

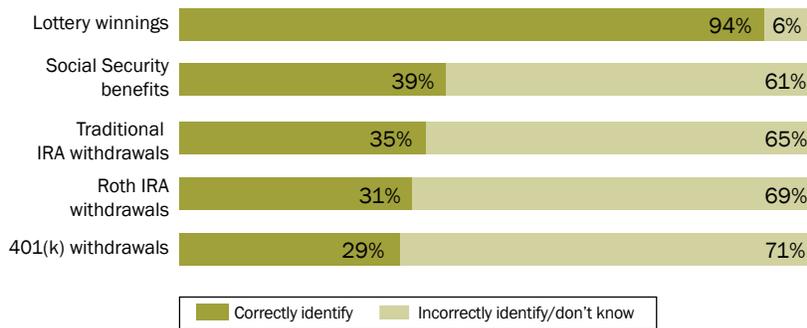
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Retirement Tax Considerations for Middle-Income Americans

Overview

Many middle-income Americans age 50 and older have significant gaps in their understanding of how federal taxes will impact their retirement finances. In fact, today, more Americans have an accurate understanding of how lottery winnings are taxed (94%) than the mainstays of their retirement income: Social Security benefits (39%) and retirement accounts, such as traditional IRAs (35%), Roth IRAs (31%) and 401(k)s (29%).

Understanding the Tax Impact on Different Income Types



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Source: Bankers Life Center for a Secure Retirement, *Retirement Tax Considerations for Middle-Income Americans*, 2014.

Those surveyed also share a dislike for doing taxes and filing their personal returns. When asked to choose which activity they dislike the most, respondents say that doing taxes (23%) is almost equally as disliked as the unpleasant experience of going through airport security (29%).

In fact, getting a flu shot is preferable to doing taxes for many middle-income Americans over age 50. Only 6% ranked flu shots as their most disliked task.

Middle-income Americans would benefit from additional resources that help them more fully understand tax rules affecting their retirement finances. They risk incorrectly estimating future income from their retirement accounts, paying penalties on withdrawals, missing allowable deductions and other consequences.

Retirement Account Penalties and Exceptions

Tax-advantaged retirement accounts such as 401(k) plans and IRAs are a popular way to save for retirement. However, significant tax penalties apply when rules governing these accounts are not followed.

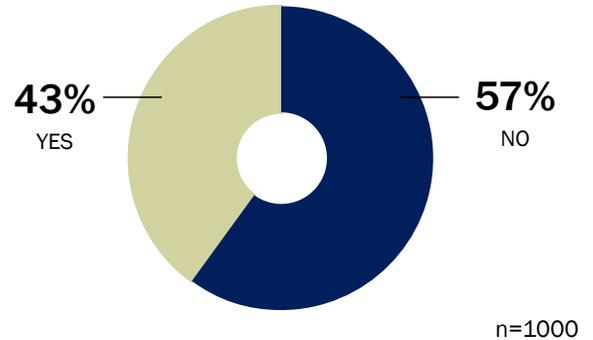
Among penalties that may affect a large percentage of older Americans are those relating to required minimum distributions (RMDs). More than half (57%) of middle-income Americans age 50 and older do not know that 70½ is the age at which RMDs from IRAs and 401(k) plans must begin.

Furthermore, while penalties generally apply to early and late withdrawals from certain retirement accounts, middle-income Americans do not understand that there are important exceptions to some of these penalties.

For example, nine in 10 middle-income Americans are not aware that in certain circumstances, they may be able to withdraw funds from a traditional IRA without penalty if they are unemployed and paying for health insurance (90%) or using the money to pay college expenses (89%). Most also do not understand that in certain circumstances, they may withdraw money penalty-free from a traditional IRA to buy a home (84%) or pay for medical expenses (71%). Only two percent (2%) of respondents were aware of all four exceptions.

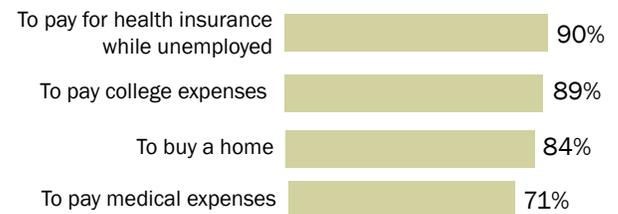
This indicates that many middle-income Americans assume that retirement savings are difficult to access before retirement age. If these individuals were more aware of penalty-free opportunities to withdraw funds, they may increase contributions to their retirement accounts.

Aware of 70½ as Starting Age for Required Minimum Distributions



Source: Bankers Life Center for a Secure Retirement, *Retirement Tax Considerations for Middle-Income Americans*, 2014.

Unaware of Early-Withdrawal Penalty Exceptions for Traditional IRAs



Specific IRS conditions must be met.

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Source: Bankers Life Center for a Secure Retirement, *Retirement Tax Considerations for Middle-Income Americans*, 2014.

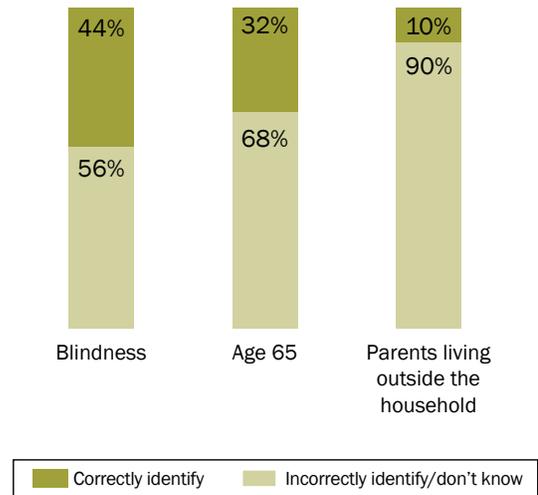
Tax Deductions

Claiming all eligible deductions and dependents is a common way to reduce total tax burden. However, most middle-income Americans age 50 and older cannot identify many of the tax deductions potentially associated with retirement.

Among those who participated in the survey:

- More than half (56%) do not know that blindness is cause for a higher standard deduction.
- Seven in 10 (68%) cannot correctly identify 65 as the age at which a higher standard deduction is granted.
- Nine in 10 (90%) are unaware that, in some cases, they may claim their parents living outside the household as their dependents for tax purposes.

Knowledge of Potential Tax Deductions in Retirement



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Source: Bankers Life Center for a Secure Retirement, *Retirement Tax Considerations for Middle-Income Americans*, 2014.

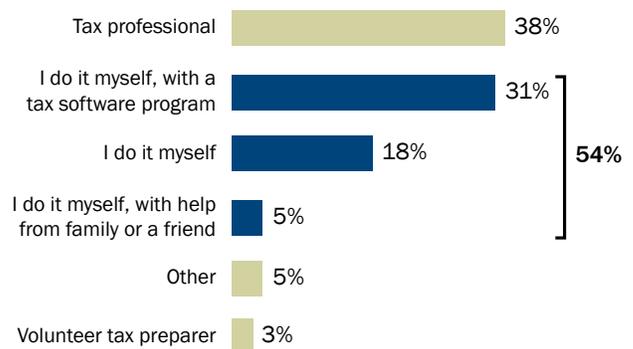
Tax Advice and Guidance

Only four in 10 (38%) middle-income Americans age 50 and older work with a tax preparer to complete and file their annual tax returns. Among those working with a tax professional, the majority (61%) report that they did not receive any additional guidance on tax savings tips, long-term tax strategies or how to invest tax refunds.

Unfortunately, this finding is not surprising, considering more than half (54%) of middle-income Americans age 55 to 75 say they do not receive professional retirement guidance of any kind.¹

More than half (54%) of those surveyed prepare and file their own tax return, with one in three (31%) saying they use tax-preparation computer software. Nearly one in five (18%) complete their tax returns on their own without any external advice or guidance.

Tax Filing Assistance



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Source: Bankers Life Center for a Secure Retirement, *Retirement Tax Considerations for Middle-Income Americans*, 2014.

Recommendations for Consumers

- **Consider the Role of Taxes**
Many people focus on building their retirement savings without considering the role of taxes once they are retired. Make tax planning a part of any retirement planning discussion. To help answer tax questions for older Americans, the IRS publishes articles and updates at www.irs.gov/Individuals/Seniors-&Retirees, as well as a Tax Guide for Older Americans (Publication 554).
- **Avoid Costly Penalties**
When you make early or late withdrawals from your retirement accounts, you may face unexpected tax penalties. Read through the legal exceptions to these penalties to understand which ones may or may not apply to your situation.
- **Talk to a Professional**
A qualified tax professional can help ensure you claim all applicable tax deductions and credits, this year and in the future. You also may want to seek guidance on near- and long-term tax planning. For individuals earning less than \$52,000 per year, the Volunteer Income Tax Assistance program and the Tax Counseling for the Elderly program may be able to provide free tax help.

Methodology

The research for this report was conducted in February 2014 for the Bankers Life Center for a Secure Retirement by the independent research firm The Blackstone Group. A nationwide sample of 1,000 Americans ages 50 and older, who have an annual household income of between \$25,000 and \$75,000, participated in the internet-based survey on questions relating to federal taxes. The margin of error is +/- 3.1 percentage points at the 95% confidence level.

¹ Bankers Life Center for a Secure Retirement, 2011.

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About Us

Bankers Life Center for a Secure Retirement is dedicated to research and consumer education. Its studies and consumer awareness campaigns provide insight and practical advice to help everyday Americans achieve financial security in retirement.

About Bankers Life

With a history dating back to 1879, Bankers Life products focus on the insurance needs of the middle-income retirement market through nationwide subsidiaries of CNO Financial Group, Inc. These companies offer a broad portfolio of life and health insurance designed especially for those near or in retirement.

With over 300 offices across the country, our more than 5,000 agents live and work in the communities they serve. Our Agents take the time to get to know their customers, listen to their needs and values, and are dedicated to helping them meet their goals for a secure retirement.

Get to know Bankers Life – and learn why our more than 1.4 million customers trust their retirement to us.

Learn More

More than 5,000 licensed professional agents represent Bankers Life in over 300 local offices across the United States. Agents meet with thousands of Americans each week for initial retirement reviews at no cost to clients. To learn more, visit bankerslife.com or call 1-800-231-9150.

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