

PAY TAXES NOW OR IN RETIREMENT?

THE PROS AND CONS OF DEFERRED TAX

You probably know the phrase “Don’t put all your eggs in one basket.” It’s often used to describe the strategy of diversifying your investments across a variety of stocks and bonds so you can minimize your overall losses if one particular segment you’ve invested in takes a downturn.¹ In much the same way, “Don’t put all your eggs in one basket” also applies to the types of retirement assets you own.

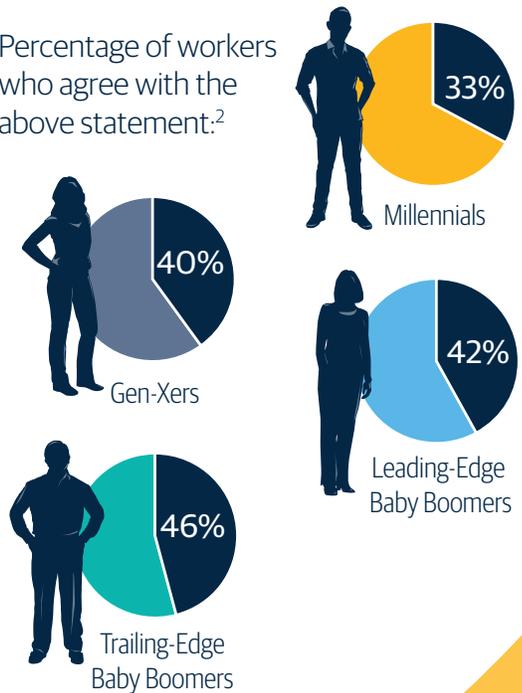
By spreading your retirement savings across a variety of savings vehicles (like 401(k)s, IRAs, annuities and nonqualified investments), you’ll be giving yourself added flexibility in retirement that will help you accomplish two things:

- 1 Minimize taxes
- 2 Maximize income

Of course, to take full advantage of the benefits of asset diversification you have to think about retirement now so you can plan accordingly during your working years.

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“I am currently very involved in monitoring and managing my retirement savings.”
.....

Percentage of workers who agree with the above statement:²



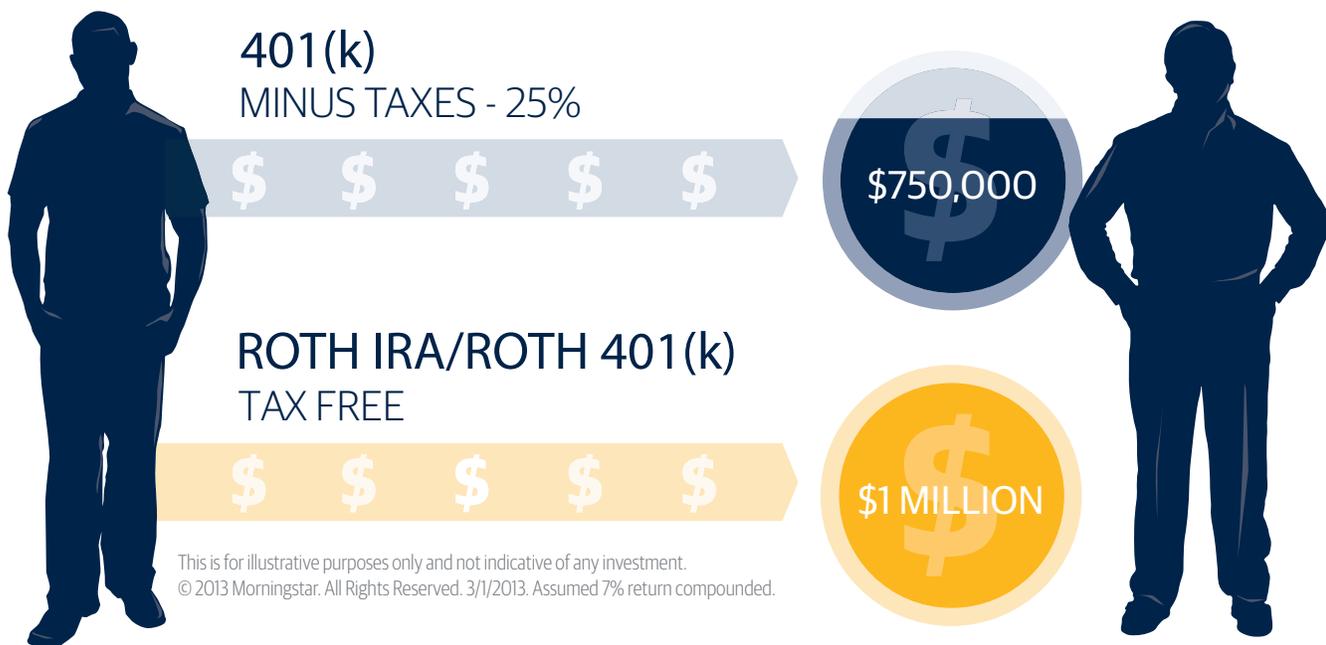
¹ No investment strategy can guarantee a profit or protect against a loss in down market.

² LIMRA Secure Retirement Institute 2014

THE CASE FOR ASSET DIVERSIFICATION

Say, for example, you started saving for retirement at age 25 with the goal of reaching \$1 million by the time you turned 65. Over the years, you contributed \$381 a month to your 401(k), and at age 65 you achieved your goal. Great! But there's a catch. Since you made your contributions pretax, you have to pay taxes on those dollars as you take withdrawals in retirement. Assuming a 25 percent tax bracket, your \$1 million will net you just \$750,000.

On the other hand, if you had contributed that same amount of money—\$381 per month—to a Roth IRA or Roth 401(k), those dollars would not be taxed in retirement because you paid the income tax before making the contributions. In that case, in retirement, your \$1 million would net you a full \$1 million.



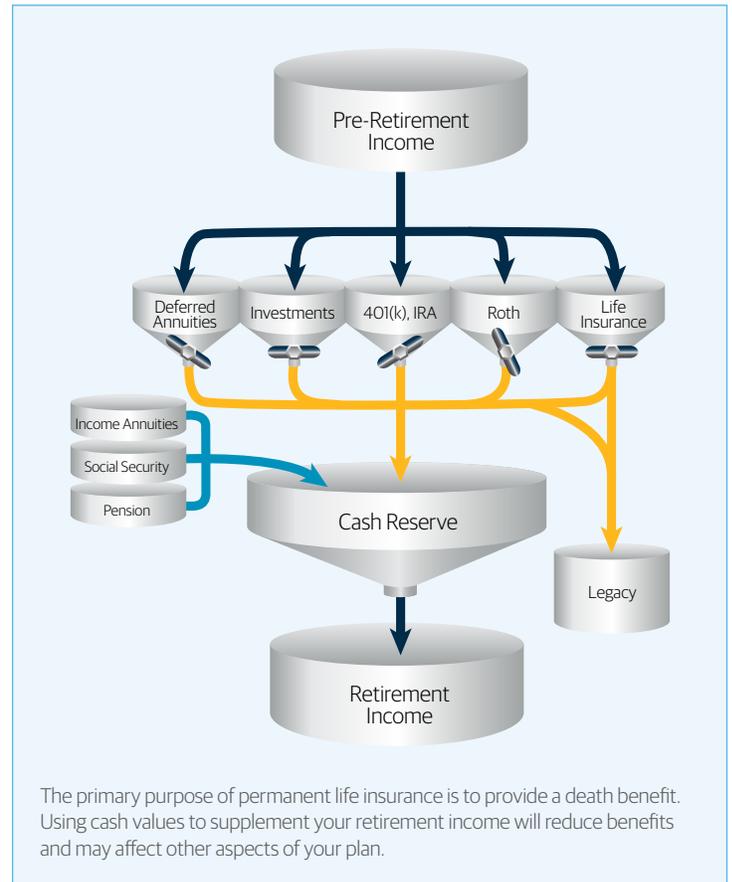
Neither of those accounts—the 401(k) or the Roth—is necessarily better than the other. In fact, the best-case scenario is to have both taxable and non-taxable assets in retirement, for reasons that will be explained in this white paper. But the 401(k)/Roth example illustrates an important point: Where you save for retirement is just as important as how much you save for retirement.

HOW RETIREMENT INCOME IS CREATED

The illustration to the right shows the most commonly used options for creating income in retirement. The top of the illustration highlights where your working income can be saved for retirement. These are discretionary income sources; you control how much you put in today and how and when you access them in retirement.

The income sources on the left represent guaranteed or fixed income sources, such as Social Security and pensions.

The cash reserve typically holds about two years' worth of your short-term cash needs. Holding funds here allows you to be more strategic about when you access funds from your retirement accounts so you won't have to liquidate assets at inopportune times.



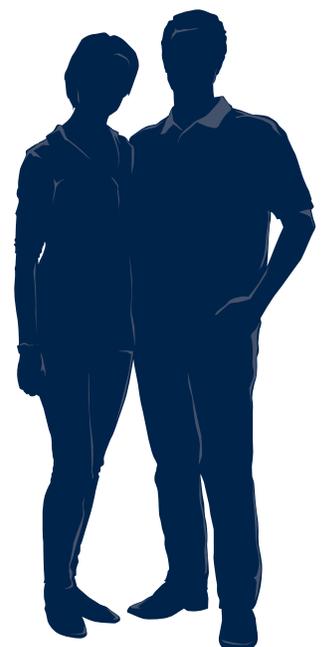
SAVING STRATEGIES TODAY FOR YOUR FUTURE INCOME

If you're already saving for retirement, you're probably putting a portion of your pre-retirement income into one or more of the five discretionary "buckets" you see across the top of the illustration—deferred annuities, investments, 401(k)s or IRAs, Roths and life insurance.³

You may not be utilizing all of them today. Most people save for retirement using just one or two of these assets. But by spreading your savings across many types of assets, you'll be setting yourself up to make the most of your money in retirement.

Here's how. Each of these five assets has a distinct set of features, benefits, contribution and income limits and tax characteristics. For example, some will be subject to tax in retirement; others will not. Some will require you to take minimum distributions once you reach a certain age. Still others will provide guaranteed income for life.

The order in which you pull from these various sources of income and the way you combine them to create your retirement income can have a significant impact on how much money you'll actually have to spend. The more options you have, the more strategic you can be. Let's take a look at the pros, cons and characteristics of each.



³ Primary purpose of life insurance is the death benefit.

DISCRETIONARY SOURCES OF INCOME

DEFERRED ANNUITIES

Deferred annuities are products sold by insurance companies that allow you to set aside money for retirement with the same tax-deferred growth of a 401(k) or IRA. The two main types of deferred annuities are variable and fixed. With a variable annuity, your investment is subject to the ups and downs of the market. With a fixed annuity, you agree to a fixed rate of return with the insurance company.



PROS:

Your investment will grow tax deferred. With variable annuities, you can switch between investments without paying taxes. Also, you can convert the annuity into a guaranteed stream of lifelong income.



CONS:

Like other retirement savings accounts, deferred annuities are not liquid assets; there are penalties for accessing the funds early.



TAX CHARACTERISTICS:

- **Contributions:** You can make contributions either pretax or after tax and can make them as single payments or through installment payments over a period of time.
- **Withdrawals:** You can take a lump-sum distribution of your annuity, or you can convert it to regularly scheduled payments for a period of time or for your lifetime. If you purchase an annuity with pretax dollars, all withdrawals will be taxed as ordinary income. If you purchase an annuity with after-tax dollars, you'll pay tax on just the gains. Funds cannot be withdrawn before 59½. Early withdrawal could incur an additional 10 percent tax penalty.



INCOME AND CONTRIBUTION LIMITS:

There are no income limits. Contribution limits apply if the deferred annuity is owned in a retirement plan (e.g., IRA). In those circumstances, the limits are subject to the contribution limits for the type of account (IRA, SEP, etc.).



Deferred annuities are a useful retirement savings tool especially when you've maxed out your 401(k) or IRA options.

Deferred annuities typically have higher fees than traditional investment products due to insurance and administrative expenses. All guarantees are based solely on the claims paying ability of the issuer.

INVESTMENTS

Some of the most common investments include mutual funds, stocks, bonds and real estate.



PROS:

One of the primary benefits of having investments in your retirement income mix is the level of control you have. You decide how much to invest (there are no limits), where you'll invest (there are no restrictions) and how much risk (market or otherwise) you are willing to take. Most investments are also liquid; you can get access to them any time.



CONS:

Although investments can deliver higher returns than some other retirement income sources, there is also a greater risk that you could lose your investment if the market takes a downturn. Investments do not grow tax deferred.



TAX CHARACTERISTICS:

- **Contributions:** These are made after tax.
- **Withdrawals:**
 - Selling investments triggers a capital gains tax. The tax is based on the length of time the investments are held. If you owned the investments for longer than one year, you will be taxed at the long-term capital gains rate, which is lower than the short-term capital gains tax (for anything held for less than one year).
 - Dividends and/or interest are generally taxed when received, as part of your ordinary income tax.
 - Losses on the sale of investments can be used as write-offs⁴ on your taxes.



INCOME AND CONTRIBUTION LIMITS:

There are no limits on what you can earn or how much you can invest.

⁴ There are limits on the amount of losses that can be used for write-offs.

401(K)S, 403(B)S, SEP-IRAS AND TRADITIONAL IRAS

These are employer-sponsored and individual retirement accounts.



PROS:

Because you can make contributions to these types of accounts with pretax dollars, you can lower your current taxable income while letting your investments in these accounts grow tax deferred. In the case of an employer-sponsored plan, your employer may also match part of your contribution, providing "free money."



CONS:

With an employer-sponsored plan, you have limited choices: You can invest only in the stocks, bonds or mutual funds that are available through the plan. You usually have to take required minimum distributions (RMDs) at age 70½. However, for employer-sponsored plans, RMDs do not start until the later of either retirement or age 70½.



TAX CHARACTERISTICS:

- **Contributions:** They're usually made pretax. In the case of a traditional IRA, your income will dictate whether you're able to deduct contributions on your current year's tax return. Some 401(k) plans allow after-tax contributions to Roth 401(k)s.
- **Withdrawals:** If you contribute with pretax dollars, all withdrawals will be taxed as ordinary income. If you contributed to a traditional IRA and do not take a tax deduction, you'll pay ordinary income tax on just the earnings. Roth 401(k) withdrawals are tax free after age 59½; early withdrawals of gains could be subject to an additional 10 percent tax.



INCOME AND CONTRIBUTION LIMITS:

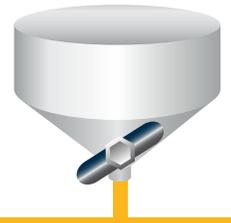
For a 401(k) or 403(b), the 2016 employee contribution limits are \$18,000 per year, with an additional catch-up contribution of up to \$6,000 if you're age 50 or older. For a traditional IRA, the contribution limit is \$5,500 per year, plus \$1,000 if your age 50 or older. The deductibility of contributions to traditional IRAs is limited for high-income earners.

WHAT ARE REQUIRED MINIMUM DISTRIBUTIONS (RMDs)?

RMDs are the minimum amount the IRS requires you to withdraw from retirement accounts when you reach age 70½. Your required distribution is based on the balance of your retirement accounts and your age.

ROTH IRAS AND ROTH 401(K)S

These are retirement accounts, similar to IRAs and 401(k)s, that allow your after-tax funds to grow tax deferred.



PROS:

Unlike a traditional IRA or 401(k), there are no required minimum distributions (RMDs) in retirement with a Roth IRA.



CONS:

Contribution income limits restrict access for higher-income earners.



TAX CHARACTERISTICS:

- **Contributions:** These are funded with after-tax dollars and grow tax deferred.
- **Withdrawals:** Although withdrawals are generally tax free to individuals after age 59½, early withdrawals of gains and conversion contributions can be subject to an additional 10 percent tax.



INCOME AND CONTRIBUTION LIMITS:

There are both income and contribution limits with a Roth IRA. Annual contributions in 2016 are limited to \$5,500, or \$6,500 if you are age 50 or over. Your ability to contribute to a Roth IRA begins to phase out when your income reaches \$184,000 for Married Filing Jointly couples. Single/Head of Household income phase-out begins at \$117,000. Roth 401(k)s do not have income limits but do have contribution limits, which follow the contribution limits for 401(k)s.

DID YOU KNOW?

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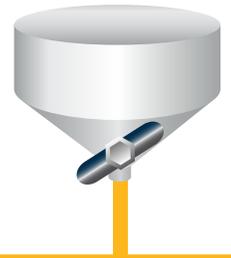
In addition to tax-free withdrawals in retirement, Roth IRAs also pass to beneficiaries tax free.

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LIFE INSURANCE

Most people buy life insurance to provide a death benefit. But permanent (whole life) insurance policies also build equity over time (known as cash value), which can be used as a source of income at any time and for any reason, including to supplement retirement income.



PROS:

Life insurance death benefits pass to beneficiaries tax free. Additionally, you may have access to cash value, which grows tax deferred and is tax free up to the amount of premiums paid.



CONS:

The purchase of life insurance requires a health evaluation, and it typically takes about 10 years before the cash value accumulates to a usable amount. When you take a loan against the cash value (or withdraw it outright), you could jeopardize the death benefit.



TAX CHARACTERISTICS:

- **Contributions:** Life insurance is paid with after-tax funds.
- **Withdrawals:** The death benefit is paid tax free. The cash value can be accessed tax free up to the amount of premiums paid.⁵ Any withdrawals exceeding the premiums paid will be taxed as ordinary income.



INCOME AND CONTRIBUTION LIMITS:

The amount of life insurance you can obtain is based on need and income.

WANT TO LEARN MORE ABOUT YOUR LIFE INSURANCE OPTIONS?

TERM OR PERMANENT LIFE INSURANCE

WHICH OPTION IS RIGHT FOR YOU?

It's the age-old life insurance question. Should you buy term or permanent life insurance? Some professional financial experts would have you believe the choice is clear. They believe term insurance satisfies the right options when you're young, to take a truly fair sample. Common sense dictates few issues are ever that clear and simple.

The first thing you need to understand is that there is no one-size-fits-all solution. The kind of life insurance that's right for you depends on your unique financial goals and circumstances. It's also important to understand that term and permanent life insurance are very different products and are intended to meet different needs. To determine what the best solution is for you, begin by making sure you understand the key differences between term and permanent life insurance.



Northwestern Mutual

Flexible Options While You're Living⁵



Cover an emergency



Pay for a child's education



Supplement your retirement



Make a down payment



Fund a new or existing business



Meet long-term care needs

[Access our Life Insurance Guide](#) ▶



⁵ Accessing cash value from your life insurance policy will reduce the death benefit.

FIXED (GUARANTEED) SOURCES OF INCOME

Next up are the three potential sources of guaranteed income in retirement. If available, they would be used in combination with other assets to create your retirement income.



INCOME ANNUITIES

+

SOCIAL SECURITY

+

PENSION

INCOME ANNUITIES

An income annuity is a contract you sign with an insurance company. In exchange for a payment you make in advance, you receive predictable, guaranteed income that begins sometime in the future and continues for a specified period of time (for example, 20 or 30 years) or for your lifetime.



PROS:

Income annuities provide a guaranteed source of income regardless of interest rates, market fluctuations and how long you live.



CONS:

Your money is locked into the annuity. You cannot withdraw it or transfer it to another type of asset.



TAX CHARACTERISTICS:

- **Contributions:** You can make pretax or after-tax contributions, which grow tax deferred.
- **Withdrawals:** If the annuity was purchased with pretax dollars (for example, with 401(k) funds), the entire amount of your payment is taxed as ordinary income. If you purchase with after-tax dollars, up to the amount you contributed is tax free; earnings are taxed as ordinary income.



INCOME AND CONTRIBUTION LIMITS:

Limits may be set by the insurance company as to how much money you can put into the income annuity and what percentage of your assets may be placed in the annuity.

SOCIAL SECURITY

Social Security is a government-funded source of income that pays retirement benefits for life to eligible workers starting as early as age 62.



PROS:

Social Security provides a lifelong stream of income and is taxed favorably compared to other income sources.



CONS:

Social Security may not provide as much funding in the future as it does now.



TAX CHARACTERISTICS:

- **Contributions:** You pay into Social Security through your payroll deductions (typically 6.2 percent on earnings up to \$118,500).
- **Withdrawals (Payments):** Social Security benefits are taxed differently than other sources of income. First, there is an income threshold that determines if your benefits will be taxed. If you reach the threshold, then either 50 percent or 85 percent of your benefit will be taxed as ordinary income.



INCOME AND CONTRIBUTION LIMITS:

None.

Social Security provides about **40%** of income needs for retirees.⁶



SOCIAL SECURITY SIMPLIFIED
SELECT THE RIGHT OPTIONS TO HELP MAXIMIZE YOUR INCOME.

If you're the head of a household, you can probably qualify for benefits for yourself, your spouse, and your dependent children. As you plan for retirement, however, it's important to understand that your income may not be all that you need. That's why Social Security is one of the most important parts of your retirement plan. For your own peace of mind...

Social Security benefits are subject to federal and state income tax. The amount you pay into Social Security is based on your earnings up to a certain limit. Along with your own contributions, you also get credit for your spouse's contributions. That's why it's important to understand how Social Security works. The benefits are based on your earnings and also on the benefits of your spouse and children.

As you plan for retirement, it's important to understand how Social Security works. The benefits are based on your earnings and also on the benefits of your spouse and children. For your own peace of mind...

Want to learn more about your Social Security filing options?

Access our Social Security Guide ▶

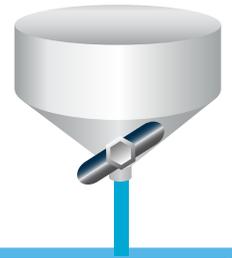




⁶ Social Security Administration.

PENSIONS

A pension (often referred to as a defined-benefit plan) is an employer-sponsored retirement plan, typically funded through contributions made by the employer, that delivers regular payments to the employee when he or she retires.



PROS:

Contributions made to the pension grow tax deferred. In retirement, the pension pays a stream of income typically in the form of a payment that is like an annuity.



CONS:

Most pensions are tied to the employee. When the employee dies, the pension ends—although in rare instances, the pension may be transferred to a surviving spouse. Pensions are becoming less common, and those that do exist are likely to offer reduced benefits.



TAX CHARACTERISTICS:

- **Contributions:** Your employer makes contributions on your behalf; most often, employees are not required to contribute.
- **Payments:** Private and government pensions are typically taxed as ordinary income.



INCOME AND CONTRIBUTION LIMITS:

None.

As you consider the role these three guaranteed sources of income may have in your retirement income planning, keep this in mind: It's a good idea to align your "must-have" expenses in retirement, such as housing, food, transportation, health care and taxes, with guaranteed sources of income. These are resources you count on for life and for as long as you live. By comparison, the non-guaranteed retirement income you generate (Roth IRAs, IRAs, investments, etc.) should be aligned to your "nice-to-have," or discretionary spending. That's why we recommend a retirement income strategy that combines guaranteed and non-guaranteed income from a variety of sources.

THE IMPACT OF ASSET DIVERSIFICATION ON SPENDING POWER IN RETIREMENT

To understand how diversifying your retirement savings gives you options, let's look at two couples:

The Murphys



\$1.4 Million Retirement Assets

The Delgados



\$1.4 Million Retirement Assets

Both couples saved diligently throughout their working lives, and by the time they reached age 70 each couple had amassed \$1.4 million in retirement assets. With the addition of Social Security, both couples felt they could safely draw \$100,000 a year in retirement income. But there was one significant difference between them. All of the Murphys' retirement assets are subject to tax. But the Delgados retired with a mix of taxable and non-taxable sources of income, which gives them a distinct advantage.

ASSET MIX FOR EACH COUPLE

Below is an overview of the mix of assets each couple has available to them in retirement at age 70.

The Murphys

- ▶ Social Security: \$45,000 (Annually)
- ▶ IRAs and 401(k)s: \$1 Million
- ▶ Investments: \$400,000

The Delgados

- ▶ Social Security: \$45,000 (Annually)
- ▶ IRAs and 401(k)s: \$400,000
- ▶ Investments: \$400,000
- ▶ Roth IRA: \$300,000
- ▶ Cash Value Life Insurance: \$100,000
- ▶ Income Annuity: \$17,060 (Annually, from a \$300,000 single payment immediate annuity)

INCOME DISTRIBUTION OPTIONS

Below is an example of how each couple will draw from their accounts to create their \$100,000 pretax income based on the assets available to them. In this example, we show the Murphys supplementing their \$45,000 in Social Security income with \$55,000 of additional income from their 401(k)/IRA assets. They also could have opted to sell investments to supplement their Social Security. This would have similar tax implications and provide similar after-tax income.

The Delgados, on the other hand, had options because of their diversification. They chose to take only the RMD for their 401(k)/IRA and fill the \$100,000 paycheck gap with dollars from their income annuity and Roth IRA. However, because they have a diversified saving and investing strategy, they could have chosen to fund their income with their IRA, investments, or cash value life insurance to supplement their income needs.

	The Murphys		The Delgados	
Income Sources:	Income Amount	Tax	Income Amount	Tax
Taxed as ordinary income:				
Social Security	\$45,000	\$9,409	\$45,000	\$2,932
Income Annuity	\$0		\$17,060	
401(k)/IRA	\$55,000		\$14,600	
Taxed as capital gains:				
Investments	—	\$0	—	\$0
Tax-free:				
Roth IRA	—	\$0	\$23,234	\$0
Cash Value Life Insurance ⁷	—		—	
Total income & taxes	\$100,000	\$9,409	\$100,000	\$2,932
Total after-tax income	\$90,591		\$97,068	

Hypothetical example, assumes standard deduction, standard exemptions and does not reflect dividend/interest income from investments.

Because the Delgados have non-taxable assets available to them in retirement, they are able to combine their streams of income in a way to minimize taxes and maximize income, and the strategy pays off. They could receive \$6,400 more each year compared to the Murphys; that's enough to take a nice vacation or two.

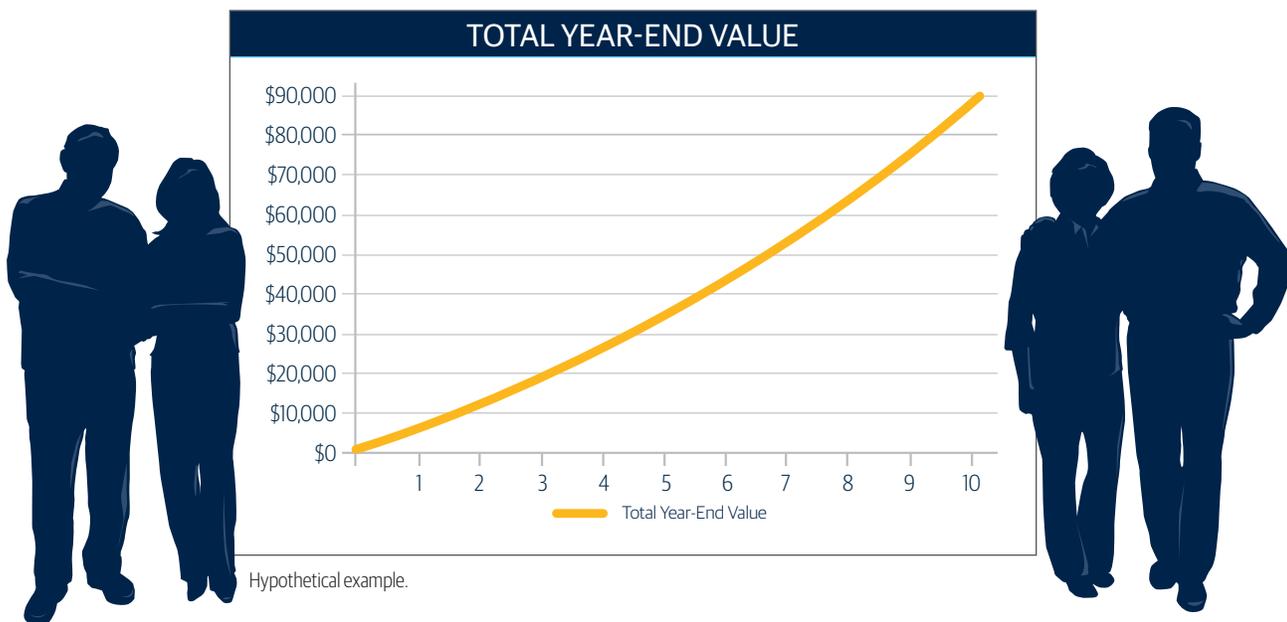
Having options also provides flexibility should unforeseen expenses come up. For example, what if our couples had a major remodeling expense above and beyond the \$100,000 of income they had planned? Assuming they'd be in the 25 percent tax bracket for any additional funds they'd need to access, the Murphys would need to draw \$53,000 to meet a \$40,000 need, whereas the Delgados could utilize their Roth IRA or cash value life insurance and draw only the \$40,000 needed because they are both tax-free fund options.

⁷ Any cash value accessed beyond premiums paid is taxed as ordinary income.

THE BOTTOM LINE BENEFITS OF DIVERSIFICATION:

The value of asset diversification can't be overstated, even though its benefits are probably the last thing you're focusing on if you're in your 30s or 40s. During those years, you likely have a mortgage to consider and kids to get through college; you may be happy just to contribute 6 percent of your salary to your 401(k). And yet when you're young, you may have options to save for retirement that won't be available to you as your income grows and you get closer to retirement, such as contributing to a Roth IRA. It's never too soon to understand what the optimal situation will look like for you in retirement, so you can start saving appropriately today.

Now imagine how that additional income the Delgados have access to could look like in retirement. In just 10 years, that additional \$6,400 of income, if invested (or left in their accounts), could grow to nearly \$90,000, assuming a 6 percent rate of return.



In addition to providing valuable tax benefits in retirement, the diversification of assets can give you financial flexibility throughout life.

TAX-FREE FLEXIBILITY	MARKET VOLATILITY FLEXIBILITY
<ul style="list-style-type: none"> • Whole life insurance cash value and Roth IRAs provide tax-advantaged options for the Delgados, minimizing their taxes and maximizing income for their current need. • Roth IRAs and whole life insurance both pass to your heirs tax free, so you can be assured of leaving them the greatest benefit possible. 	<ul style="list-style-type: none"> • Having cash value in a whole life insurance policy provides an option to access funds without having to liquidate additional assets, especially if the market takes a downturn. • The cash value in a whole life insurance policy allows you to preserve your funds in your retirement accounts in order to begin accessing them when the markets begin to rebound.

MAKING IT HAPPEN: FIVE STEPS YOU CAN TAKE TODAY

Whether you're in your 30s or knocking on retirement's door, there are steps you can take to set yourself up to benefit from asset diversification. Here are five things you can do right away:

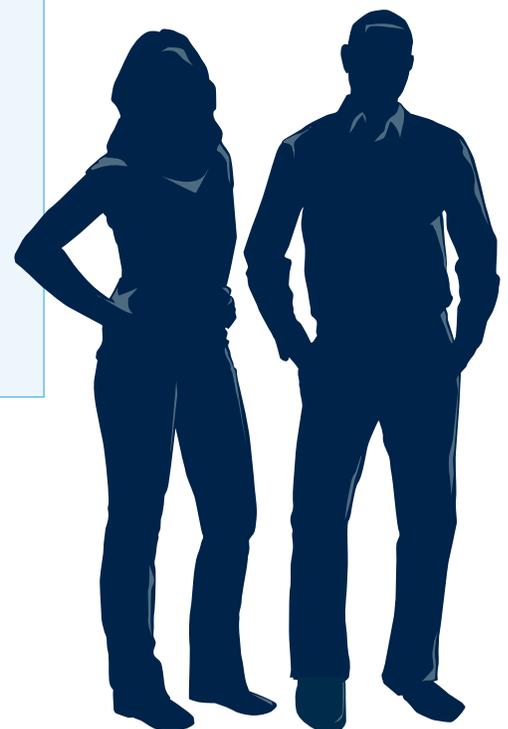
1 Get the match. Contribute at least enough to your 401(k) or 403(b) to get the company match if one is offered. It's free money; don't leave it on the table. Then, take a step back and consider steps 2-5 below.

2 Bring other assets into the fold. Now that you know more about the types of retirement assets that are available—and the pros, cons and tax implications of each—think about how you may benefit by adding one or more of them to your retirement savings plan. For example, you may want to begin contributing to a Roth IRA or open an individual investment account if you don't already have one. Investments that you make outside your 401(k) can be particularly valuable; they can increase in value over time like the investments made in your employer-sponsored 401(k), but they're liquid; you can access the funds any time to meet short- or medium-term goals or in the event of an emergency.

3 Find out if your employer offers a Roth 401(k). Roth 401(k)s came onto the market in 2006; since they're relatively new, they're not yet offered by all employers. But if you have access to a Roth 401(k), the benefits are worth exploring. As with Roth IRA, you make contributions to a Roth 401(k) with after-tax money, so your withdrawals (and gains) are tax-free in retirement. Unlike a Roth IRA, however, there are no income restrictions with a Roth 401(k); you can contribute to it even if you're a high-income earner. There are contribution limits, however; if you also contribute to a traditional 401(k), your combined 401(k) contributions cannot exceed the \$18,000 annual limit.

Little-known Fact About Roths

If you contribute to a Roth 401(k), those dollars will be subject to required minimum distributions (RMDs) in retirement. To avoid having to take RMDs in retirement, you can roll over a Roth 401(k) into a Roth IRA.



4

Consider converting taxable retirement accounts to a Roth IRA. If you don't have a Roth 401(k) at work or can't contribute to a Roth IRA because of income limits, there are still ways to add a Roth IRA to your retirement savings strategy.

- **IRA conversion to a Roth.** If you currently have a traditional IRA, you can convert all or a portion of that balance to a Roth IRA. The amount you convert would be reported as income for your current year's taxes, so you would have to pay taxes when you file your tax return for the year. If you want to consider this, however, consult with a tax or financial professional first. You may end up bumping yourself into a higher tax bracket now because of the additional income being reported.
- **In-Plan Conversion to Roth.** Similar to the traditional IRA to Roth IRA conversion, an in-plan conversion allows you to convert dollars within your existing 401(k) to a Roth 401(k). Like an IRA conversion, you would need to pay taxes on the money converted; but once you convert, all of your funds grow tax free. Again, this will be an option for you only if your employer offers it.

5

Manage to a lower tax bracket. If you're already in retirement, take a proactive approach to managing your tax liability; don't just wait until the end of the year to see which tax bracket you fall into. For example, say you plan to draw (and spend) \$70,000 of taxable income this year and then find yourself with an unexpected \$10,000 expense to repair the roof. Rather than cover the cost of the repair by taking money from an IRA or investment account, consider making a withdrawal from a Roth or other tax-free account, such as life insurance cash value. That way, you won't bump your total annual income into a higher tax bracket.

SUMMARY

The strategies described in this white paper don't ask that you save more for retirement. They ask that you save smarter. By spreading your retirement savings across a variety of savings vehicles (like a 401(k), IRAs, annuities and investments), you'll be giving yourself added flexibility in retirement that will help you minimize taxes and maximize income.

Don't you want to make the most of what you're saving for retirement? Financial professionals from Northwestern Mutual can show you detailed scenarios of how your savings will deliver maximum spending power in retirement by diversifying your retirement assets now.

APPENDIX

2016 INCOME TAX RATES							
Taxable Income			Ordinary Income	Long-Term Capital Gains and Qualified Dividends	Investment Income	Wages and Self-Employment Income (FICA and SECA)	
Single	Married Filing Jointly	Trusts and Estates			HI/Medicare Tax	Social Security Tax	
Above \$0	Above \$0	Trusts and Estates have no 10% bracket	10%	0%	0%	2.9%	12.4% on first \$118,500 (indexed) Employer pays 6.2% of this under FICA
Above \$9,275	Above \$18,550	Above \$0	15%				
Above \$37,650	Above \$75,300	Above \$2,550	25%				
Above \$91,150	Above \$151,900	Above \$5,950	28%	15%	3.8%	Employer pays 1.45% of this under FICA	—
Above \$190,150	Above \$231,450	Above \$9,050	33%				
Above \$200,000 (AGI)	Above \$250,000 (AGI)	Trusts and Estates have no 35% bracket					
Above \$413,350	Above \$413,350		35%	20%			
Above \$415,050	Above \$466,950	Above \$12,400	39.6%				

Source: IRS Tax Tables

QUALIFIED PLAN AND IRA CONTRIBUTION, CATCH-UP LIMITS & PHASE OUTS (2015-2016)							
	Contribution Limit		Catch-Up Limit if Over Age 50			Modified AGI Phase-Outs	
	2015	2016	2015	2016		2015	2016
401(k)	\$18,000	\$18,000	\$6,000	\$6,000	Deduction phases out when taxpayer or spouse actively participates in a retirement plan	Single: \$61,000 to \$71,000	Single: \$61,000 to \$71,000
403(b)	\$18,000	\$18,000	\$6,000	\$6,000		MFI for active participant: \$98,000 to \$118,000	MFI for active participant: \$98,000 to \$118,000
Traditional IRA	\$5,500	\$5,500	\$1,000	\$1,000	No phase-out if neither taxpayer nor spouse is active participant	MFI for non-active participant: \$183,000 to \$193,000	MFI for non-active participant: \$184,000 to \$194,000
Roth IRA	\$5,500	\$5,500	\$1,000	\$1,000	Contribution phase-out	Single: \$116,000 to \$131,000 MFI: \$183,000 to \$193,000	Single: \$117,000 to \$132,000 MFI: \$184,000 to \$194,000
SIMPLE Plan	\$12,500	\$12,500	\$3,000	\$3,000	—	—	—
Eligible 457 Plan	\$18,000	\$18,000	Special catch-up rules apply to those within 3 years of retirement		—	—	—

Source: IRS Tax Tables

NORTHWESTERN MUTUAL'S APPROACH TO FINANCIAL PLANNING

Northwestern Mutual helps its clients achieve financial security by planning and taking action, guided by a financial professional who helps them reach their financial goals.

WE'LL WORK WITH YOU TO:

1. IDENTIFY YOUR GOALS.

First, we'll make sure we understand what's important to you and your loved ones, where you are today and where you want to be in the future.

2. DEVELOP YOUR PERSONALIZED PLAN.

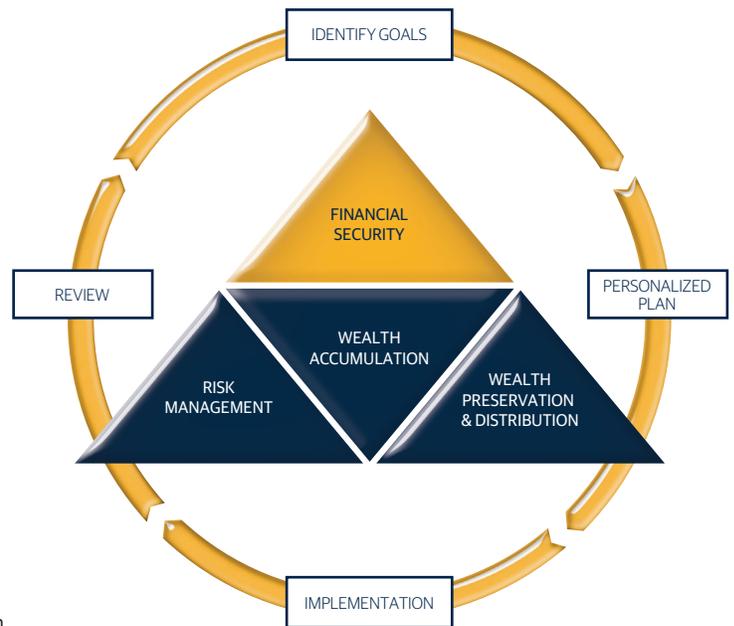
We'll analyze your financial situation and develop recommendations that can help you and your family achieve financial security.

3. IMPLEMENT YOUR STRATEGIES.

We'll bring your financial plan to life with quality products and solutions.

4. REVIEW YOUR PLAN.

Throughout life, even small changes can impact your financial plan. We'll help you adjust your plan as needed to stay on track.



Although your financial strategy will be one of a kind, we'll ensure that it's built on a solid foundation to help you protect against the unexpected, accumulate wealth and preserve what you're working so hard to achieve.

RISK MANAGEMENT:

Be financially prepared to weather life's storms. We'll help to ensure you, your family and your income are adequately protected against risk.

WEALTH ACCUMULATION:

Make the most of your money. Our financial planning process and investment advisory services are designed to help you achieve your goals.

WEALTH PRESERVATION AND DISTRIBUTION:

Ensure your money lasts as long as you live. We'll help you transition your wealth into predictable income in retirement and leave the legacy you desire.

Northwestern Mutual's financial professionals will help you gain access to a wide variety of products and services, providing a balanced approach to meeting your financial services both today for a job change and tomorrow as your needs evolve. Interested in learning more about Northwestern Mutual and our planning approach? Find a [financial professional](#) in your area.

DISCLOSURE

Please remember that all investments carry some level of risk, including the potential loss of principal invested. They do not typically grow at an even rate of return and may experience negative growth. No investment strategy can guarantee a profit or protect against a loss.

This white paper is not intended as legal or tax advice. Northwestern Mutual and its financial representatives do not give legal or tax advice.

Each method of utilizing your permanent life insurance policy's cash value has advantages and disadvantages and is subject to different tax consequences. Surrenders of, withdrawals from and loans against a policy will reduce the policy's cash surrender value and death benefit and may also affect any dividends paid on the policy. As a general rule, surrenders and withdrawals are taxable to the extent they exceed the cost basis of the policy, while loans are not taxable when taken.

Loans taken against a life insurance policy can have adverse effects if not managed properly. Policy loans and automatic premium loans, including any accrued interest, must be repaid in cash or from policy values upon policy termination or the death of the insured. Repayment of loans from policy values (other than death proceeds) can potentially trigger a significant tax liability, and there may be little or no cash value remaining in the policy to pay the tax. If loans equal or exceed the cash value, the policy will terminate if additional cash payments are not made.

Policyowners should consult with their tax advisors about the potential impact of any surrenders, withdrawals or loans.

Although stocks have historically outperformed bonds, they also have historically been more volatile. Investors should carefully consider their ability to invest during volatile periods in the market.

You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. Your financial professional can provide you with a prospectus that will contain the information noted above, and other important information that you should read carefully before you invest or send money.

Northwestern Mutual is the marketing name for The Northwestern Mutual Life Insurance Company, Milwaukee, WI (NM) (life and disability income insurance, annuities) and its subsidiaries. **Northwestern Mutual Investment Services, LLC** (NMIS) (securities), a subsidiary of NM, broker-dealer, registered investment adviser, and member of FINRA and SIPC.

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