Are You Ignoring Retirement?

Article Highlights:

- Predicting Social Security Income
- Planning for the Future
- Employer Retirement Plans
- Tax Incentive Retirement Savings Plans

Are you ignoring your future retirement needs? That tends to happen when you are younger, retirement is far in the future, and you believe you have plenty of time to save for it. Some people ignore the issue until late in life and then have to scramble at the last minute to fund their retirement. Others even ignore the issue altogether, thinking their Social Security income (assuming they qualify for it) will take care of their retirement needs.

By current government standards, a single individual with $11,770 or a married couple with $15,930 of annual household income is at the 100% poverty level. If you compare those levels with potential Social Security income, you may find that expecting to retire on just Social Security income may result in a bleak retirement.

You can predict your future Social Security income by visiting the Social Security Administration's Retirement Estimator. With the Retirement Estimator, you can plug in some basic information to get an instant, personalized estimate of your future benefits. Different life choices can alter the course of your future, so try out different scenarios – such as higher and lower future earnings amounts and various retirement dates – to get a good idea of how these scenarios can change your future benefit amounts. Once you've done this, consider what your retirement would be like with only Social Security income.

If you are fortunate enough to have an employer-, union- or government-funded retirement plan, determine how much you can expect to receive when you retire. Add that amount to any Social Security benefits you are entitled to and then consider what retirement would be like with that combined income. If this result portends an austere retirement, know that the sooner you start saving for retirement, the better off you will be.

With today's relatively low interest rates and up-and-down stock market, it is much more difficult to grow a retirement plan with earnings than it was 10 or 20 years ago. With current interest rates barely mirroring inflation rates, there is little or no effective growth. That means one must set aside more of one's current earnings for retirement to prepare for a comfortable retirement.

Because the government wants you to save and prepare for your own retirement, tax laws offer a variety of tax incentives for retirement savings plans, both for wage earners and for self-employed individuals and their employees. These plans include:

- **Traditional IRA** – This plan allows up to $5,500 (or $6,500 for individuals age 50 and over) of tax-deductible contributions each year until reaching age 70½. However, the amount that can be deducted phases out for higher-income taxpayers who also have retirement plans through their employer.

- **Roth IRA** – This plan also allows up to $5,500 (or $6,500 for individuals age 50 and over) of contributions each year. Like the Traditional IRA, the amount that can be contributed phases out for higher-income taxpayers; unlike the Traditional IRA, these amounts phase out even for those who do not have an employer-related retirement plan.

- **myRA Accounts** – This relatively new retirement vehicle is designed to be a starter retirement plan for individuals with limited financial resources and those whose employers do not offer a retirement plan. The minimum amount required to establish one of these government-administered plans is $25, with monthly contributions as little as $2. Once the total value of the account reaches $15,000 or after 30 years, the account must be converted to a commercial Roth IRA account.

- **Employer 401(k) Plans –** An employer 401(k) plan generally enables employees to contribute up to $18,000 per year, before taxes. In addition, taxpayers who are age 50 and over can contribute an extra $6,000 annually, for a total of $24,000. Many employers also match a percentage of the employee's contribution, and this can amount to a significant sum for those who stay in the plan for many years.
- **Health Savings Accounts** – Although established to help individuals with high-deductible health insurance plans pay medical expenses, these accounts can also be used as supplemental retirement plans if an individual has already maxed out his or her contributions to other types of plans. Annual contributions for these plans can be as much as $3,350 for individuals and $6,750 for families.
- **Tax Sheltered Annuities** – These retirement accounts are for employees of public schools and certain tax-exempt organizations; they enable employees to make annual tax-deferred contributions of up to $18,000 (or $24,000 for those age 50 and over).
- **Self-Employed Retirement Plans –** These plans, also referred to as Keogh plans, allow self-employed individuals to contribute 25% of their net business profits to their retirement plans. The contributions are pre-tax (which means that they reduce the individual's taxable net profits), so the actual amount that can be contributed is 20% of the net profits.
- **Simplified Employee Pension (SEP)** – This type of plan allows contributions in the same amounts as allowed for self-employed retirement plans, except that the retirement contributions are held in an IRA account under the control of the employee or self-employed individual. These accounts can be established after the end of the year, and contributions can be made for the prior year.

Each individual's financial resources, family obligations, health, life expectancy, and retirement expectations will vary greatly, and there is no one-size-fits-all retirement savings strategy for everyone. Purchasing a home and putting children through college are examples of events that can limit an individual's or family's ability to make retirement contributions; these events must be accounted for in any retirement planning.

If you have questions about any of the retirement vehicles discussed above, please give this office a call.