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21st century retirement

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It's Never Too Late to Save for Retirement

If you wonder how you'll ever save enough to fund your retirement, you're not alone. The finances of many Americans are stretched thin by mortgage payments, college tuition, or unemployment. The good news is that the Federal government has recognized that most people—especially those over the age of 50—could use some help in saving for retirement. Consequently, tax incentives for retirement saving were enhanced considerably under the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA), and many of these provisions were made permanent by the Pension Protection Act of 2006 (PPA). In the years ahead, contribution limits for most retirement accounts will continue to rise according to inflation.

You may already know that there are various options for tax-efficient retirement saving, but you may not be aware of which account—or combination of accounts—is most appropriate for you, given your current income and your expected circumstances in retirement.

Employer-Sponsored Plans

Many employers offer a qualified retirement plan to help employees save for retirement. Begin by learning about your company's plan. Besides lowering your current taxable income, your contributions to an employer-sponsored retirement plan have the potential for tax-deferred growth. If your company offers matching contributions, it makes sense to contribute at least enough to get the full match.

If your plan and personal circumstances allow, you may wish to contribute up to the maximum to your account permitted by the Federal government. In 2015, the annual limit for 401(k), 403(b), and 457 contributions is $18,000, or $24,000 ($18,000 + $6,000) if you're age 50 and over. If your employer offers a SIMPLE plan, you can contribute $12,500 in 2015, and those age 50 and over may contribute an additional $3,000.

If you participate in a 401(k) or 403(b), you may also consider a Roth option, if available. Offered in addition to a traditional plan, this option allows you to contribute after-tax dollars to a Roth account. Earnings grow tax deferred, and distributions are tax and penalty free, provided you have reached the age of 59½ and have owned the account for five years. Nonqualified distributions, however, may be subject to income tax, and a 10%

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Is the Roth 401(k) an Option for You?

Since it first became available in 2006, many employers have added the Roth 401(k) to their benefit packages as a retirement savings option. A Roth option is available for Individual Retirement Accounts (IRAs) and 401(k) and 403(b) accounts. To see if a Roth 401(k) would be appropriate for your situation, let's take a closer look.

To Roth or Not to Roth

To start, let's consider the advantages and disadvantages of both types of 401(k)s. With a traditional 401(k), you make contributions on a pre-tax basis, which lowers your current income subject to taxation, and earnings in the account have the potential to grow tax deferred. However, your distributions in retirement are subject to ordinary income tax. On the other hand, your contributions to a Roth 401(k) are made with after-tax dollars, but potential earnings and distributions are tax free, as long as you have held the account for at least five years and are at least 59½ years old. However, non-qualified distributions may be subject to income tax and a 10% early withdrawal penalty may also apply. So, is it better to pay taxes on your retirement funds now or later? The most appropriate choice for you may depend on your current tax situation and your long-term financial goals.

It is important to keep in mind that the 401(k) annual deferral limits—$18,000 for taxpayers under age 50 and $24,000 for those age 50 or older in 2015—apply to all 401(k) contributions, regardless of whether they are made on a pre-tax or after-tax basis. If you contribute to a Roth 401(k), you may have to reduce or discontinue contributions to your employer's traditional 401(k) plan to avoid exceeding these limits. However, you may contribute to both types of 401(k) plans.

Under the Small Business Jobs Act of 2010, participants in traditional 401(k), 403(b), and 457(b) plans are now permitted to roll over

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early distribution penalty may also apply. Keep in mind that any matching contributions from your employer must be made to a traditional account, not a Roth account.

The IRA Alternative

When it comes to retirement, personal savings are important, so you may want to incorporate Individual Retirement Accounts (IRAs) into your plan. Generally, the tax-advantaged contribution limit for all types of IRAs is $5,500 in 2015. Those age 50 and over can contribute an extra $1,000. Depending on your tax-filing status, your income, and your participation in a qualified employer-sponsored retirement plan, you may be able to take an income tax deduction for contributions to a traditional IRA. If you participate in an employer-sponsored plan, however, income limits may apply.

A Roth IRA may be an appropriate option if you participate in a qualified employer-sponsored retirement plan and exceed the income limits for a deductible IRA; however, you cannot exceed the income limits set for Roth IRAs. As with the Roth 401(k), contributions to Roth IRA accounts are made with after-tax dollars, but distributions are tax and penalty free after the age of 59½, provided the account is at least five years old. A Roth IRA could be a good choice if, for example, income from a job, combined with required minimum distributions (RMDs) from tax-deferred plans, were to push you into a higher tax bracket in retirement. There are no RMD rules associated with Roth IRAs, and penalty-free withdrawals are possible prior to retirement in certain situations.

If your high earnings render you ineligible for a traditional or a Roth IRA, you may consider contributing to a nondeductible IRA, which has no income restrictions. While it provides fewer tax advantages than other IRAs, your savings will still have the opportunity to grow tax deferred.

Isn't it time to stop wondering about your retirement and start taking advantage of tax-efficient retirement savings options? Once you've exhausted your tax-advantaged options, you may want to consider other savings vehicles. Your advisors, including your qualified tax professional, can help you implement strategies that are most appropriate for your situation. ■

Retirement Planning: Let the Journey Begin

The sage advice that a journey of a thousand miles begins with a single step, also applies to saving for your retirement. It's up to you to take that first step. If you wait until you have "enough" money to begin saving, you may never start at all. Instead, focus on the first step. Then, you can begin transforming that thousand-mile journey to retirement into smaller, more manageable goals.

In order to start saving, you must spend less than you earn. If you feel that this is easier said than done, you're not alone. But, it's time to manage your personal finances and begin saving for your future. The concepts are simple: Monitor where your money actually goes and plan ways to spend it carefully. In other words—prepare a budget.

If the mere thought of a budget makes you feel deprived, think of it as a personal spending plan instead. Rather than focusing on what you should not spend, a personal spending plan can help you redirect the money you do spend.

The first rule of saving is to pay yourself first. Even if you start small, with patience and persistence, you can find ways to reallocate your money over time and watch your savings grow.

Not sure how to get started? Consider the following steps:

1. Track your expenses for one month. Record your daily expenses for at least one month. Categorize them as fixed, variable, or discretionary. *Fixed* expenses include those for which the cost remains the same every month, such as your mortgage or rent, car payment, and insurance premiums. *Variable* expenses are those you pay on a regular basis, but for which the amounts vary, such as food, utilities, childcare, travel expenses, and credit card debt. *Discretionary* expenses are those you could forgo if necessary, such as dining out, vacations, and entertainment. After tracking your expenses for one month, you can begin to see exactly where your cash is going.

2. Calculate each expense as a percentage of your income. This exercise helps identify how each expense relates to your total income. For instance, if you lease a new vehicle for $320 per month and your monthly income is $3,200, you are spending 10% of your income on your vehicle. Aim to trim these percentages wherever possible. You may be able to make large gains in savings by reducing many expenses by small percentages.

3. Prioritize your expenses. Rank each expense as "important," "moderately important," or "unimportant." Carefully scrutinize each item, starting with the unimportant ones. Eliminate those items you can do without. You may have the most leeway when it comes to discretionary expenses. The savings you generate in this area alone may be enough to begin a modest savings program. Then, look for opportunities to trim expenses that fall into the moderately important and important categories. For instance, you may be able to find a less expensive Internet provider if you shop around. Or, perhaps you could find a less expensive or more fuel-efficient vehicle when your auto lease is up.

4. Pay yourself first. Here's the key to success—once you've explored all potential savings, write yourself a check for the amount you saved and "pay yourself first." How you manage your money depends on how much you have and your future goals. As you plan for retirement, consider contributing on a regular basis to an **Individual Retirement Account (IRA)** or employer-sponsored **401(k) plan**. If you're also saving to send a child to college, you might develop an education funding plan.

By paying yourself first, along with your other expenses, you'll be a lot more successful at saving money for your future. As you see your funds accumulate, you'll be glad you took that first step. So, what are you waiting for? Your retirement will be here before you know it, so let the journey begin. ■

"Homing In" on Your Retirement Destination

As you think about your "golden years," where do you imagine yourself living? Would you choose an affordable house on a lake with room for visiting grandchildren or a condo near a golf course? Would you like to live closer to family and friends, or expand your horizons by moving to a new setting? What's important to you: a moderate climate, recreational opportunities, accessible medical facilities, a modest cost of living, or favorable local tax rates?

These, along with many other factors, can help you choose a retirement destination that will meet your personal and financial needs. Familiarize yourself with the advantages and disadvantages of potential retirement destinations. When it comes time to retire, you will be better prepared to make a well-informed decision. ■

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funds into Roth accounts within their plans, if applicable. Because contributions to traditional 401(k)s are made on a pre-tax basis, any funds transferred from traditional to Roth 401(k) accounts are taxed in the year of conversion.

Here's another point to consider. Matching contributions made by employers must be invested in a traditional 401(k), not a Roth account. So, even if you make contributions exclusively to a Roth 401(k) account, you may still owe tax on withdrawals from pre-tax funds contributed by your employer to the traditional 401(k) account.

What about the Roth IRA?

The Roth 401(k) is only available through an employer-sponsored plan, whereas the Roth IRA is available to all taxpayers (with income limitations). How do the two Roth options compare? First, you can save more money in a Roth 401(k) than in a Roth IRA. The 2015 annual contribution limits for IRAs are set at $5,500 for taxpayers under age 50 and $6,500 for those age 50 or older. On the other hand, the Roth 401(k) is subject to the more generous elective salary deferral limits that apply to conventional 401(k)s, such as $18,000 or $24,000 for those age 50 or older in 2015.

Further, the Roth IRA is subject to **Modified Adjusted Gross Income (MAGI)** limits; only those with MAGIs below $116,000 for single filers and $183,000 for married joint filers are eligible to contribute up to the maximum after-tax dollars to a Roth IRA in 2015. These income limits do not apply to Roth 401(k)s.

In addition, contributions to a Roth 401(k) can be made through payroll deductions, which can put retirement saving on autopilot. To participate, an employee who is currently contributing to a traditional 401(k) plan could, for example, opt to have his or her contributions diverted to a Roth version of the same plan. Unlike the Roth IRA, however, you must begin taking required minimum distributions from a Roth 401(k) after age 70½.

If you are interested in contributing to a Roth 401(k), ask your company's benefit administrator if this option is available for your retirement plan. If not, expressing interest in the Roth 401(k) may prompt your employer to adopt the option. ■

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