

# High-Income, High Tax, and Low Savings: 3 Financial Tips to Help Break the Gen X Poverty Triangle



**Mark Avallone**, CONTRIBUTOR

*I help people on their path to Financial Freedom.* [FULL BIO](#) ▾

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You are not alone. There are countless Gen X-ers in high tax brackets that directly impact their ability to save. In 2015, married joint tax filers with a combined income of \$74,901 are in the 25% tax bracket; single filers enter the 25% bracket at \$37,451. State income tax can in some instances add nearly ten percentage points bringing a typical Gen X family into a 30% or higher tax bracket. Additionally, if you are in one of the highest tax brackets and subject to the investment taxes within the Affordable Care Act, you can approach a 50% tax bracket!

It is such a common plight for Gen X-ers that I meet someone experiencing this triangle almost daily. Though financial advice articles and robo advisors are great resources, I've found that this situation requires a bit more finesse and creativity than the typical, off the shelf financial plan. Here then, are my top three helpful tips for young, high earners looking to accumulate wealth while they are dealing with the headwinds of a high tax bracket.

## Consider Life Insurance

Although typically thought of as a way to protect a family from an unexpected event, life insurance can also offer certain tax advantages. As a young, high earner, you may be in a position to overfund a policy – input more money than needed for the pure death benefit. Please keep in mind that overfunding too much can turn the life insurance policy into a MEC creating adverse tax consequences or tax penalties. Some permanent policies allow you to invest the portion over your premium and then withdraw it with favorable income tax implications. Keep in mind the primary reason to purchase a life insurance product is the death benefit. Life insurance products contain fees, such as mortality and expense charges, and may contain restrictions, such as surrender periods.

If you are not able to overfund and accumulate, then you may want to consider a convertible term life insurance policy. It will allow you to gain an important death benefit while also allowing you to convert this term policy (which typically increases in price after a set term) into a permanent policy. By having a high-quality convertible term policy, you can help protect your family and your financial plan even if there has been a change in your health.

Timing is crucial for families considering life insurance. If there is an income disparity between spouses, newlyweds may want to consider life insurance at the onset of their marriage. Moreover, expectant parents may want to consider applying for life insurance before their baby arrives. A policy can provide numerous benefits to survivors that help to provide overall peace of mind, often in the form of maintaining accumulated wealth, and supporting retirement plans.

## Build Liquidity!

A regular monthly savings plan can help you build those liquid assets that you crave. The assets can be used for a home down payment, a spontaneous luxury purchase, or to cover living expenses that result from unexpected events such as a change in career. There are several ways to build liquidity in a tax efficient manner. I like thinking in terms of short-term and long-term needs.

## Contributor's Bio

Mark Avallone is the author of *Countdown To Financial Freedom*, and founder and President of Potomac Wealth Advisors, LLC a financial advisory firm serving clients through holistic financial planning and wealth management. Avallone writes on a variety of financial topics, and his contributions have appeared in the *Wall Street Journal* as well as in *Forbes* where he is a regular contributor. He has appeared on CNBC and has been a repeat guest on the Fox Business Network. His insights have also appeared in *USA Today*, *U.S. News & World Report*, *The Washington Post*, and other leading publications.

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