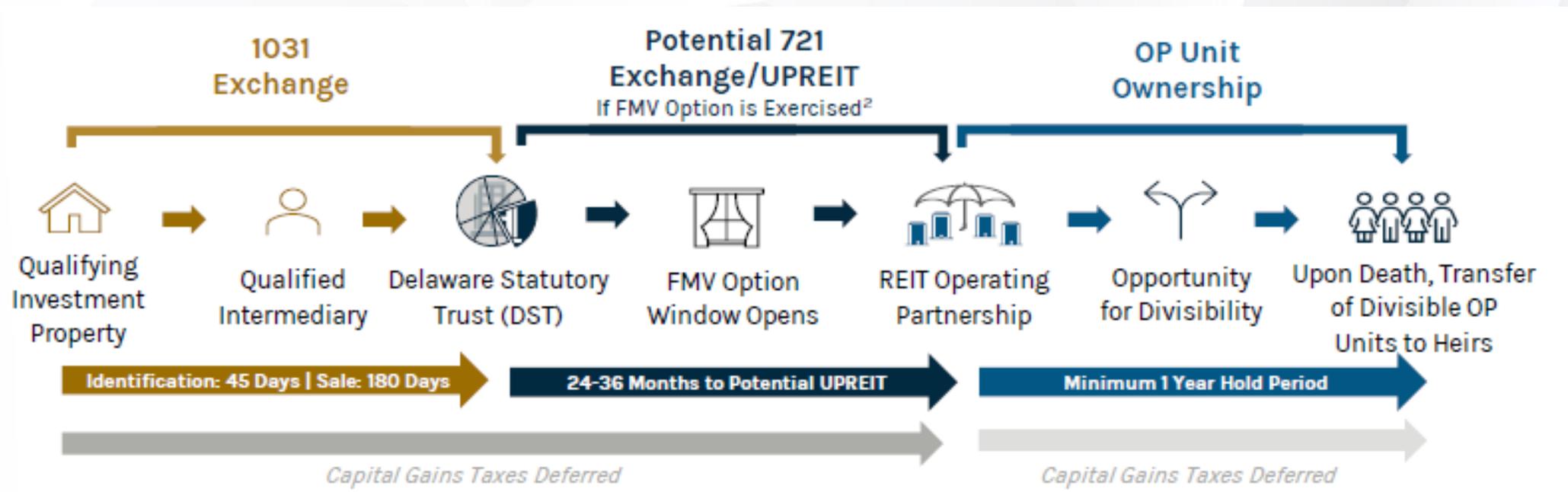
Qualifying property must be “like kind”. Under IRS rules (§1031) any real property held for investment or business is considered like-kind to other such real estate. Investment minimum is \$250,000.

## 2. Delaware Statutory Trust (DST)

The client’s real estate property is exchanged into a DST that owns large-scale, professionally managed commercial assets.

## 3. 721 Exchange UPREIT

Funds in the DST are acquired by ARES REIT after 2 to 3 years. Investors contribute their DST ownership interests into an ARES REIT for even more flexibility and diversification.



# Cash Balance Plans



# Saving for Retirement

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## Qualified retirement plans

Defined  
contribution  
plans

- Simplified Employee Pensions (SEPs)
- SIMPLE plans
- 401(k) plans

Defined  
benefit  
plans

- Cash balance plans
- Pensions



# Defined benefit plans

## Attributes

- Mandatory funding based on plan benefit formula, actuarial assumptions
- Typically, more costly to administer than 401(k) plans and IRA-based plans
- Declining sponsorship in recent years but still appealing to some small business owners due to potential for significantly higher funding/deductions

## Cash balance defined benefit plan

- Special type of defined benefit plan with defined contribution plan characteristics
- Formally recognized by congress in Pension Protection Act of 2006 (PPA)
- Popular with small business owners looking for maximum funding
- Often “paired” with a defined contribution plan



# Cash balance plans

## Why cash balance plans?

- Not dependent on employee contributions
- Higher contribution limits
- Above the line deduction
- Annuity payout option
- Pension Benefit Guarantee Corporation guarantees



# Cash balance plan paired with new comparability plan

## Example

Name	Owner/ HCE?	Age	Compensation	Profit sharing -pro rata		Combination new comp/cash balance	
				Scenario #1	Scenario #2	Allocation	% of Comp.
Karen	Y	56	\$305,000	\$61,000	20%	\$301,117	53.14%
Frank	Y	51	\$305,000	\$61,000	20%	\$249,624	44.05%
Barbara	N	51	\$65,000	\$13,000	20%	\$5,280	.93%
Gertrude	N	56	\$40,000	\$8,000	20%	\$3,480	.61%
Jackie	N	36	\$30,000	\$6,000	20%	\$2,760	.49%
Marge	N	31	\$25,000	\$5,000	20%	\$2,400	.42%
Todd	N	26	\$20,000	\$4,000	20%	\$2,040	.36%



Source: Economic Group Pension Services (EGPS).

These examples are hypothetical and do not represent actual companies or employees.

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Questions?



# Thank you



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