A RETIREMENT TAX PLANNING GUIDE

Six Strategies to Help Retirees Reduce Taxes & Preserve Their Assets

Practical, tax-aware strategies for income, annuities, IRA distributions, Roth conversions, and long-term care

PROVIDED TO YOU BY

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2026 EDITION

FL Ocala | MI Novi | MI Ann Arbor | FL Gainesville

What's Inside

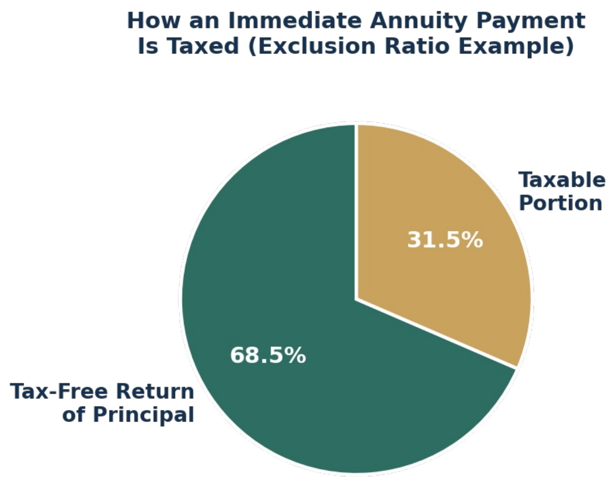
STRATEGY ONE · INCOME PLANNING

How Fixed Immediate Annuities Can Help Increase Cash Flow

It's possible to increase your monthly cash flow with a fixed immediate annuity. An immediate annuity is simply the payment of a premium to an insurance company. In exchange, the company converts that premium into a monthly cash payment for life or for a set term of years. Because each payment is made up of both principal and interest, a portion of every annuity payment is excluded from taxation, as described in IRS Publication 590. (Note: monthly payments depend on the claims-paying ability of the insurer, so choosing a financially solid company matters, and premium taxes could apply in some states.)

Turning a lump sum into a predictable monthly stream

> **Hypothetical example:** A 70-year-old man pays $250,000 in premium for a fixed immediate annuity. In return, he receives $1,899 per month. Of that payment, $1,300 is treated as a tax-free return of principal — only $599 is subject to federal income tax — for the next 16 years. After that, the entire payment becomes taxable.



Based on the exclusion-ratio example above. Source: Publication 939, Table V.

Assuming this taxpayer is in a 22% federal bracket, the tax on each payment comes to just $132 a month — that's roughly $22,788 a year in checks with very little tax owed. Note that this type of annuity generally cannot be surrendered for value and payments usually stop at the insured's death.

Who might this strategy suit?

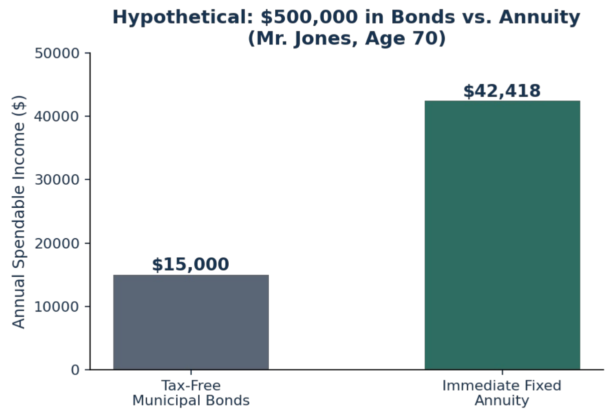
- A retiree who needs increased monthly cash flow
- Someone with no heirs, or who isn't concerned with leaving an estate
- Someone who has already set aside other funds to leave to heirs
- A retiree who wants fixed payments and prefers to avoid maturities, rollovers, and ongoing investment maintenance

Quote from immediateannuities.com, 12/11/25. Payments based on the life expectancy of the annuitant per IRS Publication 939, Table V; actual rates vary by insurer. For 2026, married couples filing jointly are taxed at 10–12% on the first $100,800 of taxable income and 22% on income from $100,801–$211,389 (IRS Rev. Proc. 2025-32).

An Alternative to Tax-Free Bonds?

While tax-free municipal bonds are a popular source of tax-free income, many retirees don't realize they may be able to generate even more spendable cash flow through an immediate annuity. Each annuity payment is made up of interest and principal, as determined under Section 72 of the federal tax code — and the principal portion isn't taxed at all. Once the owner has fully recovered the original investment, remaining payments are taxed as ordinary income.

Hypothetical case — Mr. Jones, age 70: He holds $500,000 in municipal bonds earning 3% tax-free — $15,000 a year. If he instead used that $500,000 to purchase an immediate fixed annuity, he'd receive $45,576 a year, of which 68.5% is tax-free. After taxes of $3,158, he'd net $42,418 to spend — an increase of $27,418 a year over the municipal bond income.



Hypothetical illustration only. Your results will vary.

	Tax-Free Bond	Immediate Annuity
Annual Payment	$15,000	$45,576
Income Tax	$0	$3,158
Net to Spend	$15,000	$42,418
Amount Left at Maturity	$500,000	$0

Of course, the trade-off is liquidity and legacy: an immediate annuity generally leaves nothing for heirs (unless a refund feature is added, which lowers the monthly payment), while a municipal bond remains part of your estate and can typically be sold on the secondary market at any time.

Municipal bond rate: EMMA, 17-year investment-grade municipal yield curve, 12/10/25. Annuity quote: immediateannuities.com, 12/21/25, male age 70. Municipal bonds may be subject to AMT. Consult your tax advisor.

Annuities Can Help Reduce or Eliminate Tax on Your Social Security

Prior to 1984, Social Security income was entirely tax-free. Today, taxpayers can pay tax on up to 85% of their Social Security benefits. The good news: annuities can help reduce — and in some cases eliminate — the income tax owed on Social Security income.

The IRS calculates tax on Social Security based on your total income from all sources. Income earned inside an annuity that is left to accumulate, however, does not appear on your current tax return. That means strategically sheltering income in annuities may lower your reportable income for Social Security taxation purposes.

Lowering reportable income can lower the Social Security tax bite

$25,000	$32,000	85%
SINGLE FILER AGI THRESHOLD	MARRIED FILER AGI THRESHOLD	MAX % OF BENEFITS TAXABLE

If you can bring your adjusted gross income below these thresholds, you may pay no tax at all on your Social Security income. The only way to know for sure is to run the numbers against your actual return.

Next step: Bring a copy of your tax return (including Schedule B) to your review meeting. We can show you exactly how much you might save.

Per IRS Publication 17, www.irs.gov. Single and married filers with modified adjusted gross income exceeding $34,000 and $44,000, respectively, may pay tax on up to 85% of Social Security income.

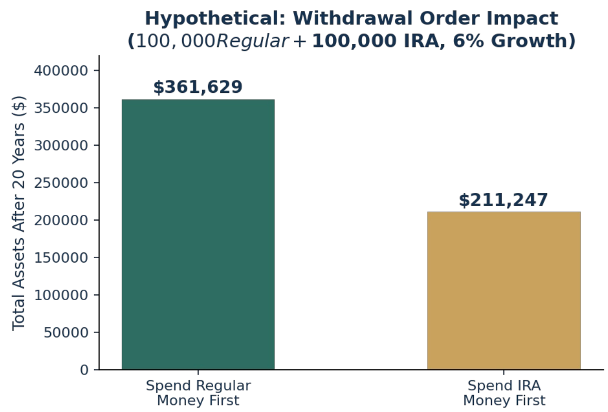
Preserve Retirement Assets by Taking Smaller Distributions

Retirees typically have two pots of money: money that's already been taxed ("regular money") and money that hasn't ("retirement money," such as an IRA, 401(k), or 403(b)). When you spend $1 of retirement money in a 35% combined marginal bracket (32% federal + 3% state), the real cost is about $1.54, since you'll owe federal and state tax on the withdrawal.

One way to manage your lifetime tax bill is to spend regular money first and let tax-deferred retirement accounts keep compounding longer — within the bounds of required minimum distribution rules.

Which "pot" of money should you spend first?

Hypothetical example: Two $100,000 accounts (one taxable, one tax-deferred), each growing at 6% annually, with $6,000 withdrawn every year for 20 years. Spending the regular money first results in roughly $150,000 more in total assets after 20 years compared to spending the IRA first.



Hypothetical illustration for tax-concept purposes only; assumes 35% combined tax rate.

Spend Regular Money First	Today	In 20 Years
Regular Money	$100,000	$40,916
IRA Money	$100,000	$320,713
Total	**$200,000**	**$361,629**

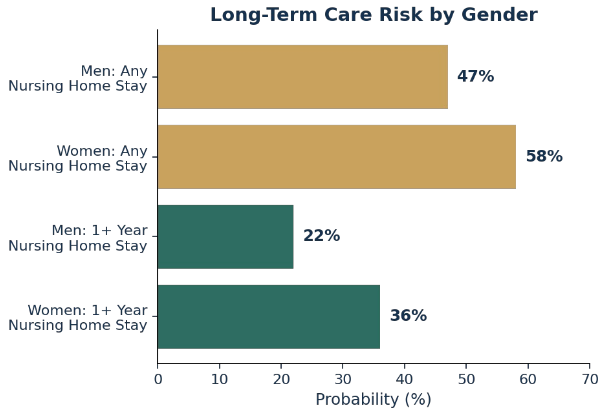
Spend IRA Money First	Today	In 20 Years
IRA Money	$100,000	$0
Regular Money	$100,000	$211,247
Total	**$200,000**	**$211,247**

The trade-off: beneficiaries will eventually owe income tax on inherited retirement money — though that can actually work in their favor if they're in a lower bracket than you are today.

Assumes 6% growth and a 35% combined tax rate; for illustration only. For 2026, married couples filing jointly are taxed at 10–12% on the first $100,800 of income and 22% on income $100,801–$211,389 (IRS Rev. Proc. 2025-32). Estate taxes could apply if an estate exceeds $15 million in 2026.

Do You Need Long-Term Care Insurance?

Maybe. Maybe not. Statistics show that more than half of people turning 65 will need long-term care during their lifetime — and the costs can be significant.



Source: Morningstar, "75 Must-Know Statistics About Long-Term Care," 2025.

11 mo.	17 mo.	$9,277
AVG. NURSING-HOME STAY, MEN	AVG. NURSING-HOME STAY, WOMEN	MONTHLY COST IN SOME AREAS

With risk that high, does everyone need coverage? Not necessarily — it comes down to your available income and assets. Here's how three resource groups are generally affected:

Low Resources

Countable assets at or below state Medicaid spend-down limits (often $2,000), with monthly income below average local nursing-home costs. Many in this group qualify for Medicaid without spending down further, though a community spouse's living needs should still be reviewed.

Medium Resources — Often the Group That Needs Coverage

Assets exceed Medicaid limits, but income doesn't cover the monthly cost of care, and there's no separate reserve set aside for an extended stay. An extended nursing-home need here can deplete an estate or create real hardship for a spouse still at home.

High Resources

Sufficient income or set-aside assets (roughly $200,000–$350,000 per spouse) to cover a three- to five-year stay. Many in this group still purchase coverage simply to protect their estate and create a dedicated funding source for care.

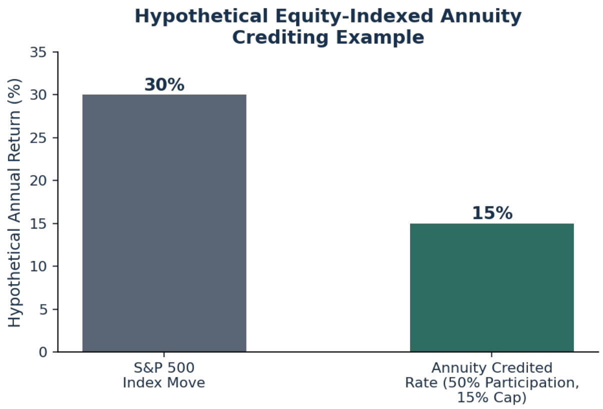
Genworth/CareScout Cost of Care Study, 2024, https://www.carescout.com/cost-of-care. Medicaid asset and income limits per Medicaid.gov, 2026 figures, and may vary by state.

An Annuity That Tracks Market Performance

Choosing the right retirement vehicle isn't easy. Some retirees want the safety of guaranteed principal; others want the growth potential of being linked to equity markets. The equity-indexed annuity aims to offer a bit of both — some market-linked growth potential, principal protection in down years, tax deferral, and the option of guaranteed lifetime income.

Interest credited under these contracts is typically based on a percentage (the "participation rate") of an index's movement, such as the S&P 500, often subject to an annual cap.

Participating in market gains while limiting downside



Hypothetical example: 50% participation rate, 15% cap, before fees and contract charges.

Six things to weigh before purchasing

— **Surrender charges** that typically decline over a 5–15 year period

— **Tax consequences** on withdrawals, plus a 10% IRS penalty before age 59½

— **Features vary widely** by carrier — minimum guarantees often range 1.5%–3%, some as low as 0%

— **Fees and expenses**, including asset management and contract charges

— **Loan and withdrawal limits**, which can reduce downside protection

— **Company strength matters** — all guarantees rely on the issuer's claims-paying ability

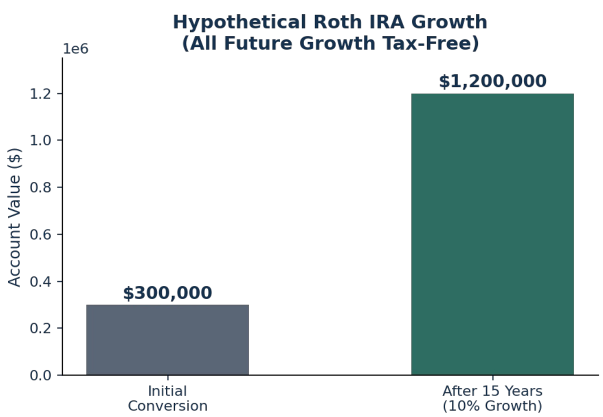
Participation rates and caps vary by carrier and product, typically ranging 50–90% participation and around a 10% cap. Source: All Things Annuity, visited 12/11/25. Hypothetical example for illustration only.

How Roth IRAs Could Lower Your IRA Distribution Taxes

Converting traditional IRA money into a Roth IRA can shield future growth — and future distributions — from federal income tax, assuming holding-period rules are satisfied (age 59½ and a five-year holding period). Unlike a traditional IRA, a Roth owner isn't required to take distributions at any age, and Roth withdrawals don't count toward the income calculation used to tax Social Security benefits.

Pay tax once, then let growth and withdrawals stay tax-free

Hypothetical example: A taxpayer converts $300,000 of traditional IRA money to a Roth. Invested and growing at 10% annually for 15 years, the account could reach roughly $1.2 million — with the $900,000 of growth never subject to future income tax.



Hypothetical 10% annual growth over 15 years; for illustration only.

Yes, conversion triggers tax in the year you convert — but the long-term payoff can be significant, especially if you expect to be in the same or a higher bracket later, or want to leave tax-free assets to heirs. (Note: most non-spouse beneficiaries must fully withdraw inherited Roth balances within 10 years, though future growth inside that window remains tax-free.)

Investments in traditional and Roth IRAs are subject to market risk depending on underlying holdings. Hypothetical growth assumptions are for illustration only and are not a guarantee of future performance.

ABOUT YOUR ADVISOR

David Peters

Starting in 1994, David built his foundational experience helping clients invest and manage portfolios while working at a Wall Street firm. He works with a diverse clientele, ranging from private individuals and families to business and retirement plans. Demonstrating his entrepreneurial spirit, David founded Alliance Advisors Financial Services in November 1999, and ultimately the Registered Investment Adviser, Alliance Advisors Wealth Management. A graduate of the University of North Carolina with a degree in Economics, David maintains his comprehensive credentials, including a Series 65 securities license, as well as Life, Health, Accident, Property, and Casualty insurance licenses.

About Alliance Advisors Wealth Management

We are committed to helping individuals and families take control of their financial future with customized strategies and clear guidance. Our services span advanced tax planning, financial planning, long-term care solutions, and retirement planning — designed to simplify the complex and provide clarity at every life stage. We journey with our client families through their retirement years, offering the insights, resources, and tools needed for confident decisions and lasting peace of mind.

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Schedule a 15-Minute Review →

Ready to See How These Strategies Apply to You?

There is no charge for an initial meeting. Call, email, or schedule a short Zoom consultation to find out which of these strategies fits your situation.

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