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21st century retirement

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in this issue:

Planning for a Social Security Shortfall

Baby Boomers and the Changing World of Retirement

Understanding IRA Minimum Distribution Requirements

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 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 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.

continued on page four

Planning for a Social Security Shortfall

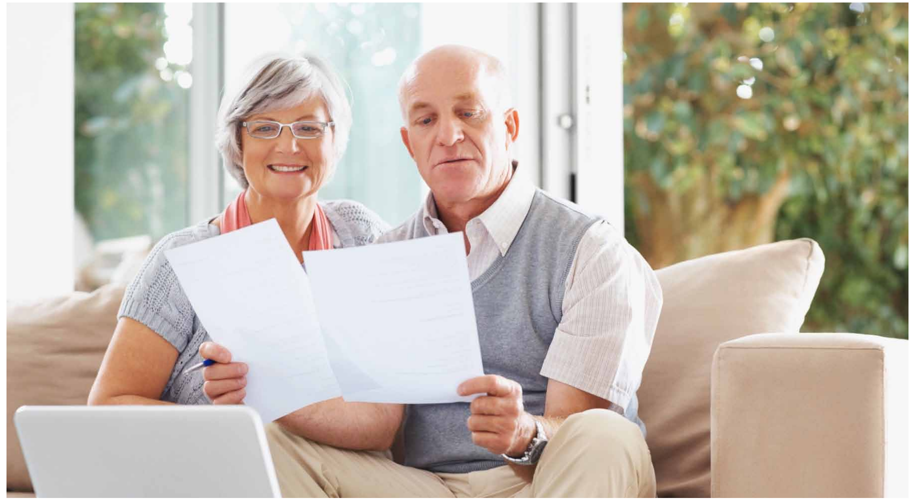
The Social Security program offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62, which would be considered early retirement, or wait until you reach the **full retirement age** of 65 to 67 (depending on your year of birth). The benefits you receive are based on the income you earned over the course of your working life, and are subject to a maximum amount.

What you may not realize, however, is that Social Security was not originally designed to be a retiree's sole source of support. For most people, Social Security provides only a base level of income. The maximum benefit for a person who retires in 2015 at full retirement age is $2,663 per month. Therefore, it is important to plan for retirement by preparing to supplement Social Security.

Here are some important savings strategies that may help you reach your retirement funding goals.

Participate in your employer's retirement plan. Regular contributions to an employer-sponsored retirement plan, such as a **401(k),** can be an essential part of your retirement savings program. Contributions to such plans offer three key benefits: they are made with pretax dollars; they reduce your current taxable income; and they have the potential for tax-deferred accumulation. Generally, these plans allow you to set aside a percentage of income each year, up to a maximum amount.

Open a traditional Individual Retirement Account (IRA). Contributions to a traditional IRA may be tax deductible, depending on



your participation in an employer-sponsored retirement plan, your adjusted gross income (AGI), and your tax filing status. Potential earnings accumulate on a tax-deferred basis. For tax year 2015, you can contribute up to $5,500 (or $6,500 for individuals age 50 or older). Contributions are limited to the amount of earned income and the owner must be under age 70½ at the end of the year. If funds are distributed prior to age 59½, a 10% Federal income tax penalty may apply, unless certain qualified exceptions apply.

Consider a Roth IRA. Contributions to a Roth IRA are not tax deductible; however, qualified distributions, including potential earnings, are tax free if you have held your account for at least five years and are over age 59½. Like a traditional IRA, you can contribute $5,500 ($6,500 for individuals age 50 or older) to a Roth IRA in 2015. Contributions are limited to the amount of earned income. Note that the limit applies to the total of all IRAs that a person may hold in a given tax year. Contributions phase out for single filers with AGIs between $116,000 and $131,000 and for married joint filers with AGIs between $183,000 and $193,000, in 2015. Withdrawals made prior to age 59½ may be subject to a 10% Federal income tax penalty, unless certain qualified exceptions apply. *Note:* A nonworking spouse can fund an IRA or Roth IRA based on the earned income of the working spouse.

Purchase a fixed annuity. Because an annuity is not subject to income limitations, it can be a valuable addition to your long-term savings program. With a fixed annuity, premium payments accumulate on a tax-deferred basis, and you receive a guarantee that your money will earn interest at a specified rate and that your return (the money paid back to you) will occur on a set schedule in fixed amounts. In general, annuity payments are guaranteed by the issuing company and are based on that company's continued ability to pay claims.

It is important to plan for retirement by preparing to supplement your Social Security benefits. With a disciplined approach to saving, you will be on track to enjoying the retirement you envision.

Baby Boomers and the Changing World of Retirement

Over the next two decades, the most chronicled generation in the United States will gradually enter retirement. At that point, each wave of Baby Boomers will learn if their retirement plans, Social Security, and personal savings are sufficient to maintain their existing lifestyles and meet their future needs.

Baby Boomers, a name given to those born between 1946 and 1965, have been noted for their creation of the "computer age," quest for physical fitness, and expectations for living long, full lives. Now, as Boomers pass into middle age, many are beginning to focus on retirement.

Many Boomers wonder if they can depend on receiving Social Security benefits during their retirement years. Indeed, some economists question the future "security" of the Social Security system. To add to this uncertainty, not all employed Boomers have **employer-funded retirement plans.** In today's workplace, the responsibility for retirement saving has shifted from *employer* to *employee*. Consequently, personal savings may be more important than ever before.

Broadening Perspectives

What can Boomers do to determine if their savings and assets are sufficient to fund their retirement? Because no one really knows what the future holds, definitive answers remain elusive. However, Boomers may be able to gain more insight into their financial future by assessing the following key items:

- Potential income sources (income-producing real estate, inheritances, etc.)
- Projected retirement savings account balances
- Projected cost of future health care
- Projected annual rate of inflation
- Projected amount of Social Security income
- Percentage of present income required for retirement
- Length of years retirement may last or life expectancy

Survey Says. . .

The 2014 Retirement Confidence Survey (RCS) conducted by the Employee Benefit Research Institute* finds that worker confidence in having enough money to live comfortably throughout retirement increased in 2014, after having been on a downward trend for several years. More specifically, 18% of workers now say they are very confident, up from 13% in 2013. Retiree confidence in having enough money for a comfortable retirement jumped in 2014 to 28%.

As is true of every generation facing retirement, Baby Boomers need a disciplined savings program. With a personalized financial plan and commitment to save more, boomers can work toward improving their financial outlook to make their retirement years golden. ■

* Source: ***Retirement Confidence Survey,*** Employee Benefit Research Institute, 2014.

Understanding IRA Minimum Distribution Requirements

Many people who have been contributing to **Individual Retirement Accounts (IRAs)** for years have watched their account balances grow through tax-deferred accumulation. However, did you know the Tax Code mandates that contributions to traditional IRAs are no longer permitted after reaching age 70½ and **required minimum distributions (RMDs)** must commence no later than April 1 of the year after the year in which you reach age 70½?

Let's take a look at the following example. Suppose Bob's 70th birthday was July 15, 2014 and he attained age 70½ on January 15, 2015. Bob will have until April 1, 2016 (the year after reaching age 70½) to begin taking distributions.

It is important to note: The first RMD is actually for the year in which you attain age 70½; however, you are allowed to *postpone* it until April 1 of the following year. For every year after the first distribution, the RMD must be taken by December 31.

At first glance, postponing the first RMD may seem like a good idea because you can gain additional tax deferral. However, a second RMD would be due by December 31 of the same year (i.e., *that* year's required distribution). Not only would this substantially increase your taxable income, but it could also limit some deductions based on adjusted gross income (AGI) and possibly subject your Social Security benefits to taxation.

continued on page four

racing to retirement: you can finish first

continued from page one

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 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. ■

understanding IRA minimum distribution requirements

continued from page three

Consequently, some people find that it makes sense to take the first RMD in the year when age 70½ is reached, rather than to postpone and "double up" the following year.

Calculating the Distribution

Each year, the RMD amount is be calculated by dividing the IRA balance, as of December 31 of the previous year, by the applicable life expectancy factor from the appropriate IRS table. If an individual has more than one IRA account, the RMD amount must be calculated according to the total balance in all accounts. However, the amount can be taken out of any one (or more) IRA account. For each subsequent year, the RMD amount must be recalculated.

It is important to note: If you fail to withdraw the RMD amount for each year, you may be subject to a penalty tax. This tax is 50% of the difference between the amount *actually* withdrawn and the amount *required* to be withdrawn (i.e., the minimum distribution shortfall).

IRAs continue to be valuable vehicles for retirement planning. However, the time of reckoning (i.e., mandatory withdrawals) may be approaching for many IRA owners. Knowledge of the rules may help avoid potential tax problems. Be sure to consult a qualified tax professional for advice specific to your unique circumstances. ■

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