21st century Retirement

WORKING FOR RETIREMENT:

Racing to Retirement: You Can Finish First

With all the chores required to get through each day, many of us spend all of our free time trying to complete routine tasks. The few waking hours not consumed by work can easily be filled with duties such as cleaning, grocery shopping, and caregiving. It is no small wonder that most people rarely pause to think about quality of life issues in 20 or 30 years at retirement.

The U.S. Social Security Administration (SSA) reports that the average man and woman can expect to live 19 and 21 years after retirement (age 65), respectively. That is quite a few years to save for. Unfortunately, though, many Americans have not even started to save for retirement for a number of reasons. According to recent information from the Employee Benefit Research Institute (EBRI), retirement savings may be taking a back seat to more immediate financial concerns like job security, cost of living, and day-to-day expenses. This is contrary to the tremendous power of saving early and often. In this hypothetical scenario, earning a 4% interest rate,
saving an annual sum of $2,000 would be worth $24,012 in 10 years, $59,556 in 20 years, and $112,170 in 30 years.

Based on the example above, we can see that even a relatively small effort can have a significant impact over time. With ongoing daily concerns, many people give little thought to planning for financial security in retirement, or think that they will get to it later. But, time is on your side if you start now. So, how can you get on the retirement savings track? Starting today, consider taking the following steps:

Educate yourself. Ignorance is not always bliss. It's important that you learn as much as you can about the retirement options that are available to you. Make sure you understand the negative effect inflation can have on your savings, the tradeoffs

Copyright © 2019 Liberty Publishing, Inc. All rights reserved.
Distributed by Financial Media Exchange.

between risk and return, and the tax implications of your financial decisions.

Set a goal. Some statistics indicate that you will need 70–90% of your current annual income in order to live comfortably in retirement. To meet that percentage goal, you need to know the minimum amount you must save. Your financial professional can help you develop savings strategies tailored to meet your needs.

Participation is key. If your employer offers a retirement plan, sign up! Many employers match contributions by 25%, 50%, or 100%, which increases the total amount of your savings. Contribute as much as you can, up to the amount allowed by law.

Compare benefit packages. If you are in the market for a new job, retirement benefits offered by a potential employer are extremely important. Select a new position with care and only after evaluating the benefits, which may have a great impact on your future.

Know what's coming to you.
A Social Security Statement is available to you online at www.socialsecurity.gov. The statement provides access to earnings and benefit information. Since Social Security typically only replaces a percentage of pre-retirement income, it may not be a sufficient source of retirement funding. Learn their estimate, and plan around it. A good habit is to check your online statement once a year.

What's the rush? A lot of people enter retirement only to discover that they want to be back in the workforce. With that in mind, consider delaying retirement by a couple of years. This will give you the opportunity to delay withdrawals, earn more, save more, extend your earnings horizon, and increase your Social Security benefit.

Life gets complicated and saving for retirement takes a back to seat to day-to-day issues. Take the time to learn about your retirement options and what you must do to reach your goals. Planning today can increase your chance of having the financial stability to sit on the sidelines and enjoy your well-earned leisure.

A Look at Tax Planning for Retirement

After years of saving and planning for their golden years, many people nearing retirement fail to consider the tax burden they may face on income they receive after they stop working. While you will likely see a reduction in the amount of taxes you owe after the age of 65, you still need to plan ahead if you want to minimize your tax bill from the IRS.

Social Security Benefits

Depending upon your total income and marital status, a portion of your Social Security benefits may be taxable. For a rough estimate of your potential tax liability, add half of your Social Security benefits to your projected income from all other sources. This figure is your adjusted gross income (AGI), plus any tax-free interest income from municipal bonds or foreign-earned income. Up to half of Social Security benefits are taxable if this sum, which is called your provisional income, exceeds $25,000 for singles or $32,000 for married couples filing jointly. However, up to 85% of Social Security benefits are taxable if your provisional income is above $34,000 for single filers or $44,000 for married couples filing jointly.

Use the Social Security Benefits Worksheet in the instructions for IRS Form 1040 to calculate the exact amount of taxes owed. Rather than writing a large check once a year, you can arrange to have taxes withheld from your Social Security benefits checks by

Copyright © 2019 Liberty Publishing, Inc. All rights reserved.
Distributed by Financial Media Exchange.

completing Form W-4V and filing it with the Social Security Administration.

Other Income Sources

In addition to collecting Social Security benefits, most retirees receive their income from a variety of sources, including distributions from 401(k) accounts and individual retirement accounts (IRAs); payouts from company pensions and annuities; and earnings from investments.

Contributions and earnings growth are tax deferred on 401(k)s and traditional IRAs; however, distributions from these accounts are fully taxable, but have no penalties if withdrawals are made after age 59½. If you have savings in 401(k) accounts or traditional IRAs, you must begin making withdrawals from these accounts—and paying taxes on the distributions—by April 1 of the year following the year in which you reach age 70½. If you are at least 59½ years old and have owned a Roth IRA or Roth 401(k) for at least five years, withdrawals are completely tax free. There are no minimum distribution requirements for Roth accounts.

Strategies to Minimize Taxes

Most retirees with nest eggs or pension income of any size will pay at least some taxes on their retirement income, but there are strategies to reduce the amount owed. While it usually makes sense to delay taking taxable distributions from retirement accounts until the funds are needed, or until distributions are required, you may want to withdraw more funds in tax years when claiming a large number of deductions temporarily lowers your tax rate. You may, for example, choose to take advantage of itemized deductions, such as the breaks for medical expenses or charitable gifts, in certain years, while taking the standard deduction in other years.

A desire to leave a portion of your assets to your family may also influence how you handle withdrawals from tax-deferred accounts. Keep in mind that, if you leave behind funds in a traditional IRA, the rules for inheritance can be complex. To avoid these issues and make it easier to pass on your estate to family members, consider converting traditional IRAs to Roth IRAs. While you will have to pay taxes on the funds converted, moving to a Roth IRA eliminates future tax liabilities, regardless of whether you use the funds in retirement or pass the money on to your heirs. Alternatively, you may wish to consider cashing in your traditional IRAs and using the funds to purchase tax-free bonds or a life insurance policy that will provide your heirs with a tax-free inheritance.

If you are planning to retire soon, consider the tax implications of your income to avoid an unexpected bill from the IRS. For more information, consult your tax professional.

Working-Age Americans Fall Short of Retirement Savings Targets

The retirement savings of working-age Americans are far below the levels needed for a secure retirement, despite the recent economic recovery, according to the findings of a study published on September 17 by the National Institute on Retirement Security (NIRS).

Based on an analysis of U.S. Census Bureau data, the research report “Retirement in America: Out of Reach for Most Americans?” found that the median retirement account balance among all working individuals is $0; and that 59.3% of the working-age population (ages 21-64) in the U.S., or more than 100 million individuals, do not own any retirement account assets in an employer-sponsored defined contribution (DC) plan or individual retirement account (IRA), and are not covered by a defined benefit (DB) pension.

The analysis indicated that even after counting an individual’s entire net worth—a relatively generous measure of retirement savings—76.7% of working

Copyright © 2019 Liberty Publishing, Inc. All rights reserved.
Distributed by Financial Media Exchange.

Americans fall short of conservative retirement savings targets for their age and income, based on working until age 67. The results further showed that among workers who have accumulated savings in retirement accounts, the typical worker has a modest account balance of $40,000. Researchers noted that 68.3% of individuals ages 55 to 64 have retirement savings equal to less than one times their annual income, or far below the level they will need to maintain their standard of living over their expected years in retirement.

Moreover, the analysis revealed that growing income inequality contributes to the gap in retirement account ownership. The report found that workers in the top income quartile are five times more likely to have retirement accounts than workers in the lowest income quartile, and that individuals with retirement accounts have, on average, more than three times the annual income of individuals who do not own retirement accounts.

Researchers attributed this retirement savings shortfall to a multitude of factors, such as the increase in the Social Security retirement age, and to a more general breakdown of the nation's retirement infrastructure. They noted that there is a huge retirement plan coverage gap among American workers, with the share of workers who have DB pensions declining as employers replace these plans with 401(k) and other DC plans in which the risks and much of the funding burden fall on individual employees.

The report's authors also emphasized that the financial crisis of 2008 exposed the vulnerability of the DC-centered retirement system, as the asset values in Americans' retirement accounts fell from $9.3 trillion at the end of 2007 to $7.2 trillion at the end of 2008. Researchers noted that the economic downturn also triggered a decline in total contributions to DC retirement accounts as many employers stopped matching employee contributions. While observing that the combined value of 401(k)-type accounts and IRAs had risen to $16.9 trillion by the end of 2017, researchers pointed out that this increase in total retirement account assets has not translated into improved retirement security for the majority of American workers and their families who have no retirement savings.

The report's authors recommended that policymakers and employers take steps to address these challenges. In addition to calling for the strengthening of Social Security, they suggested expanding access to low-cost, high-quality retirement plans, including DC savings plans, DB pensions, and hybrid or combination DC/DB plans. They also recommended helping low-income workers and families save with improved tax credits. In particular, they observed, expanding the Saver's Credit and making it refundable could help boost the retirement savings of lower-income families. They also noted that a number of states are taking action to expand access to workplace retirement savings, with enrollment in state-based programs starting this year in Oregon, Washington, and Illinois.

Understanding Your Employer-Sponsored Retirement Plans

A pension plan is designed to provide an employee with retirement income. Benefits are generally based on a variety of factors, including salary, length of service, and a benefit formula that averages the employee's earnings over a prescribed period of years. In some instances, an employee may make additional contributions. To receive benefits, you generally must wait to reach the **normal retirement age (NRA),** typically age 65, and attain a certain number of years of employment. Upon retiring, you may have options as to *how* and *when* you collect your benefits, such as in monthly payments or in one lump sum.

A **401(k) plan**, offered by many private employers, provides the opportunity to contribute part of your salary, with restrictions, into a retirement fund. Your employer may *match* your contributions up to a pre-determined percentage, subject to a maximum. For example, if your employer matches your contributions by 50%, for every dollar you put into the fund, your employer will add $.50. Your contributions are *pre-tax*, so you defer any payment of taxes until you begin taking withdrawals. If you withdraw money from your 401(k) before the age of 59½, you may incur a 10% Federal income tax penalty, except under certain circumstances, such as financial hardship, purchase of your first home, or higher education expenses.

Copyright © 2019 Liberty Publishing, Inc. All rights reserved.
Distributed by Financial Media Exchange.

The information contained in this newsletter is for general use, and while we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. The information provided is not written or intended as tax or legal advice and may not be relied on for purposes of avoiding any Federal tax penalties. Individuals are encouraged to seek advice from their own tax or legal counsel. This newsletter is written and published by Liberty Publishing, Inc., Beverly, MA. Copyright © 2018 Liberty Publishing, Inc. All rights reserved. Distributed by Financial Media Exchange.

21CRV21N1-FMeX

Copyright © 2019 Liberty Publishing, Inc. All rights reserved.
Distributed by Financial Media Exchange.