Pro$perity

A quarterly update on financial and family issues for women

LIFE TRANSITIONS, SELLING YOUR HOME & IRAS

Boost Your Retirement Savings with IRAs

Whether retirement is around the corner or decades away, thereare more options than ever to help you plan for it. Let's look at Individual Retirement Accounts (IRAs) and 401(k) plans, which offer tax benefits that can help you save for your future.

Traditional IRAs

Traditional IRAs are one of the most popular retirement savings vehicles. In 2018, you can contribute up to $5,500 to your traditional IRA. (Note: The limit applies to the total of all IRAs that a person may hold in a given tax year.) If you are age 50 or older, you can make additional "catch-up" contributions of up to $1,000. Earnings have the potential for tax-deferred growth, and contributions may be tax deductible, depending on your income and participation in an employer-sponsored retirement plan.

Because IRAs are intended to help you save for retirement, rules govern when you can begin accessing funds. Distributions before the age of 59½ may be subject to a 10% Federal income tax penalty, in addition to the income tax that will be due. However, there are exceptions to the 10% penalty, such as withdrawals to pay for qualified higher education expenses or to fund up to $10,000 of your first home.

Roth IRAs

Roth IRAs operate differently from traditional IRAs. Contributions are not tax deductible, but earnings have the potential for tax-deferred growth and qualified distributions are tax free. You are eligible to make a full contribution ($5,500 in 2018, or $6,500 for those age 50 and older) to a Roth IRA if your modified adjusted gross income (MAGI) does not exceed $120,000 for single filers or $189,000 for joint filers in 2018 (contributions phase out for single filers with modified AGIs between $120,000 and $135,000, and for joint filers with modified AGIs between $189,000 and $199,000).

As with traditional IRAs, a 10% Federal income tax penalty may apply to distributions taken from your Roth IRA before the age of 59½, unless a qualified exception applies. Furthermore, before tax-free distributions can be received from a Roth IRA, the account must be five years old. You may convert an existing traditional IRA to a Roth IRA. The distribution from your traditional IRA will be taxed in the year of conversion, but you won't be penalized for the early withdrawal, provided you keep the converted funds in the Roth IRA for at least five years.

401(k) Plans

The 401(k) is a retirement plan offered by thousands of employers to facilitate retirement savings for their employees. As a participating employee, you can contribute the lesser of $18,500 in 2018 or a percentage of salary as defined by the plan. Those age 50 and older can contribute an additional $6,000. In some cases, your employer may match your contributions up to a certain percentage. This increases your principal at no cost to you.

Contributions to a 401(k) are pre-tax, which means you don't pay taxes until you withdraw money from the plan. This may be attractive for those who expect to be in a lower tax bracket during retirement than during their working years. In addition, your contributions have the potential to grow on a tax-deferred basis. As with IRAs, nonqualified withdrawals from a 401(k) before the age of 59½ are subject to a 10% Federal income tax penalty, unless a qualified exception applies.

Some employers may also offer a Roth 401(k) option, which allows workers to make Roth IRA-type contributions to their 401(k) plan without the income restrictions and lower contribution limits that apply to Roth IRAs. The contribution limits are the same as for traditional 401(k)s, but salary deferrals to Roth 401(k)s are not tax deductible. Qualified distributions are tax free. Under the Small Business Jobs Act of 2010, participants in 401(k) plans are now permitted to roll over funds into Roth accounts within their plans. Any eligible funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion. It is also important to keep in mind that any employer matching contributions must be made to the traditional side of a 401(k) account, not a Roth.

These are just some of the retirement savings options available. Remember, early planning puts time on your side.

The Blank Canvas: Staging Your Home for Sale

In life and in home sales, first impressions are everything. Prospective buyers may look at many homes before deciding which one to buy. Often, the first viewing factors into whether a home receives a second look. In preparation for the prospective buyers who will look at your home, it's important to put your property's best face forward with presale home improvements or, in other words, to "stage" your home for sale.

Exterior Impressions

The very first image that prospective buyers see is your home's exterior, so pay attention to the landscaping. It may be worthwhile to mulch and plant a few new bushes or flowers in your yard to spruce it up. Keep in mind that as a seller, you want to show prospective buyers the possibilities your home offers. You don't have to plant a lavish new garden, but some simple, attractive landscaping can allow potential buyers to imagine what they could put in the outdoor spaces, too. Also consider hanging a seasonal wreath on your door and filling planters for your porches. A little goes a long way in beautifying the exterior of your home, so be sure not to go overboard.

You should also determine whether the exterior of your house needs to be repainted in order to sell it. A house that has peeling paint and bare wood spots may present as a home that has been neglected, which in turn could lead buyers to wonder what else hasn't been kept up. Then, calculate the cost of painting the house. Are you able to paint it yourself? Or, do you need to hire a crew to do it? Perhaps you don't need to repaint the whole building, but a fresh coat on the front door could accent your home's attractiveness just enough to create a favorable first impression.

Interior Impressions

For the interior, cleanliness is essential when it comes to showing your home to prospective buyers. While buyers may realize that some properties are "fixer-uppers" that will require some elbow grease, a cluttered, unkempt house tends to discourage buyers from even considering the property. After seeing any number of prospective homes, buyers are more likely to eliminate messy or unclean homes up for sale.

In addition to general housekeeping, a new coat of paint in each room can also help freshen up your home. While you may prefer walls in espresso brown or deep indigo, your tastes may not be shared by the prospective buyers. In staging your home, you want to offer a blank canvas to help buyers imagine possibilities. This means painting the interior in neutral colors. It also means de-accessorizing your home, especially if your personal taste runs toward the eclectic. Keep your accessories simple, spare, and tasteful so buyers can envision a living space that matches their own pictures, lamps, and furniture.

The most common mistake prospective sellers make is to showcase their personal decorating tastes and styles to impress potential buyers. Instead, when staging your home for sale, think Thoreau and "simplify, simplify" by offering the prospective buyer a blank canvas to draw on.

Understanding How Interest Works

Over the course of your life, it may be necessary to borrow funds in order to accomplish your financial goals. However, the cost of borrowing money is interest. When you take out a loan, you receive a lump sum of money up front and are obligated to pay it back in a predetermined period of time, usually with interest. You may end up owing more than you borrowed because of the interest. But the tradeoff is receiving the amount you need to buy a house, finance a college education, or start a business. Due to interest adding up significantly over time, it is important to consider if the debt is ultimately worth the cost over the long term before signing on the dotted line.

To a lender, interest represents the compensation for lending money. In addition to giving up a certain amount of spending ability, a lender assumes certain risks. One obvious risk is that the borrower will not pay back the loan in a timely manner, if ever. A second risk is inflation. In general, prices tend to rise over time. As a result, the future spending power of the money borrowed is reduced because more money will be needed to purchase the same amount of goods and services when the lender regains control of the funds. Interest helps to cushion the effects of inflation for the lender.

While lower interest rates tend to encourage borrowing, and higher rates encourage saving and investing, understanding the ways interest can help or hinder you may facilitate making appropriate financial decisions as you pursue your future objectives.

Making Life's Transitions More Manageable

Some life transitions, such as a career change or marriage, are planned, but a job loss or divorce can be sudden and unexpected. One common thread that accompanies all transitions, however, is the concern about whether there will be enough money to maintain your lifestyle. The timing involved with the unpredictability of certain life events is often the main cause of anxiety over personal finances.

One way of dealing with this problem is to determine your financial staying power at the outset. This exercise allows you to project how far your financial resources will carry you. Knowing how much time you have before additional resources will be needed can free you of more stress and anxiety and allow you to concentrate on accomplishing your goal in transition.

The process begins by examining how much it costs to maintain your current lifestyle. To do this, you need to review your check book or online account and credit card receipts to find out where your money has been going. Don't forget to include those cash expenditures and frequent ATM stops that you make on a daily or weekly basis.

Once you have an idea of your average monthly expenses, you can compare them to the financial resources you have committed to the transition. This may include cash on hand; any reliable cash inflows, such as a spouse's salary; investment or rental income; alimony or child support; a severance package or unemployment compensation, if applicable; and any investment assets you can liquidate in the event of a shortfall.

After recording your current expenses, you are ready to project a modified spending plan. You can curb your current spending by identifying areas where you can cut out unnecessary items without seriously compromising your lifestyle. These modifications may include seeking out less expensive alternatives for some of your current habits.

Now that you have modified your spending plan, it's time to create a "bare bones" budget. This will further reduce your cash outflow to pay for only necessary expenses, such as housing, food, transportation, etc.

At this point in the process, you have the information you need to decide how you will allocate your resources. You may choose to customize your plan, allowing you to continue funding your current lifestyle for a number of months, switch to a modified spending plan if you need more time, and implement your bare bones budget if an unexpected obstacle prevents you from your transition objective within the planned time frame.

Although life changes can be challenging, you can minimize the financial pressures by planning how you will allocate your resources during the time of transition. By determining how much it will cost you to get from point A to point B, you can tweak your plan to make it financially feasible.

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