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WEALTH MANAGEMENT

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# How To Save For Your Retirement At Every Age

When should you start saving for retirement? There's no time like the present, whether you're fresh out of school or in the middle of your career. And even if you haven't been able to set aside much, if anything, during your main working years, realize that it's never too late to begin.

Of course, you're more likely to secure a comfortable retirement if you can save consistently over your lifetime. Keeping that in mind, here's an overview of what you might do during different stages of your life.

**Ages 20-40:** It makes sense to get in on the ground floor when you can. For many people, the best place to start is with a 401(k) plan or another such employer-sponsored retirement plan that offers substantial tax advantages.

For instance, if you're eligible to participate in a 401(k), you can defer up to $18,000 to your personal account in 2016. (This figure is indexed for inflation annually and may be adjusted upward.) Your contribution isn't taxed now. Your employer may provide matching contributions, too, based on how much you put in. So if you're eligible and not actively participating in your company's plan, you're leaving money on the table.

But don't stop there. If possible, supplement your 401(k) or similar plan with an IRA or other kind of saving plans. With a traditional IRA, your contributions may be wholly or partly tax-deductible. Then, as with a 401(k), money withdrawn during retirement is generally taxable. With a Roth IRA, you can't deduct contributions, but future distributions are generally exempt from tax.

Starting to save early in one or more of these retirement plans puts time on your side, and the power of tax-deferred investment compounding can be formidable. Suppose you're age 30 and plan to retire at 67. Let's assume that you earn $100,000 a year and contribute 5% to your 401(k), while your employer provides an annual 50% match of 3% of your salary. If you earn a hypothetical return of 7% annually on account funds, your yearly contributions of $5,000, bolstered by your employer's $1,500, will grow to $1,081,038 by the time you're ready to retire.

Of course, this is a busy time of life, and the cost of buying a house and starting a family, among other expenses, could affect how much of your income you can earmark for retirement savings. But if you can manage to save regularly and steadily, the potential payoff could be substantial.

**Ages 40-60:** If you're able to sustain a sound retirement saving strategy that you began in your 20s and 30s, you'll be ahead of the game. But financial obligations during this 20-year stretch sometimes can be overwhelming. You might move to a larger home, expand your family, and shoulder part or all of the cost of putting your kids through college.

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## *Legacy Planning For Future Generations*

Who stands to inherit your wealth? Are your children or other loved ones the beneficiaries of your estate in part or in whole? If so, we invite you to consider the value of legacy planning. You can't deny the wealth you have accumulated. You have been working diligently to get your financial house in order. Why not do the same for those who stand to benefit from your accomplishments?

Consider giving the gift of legacy planning to your beneficiaries or other loved ones. There is no time like the present to begin the planning and education process.

Let us provide your loved ones with the knowledge and confidence to start planning for their financial future today. This way when they receive your generous gift in the future, you'll have the peace of mind that they will be prepared to manage their financial well-being effectively.

John

# Market Timing Is An Inexact Science

The Standard & Poor's 500 (S&P 500), a leading stock market benchmark, was poised to record one of the worst Januarys in history before a late recovery occurred. Due in part to plunging oil prices and concerns over the global economy, stocks were slammed early in 2016. At one point, the S&P 500 was down 11%, before the index rose 2.48% on January 29, leaving it with a 5% decline for the month.

Clearly, this was more volatility than usual, which was both good news and bad news for market timers.

Market timing is the practice of selling stocks and mutual fund shares ahead of projected declines and buying back those investments when the investor expects the stock market to climb. It's a tempting proposition, and when it works, it can reduce losses and position a portfolio for future gains. However, it usually doesn't work, and getting the timing wrong can result in big losses, from selling shares that would have recovered or from being out of the market when prices rebound.

Market timing appeals to investors who think it can bring them the best of all possible worlds—letting them buy low and sell high. But it's not for inexperienced investors, and even those who know what they're doing and who have all of the resources to help them make intelligent, well-informed decisions are just as likely to fail as they are to succeed.

Not only is the stock market volatile, it is unpredictable. Events like Brexit can have an impact, either positive or negative, on a company, industry, or sector. Market timers think they know better than others what's coming next. Although they may guess right sometimes, they're bound to be wrong, too. To compound the problem, those who are successful once may start to think they are invincible. Of course, they're not.

But just because market timing is generally a loser's game doesn't mean you always have to sit idly by while markets fluctuate. Tactical adjustments may be in order depending on what's in your portfolio, what your goals are, and your investing timetable. However, by investing for the long term and periodically rebalancing your portfolio, you can focus on specific objectives in a consistent manner. This could be especially important following a period of extreme volatility such as the ones the markets experienced earlier this year. Working toward your long-term goals also takes emotions out of the investing equation.

When you engage in market timing, you effectively have to be right twice—getting out of the market at the right time, before a downturn, and then getting back in before the market rallies. That's much less likely to pay off than staying in the market over the long haul—which also happens to be a lot easier on the nerves. ●

# DOL Approves Final Fiduciary Rule

At long last, the controversial "fiduciary rule" for retirement accounts has been approved, with some modifications, by the Department of Labor (DOL).

The fiduciary rule drew a firestorm of criticism when it was first proposed in 2015. After lengthy hearings and thousands of comment letters from the public, the DOL went back to the drawing board. The final rule that has emerged takes into account some concerns that were raised, but keeps the basic framework intact.

Under the final rule, firms providing investment advice pertaining to retirement plans and IRAs must put their clients' "best interest" before their own. Essentially, financial advisors can't receive compensation without qualifying under the Best Interest Contract Exemption (BICE). Otherwise, their actions may constitute "prohibited transactions."

The new final rule clarifies the rules for the BICE by establishing a contractual fiduciary duty between investors and financial advisors. To qualify under the BICE, fiduciary standards of conduct must be acknowledged in a written contract.

In that contract, advisors must state that the advice they offer is based on a client's particular needs. This includes recommendations relating to a retirement plan, a plan participant or beneficiary, a plan fiduciary, or an IRA owner in exchange for fees or other compensation—for buying, holding, selling, or exchanging investments. It also covers advice on rollovers, transfers, and distributions from plans and IRAs. The fiduciary standards also cover disclosures on reasonable compensation, costs of providing advice to clients, and conflicts of interests.

The final rule also establishes what is ***not*** advice for these purposes. General communications such as financial newsletters, marketing

# 20 Questions On Required Minimum Distributions

Do you remember playing "20 Questions"? Here are the answers to 20 questions about required minimum distributions (RMDs). Most of this information comes from the frequently asked questions section of the IRS website.

Q1. What is an RMD?

A. This is the amount you're required to withdraw from your 401(k) plans, other employer-sponsored retirement plans, and IRAs.

Q2. Which plans do the RMD rules apply to?

A. The rules cover all employer-sponsored retirement plans, including pension and profit-sharing plans, 401(k)s, 403(b) plans for nonprofits, and 457(b) plans for government entities, plus traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE-IRAs.

Q3. When do I have to begin taking RMDs?

A. The required beginning date (RBD) is April 1 of the year after the year in which you turn age 70½. For example, if your 70th birthday was January 1, 2016, you must begin taking RMDs no later than April 1, 2017.

Q4. When do I have to take RMDs in future years?

A. The deadline is December 31 of the year for which the RMD applies. Thus, if you turn 70½ in 2016, you must take the RMD for the 2017 tax year by December 31, 2017.

Q5. How do you figure out the RMD amount?

A. Divide the balances in your plans and IRAs on December 31 of the prior year by the factor in the appropriate IRS life expectancy table.

Q6. Can I withdraw more than the required amount?

A. You can withdraw as much as you like; RMDs are the least you are allowed to take.

Q7. If I take more than the RMD this year can I withdraw less in a future year?

A. No. Each RMD is calculated based on the account balance and life expectancy factor for that particular year.

Q8. Do I have to take RMDs from all of my retirement plans?

A. Although you must calculate the RMD separately for each IRA you own, you can withdraw the total amount from just one IRA or any combination of IRAs that you choose. However, for employer-sponsored plans other than a 403(b), the RMD must be taken separately from each plan account.

Q9. What happens if I fail to take an RMD?

A. The IRS imposes a penalty equal to 50% of the amount that should have been withdrawn (reduced by any amount actually withdrawn).

Q10. How are RMDs taxed?

A. Generally, the entire amount of an RMD is taxable at ordinary income rates. The exception is for amounts attributable to non-deductible contributions to an IRA.

Q11. Are there any exceptions to the RMD penalty?

A. The penalty may be waived if you can show that the shortfall was due to reasonable error and you now have withdrawn the required amount.

Q12. Is an RMD subject to the net investment income (NII) surtax?

A. Distributions from retirement plans don't count as NII. However, RMDs will increase your modified adjusted gross income (MAGI), and a higher MAGI could make you subject to the tax.

Q13. Can I still contribute to my plans if I'm taking RMDs?

A. Yes. If you're still working and participating in a plan, you may qualify to continue your contributions.

Q14. Do I have to take an RMD if I'm still working?

A. Generally, you have to take RMDs from all employer-sponsored plans and IRAs. However, you don't have to withdraw an RMD from non-IRAs if you still work full-time and don't own 5% or more of the business.

Q15. Can an RMD be rolled into an IRA or other plan?

A. Absolutely not. Rollovers are prohibited.

Q16. Can an RMD be donated to charity?

A. Yes. Under a recent tax law extension, if you're 70½ or older you can transfer an RMD of up to $100,000 directly from an IRA to a charity without paying tax on the distribution.

Q17. What happens if I die before my required beginning date?

A. No distribution is required for the year of death. For subsequent years, RMDs must be taken from inherited accounts. A spousal beneficiary has greater flexibility than non-spouses, including being able to treat the account as his or her own.

Q18. What happens if I die after my RMD?

A. The beneficiaries of the accounts must continue to take RMDs under complex rules. Again, spousal beneficiaries have greater flexibility than other heirs.

Q19. Do the RMD rules apply to Roth IRAs?

A. No. You don't have to take RMDs from a Roth IRA during your lifetime. After your death, however, your heirs must take lifetime RMDs from the Roth.

Q20. When should I arrange my RMD?

A. The sooner, the better. Don't wait to get caught in a year-end crush. We can help with the particulars. ●

materials, and educational materials don't count.

A main difference between the final rule and the earlier proposed version is that additional financial products, including variable annuities and private placements, are now included under the BICE. The final rule also eliminates a requirement for financial advisors to give clients an annual transaction disclosure on costs. Another key change wipes out the need for advisors to provide regular projections of fees over one, five, and 10 years.

Finally, the process of implementing the BICE is streamlined. Now a contract can be completed when a client opens an account.

For most advisors and clients, the final rule takes effect on April 10, 2017, although in some cases the effective date will be January 1, 2018. More details will be forthcoming. ●

# Starting A Retirement Plan? SIMPLE

Do you want to set up a retirement plan for your small business? Although you have several options, one popular choice is, by name and definition, simple. It's called the Savings Incentive Match Plan for Employees—or SIMPLE.

A SIMPLE plan provides a tax-advantaged way for employees, including the owner of a business, to save for retirement. It can reduce tax liability while attracting and retaining top-notch workers. And the plan is inexpensive to start up and operate, especially when compared to some other kinds of retirement plans.

To qualify to launch a SIMPLE plan, you must meet two requirements:

1. Your business can't have more than 100 employees.
2. The company can't operate another tax-qualified retirement plan.

If your business is eligible, it's easy to get started. All you have to do is contact your financial advisor or go directly to a financial institution offering SIMPLE plans. Most employers opt for a type of SIMPLE that uses individual retirement accounts (IRAs) for its employees. Anyone who earned at least $5,000 in each of the prior two years generally will be eligible to participate.

With a SIMPLE-IRA, contributions are deposited into employees' personal IRAs, then invested according to those workers' instructions. Typically, a plan will offer a selection of mutual funds. Funds in employees' IRAs can grow on a tax-deferred basis.

The amount of employee contributions is capped by IRS rules. For 2016, the limit is $12,500, plus a catch-up contribution of $3,000 for anyone age 50 or over. (These figures are indexed annually for inflation.)

But that's not the end of the story. Your company could sweeten the deal by adding matching contributions, much as in a 401(k) plan. You can use one of the following methods for these company contributions:

- A non-elective contribution to the accounts of eligible employees equal to 2% of their salary, based on a maximum of $265,000 in compensation for 2016. For this option, the money goes even to employees who don't make their own contributions.
- A dollar-for-dollar match of up to 3% of compensation of participating employees who have elected to make their own contributions.

You can set up your SIMPLE-IRAs for a calendar year as late as October 1 of that year. Also, unlike most other tax-qualified plans, SIMPLE-IRA plans don't have to file annual financial reports with the government. ●

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## How To Save At Every Age

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However, if you can keep saving, your retirement plan and IRA contributions will continue to bolster your nest egg during a time when your job income may rise substantially. You can continue IRA contributions even if they're nondeductible. Moreover, once you reach age 50, you can make "catch-up" contributions that increase the maximum amount you can put in a 401(k) each year. The maximum catch-up contribution for 2016 is $6,000. (This figure, too, is indexed annually for inflation.) These extra amounts can help you make up for lost ground once you've paid those college tuition bills. Depending on your situation, you also might decide to convert traditional IRA funds to a Roth IRA. You'll owe current taxes on the amount you convert, but you may secure tax-free payouts in retirement.

Furthermore, if you can manage to pay off your mortgage during these years, you could earmark the money that had been going for monthly loan payments to increase the amount you put away for retirement.

**Ages 60 and up:** Now is the time for a final savings surge. Be sure to maximize retirement and IRA contributions, and set aside extra money in other accounts if you can.

At the same time, consider several crucial decisions that could affect your retirement lifestyle. One very important question is when to apply for Social Security benefits. For most Baby Boomers, full retirement age (FRA) is age 66, but it gradually increases to age 67 for younger people. If you apply before you reach FRA, as early as age 62, you'll receive lower monthly benefits. Waiting longer, until as late as age 70, will produce higher benefits. Other decisions about Social Security may affect married couples.

Another decision involves your home. Downsizing to a smaller, cheaper house, perhaps in an area with lower costs, could help you minimize your expenses as you approach retirement.

Finally, remember that retirement planning doesn't end when you retire. It's an ongoing process, and from now through the rest of your life, you'll probably need to make periodic adjustments to your investment strategy and your plan for tapping your savings. ●

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