RETIREMENT PLAN Update

Wealth Management

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Because the time is now ...

Don’t ignore IRAs in your retirement planning

When planning for retirement, even if you already participate in your employer’s tax-deferred retirement plan, you may also want to consider opening an individual retirement account, or IRA.

Your retirement is the reward for a lifetime of work. You will be moving from a situation in which you received regular income from employment or self-employment to one in which you will be dependent on a mix of Social Security retirement benefits and what you have set aside in retirement plans and other investments and savings accounts.

It takes planning to help make sure you will have sufficient retirement income to replace your income from work for as long as you are retired. Using all the tax-favored savings options available to you can help you succeed in reaching that goal. Even if you already participate in your employer’s tax-deferred retirement plan, you may want to consider opening an individual retirement account (IRA) as well. IRAs are a popular retirement savings vehicle that offer potential tax advantages and allow you to choose from a wide range of investments.

The ABCs of IRAs

Individual retirement accounts can be surprisingly flexible when it comes to helping lay the groundwork for a financially healthy retirement.

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IRAs come in two basic forms—the traditional IRA and the Roth IRA.

Here are the primary tax differences between the two types:

- Contributions to a traditional IRA are potentially tax deductible (conditions apply), while Roth IRA contributions are non-deductible.
- Investment earnings accumulate tax-deferred in both traditional and Roth IRAs.
- Roth IRA contributions generally can be withdrawn anytime without tax consequences.
- Withdrawals from a traditional IRA are generally taxable, except to the extent of any after-tax (nondeductible) contributions made. A 10% additional tax applies to early withdrawals made before age 59½, unless a tax law exception applies.
- Roth IRA earnings may be withdrawn tax free once an owner reaches age 59½ (and in certain other circumstances), provided the withdrawal is made after the five-tax-year period that begins with the first tax year for which the first Roth IRA contribution was made.
- Unlike owners of traditional IRAs, Roth IRA owners are not obligated to take annual required minimum distributions (RMDs) from their accounts during their lifetime, giving them the option to defer income taxation to the next generation. However, both Roth IRA and traditional IRA beneficiaries are subject to distribution rules after the account owner's death.

How you can use IRAs in your retirement plan

- Contributing annually. Yearly IRA contributions can add up over time. You (or your spouse) must have taxable "compensation" to contribute to either type of IRA. Traditional IRA contributions are not subject to income limits, although deductions are phased out for active participants in employer plans (and their spouses) once modified adjusted gross income (AGI) exceeds a specified amount (based on filing status). Roth IRA contributions, which are not tax deductible, are also phased out at certain income levels.
- Contributing to multiple IRAs. You're not limited to one IRA. You can contribute to multiple IRAs, as long as the total amount you contribute doesn't exceed the maximum annual contribution amount. For 2020, the maximum contribution is $6,000, or $7,000 if you're age 50 or older. The annual limit doesn't apply to rollover contributions. You can move your IRA to another financial institution whenever you wish through a trustee-to-trustee transfer.
- Converting to a Roth. A traditional IRA may be converted to a Roth IRA. A Roth conversion triggers taxation but sets the stage for tax-free withdrawals once tax law conditions are satisfied. For some individuals, it can make sense to convert their IRA, especially if it can be done in a year when their tax bracket is relatively low. However, before you make a decision about converting, it's wise to discuss it with a tax professional who is familiar with your personal tax situation.
- Taking required minimum distributions (RMDs). You're generally required to begin taking RMDs from a traditional IRA by April 1 of the year following the year you turn 72 (or 70½ if you were born before July 1, 1949).* The amount is based on your life expectancy (per an IRS table) and the balance in each account on December 31 of the previous year. But you don't have to take distributions from every traditional IRA. Instead, you can combine the RMD amounts from each IRA and take the distribution from one (or more) account(s).

The bottom line on saving

You may choose to contribute the maximum to your employer-provided retirement plan. You may choose simply to contribute enough to obtain any matching contributions your employer's plan may offer. And you could open an IRA either after you max out your contributions to your employer's plan or simply because you want to supplement your retirement savings.

If you are unsure which path makes the most sense for you, consider talking with a financial professional.

*The CARES Act waives certain 2020 RMDs.

An action plan for preretirees

As someone saving for your retirement, you may want to revisit your investing and financial strategies as well as your timetable for retirement in light of the financial market turbulence the country is experiencing.

Even if retirement is still several years away, you can see how various assumptions you may have made about retirement are holding up in light of the increased turbulence in the financial markets and the number of jobs under threat as a result of the economic slowdown.

Here are some issues you should consider as a preretiree.

Is your employment secure?

Job losses have been significant and many employees have had their hours and wages reduced. While it may be difficult to assess your future job security, it may make sense in this climate to seek out additional sources of income. Do you have a skill or talent that can generate extra income? For example, can you find part-time work doing coding or bookkeeping for small businesses? The gig economy has suffered, but work may be available. Save and invest what you earn from part-time work.

Do you have an emergency fund?

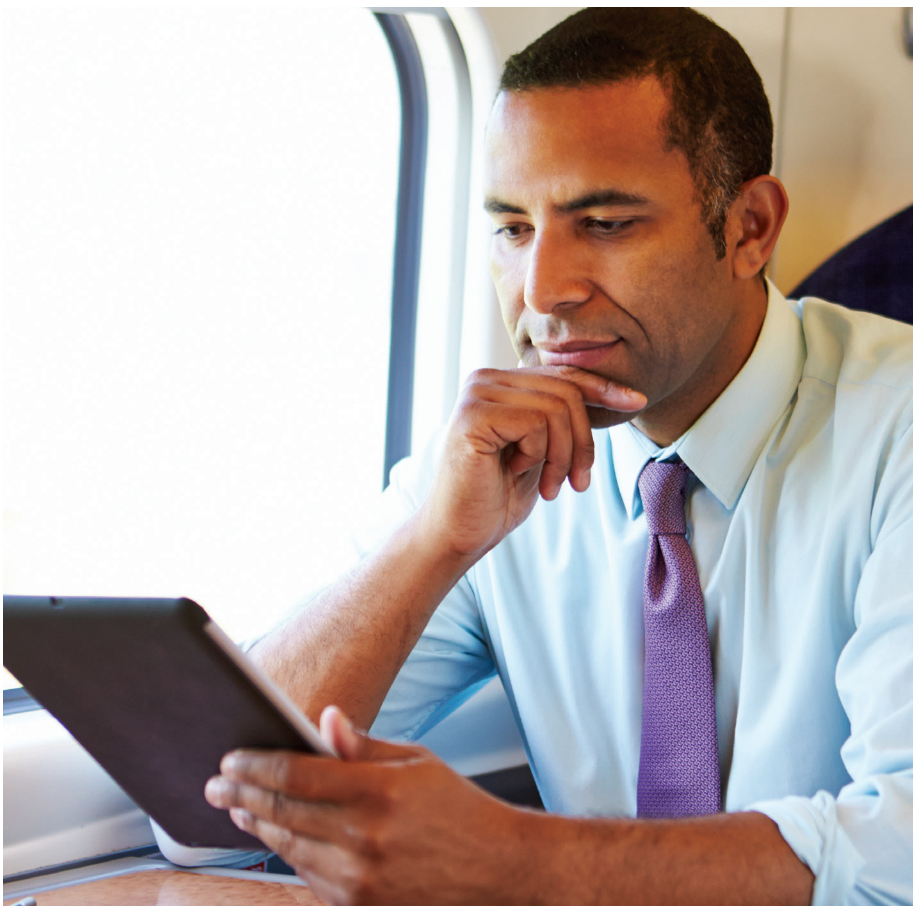
If you don't have an emergency fund and you are still employed, consider setting aside part of your wages to fund one. This will help you deal with unanticipated expenses without having to use a credit card or borrow from your retirement plan. Try to aim for saving enough money to cover three to six months' worth of expenses.

Should you maximize your Social Security benefits?

You may want to consider delaying taking Social Security benefits for as long as you can afford to do so. You can start collecting Social Security retirement benefits as early as age 62, but you won't be eligible for the full benefit amount. You also can postpone signing up for Social Security until after your full retirement age (FRA)—the age at which you'll be eligible for full benefits—in which case your benefit increases (8% per year up to age 70 for those born in 1943 or later).

Your FRA is based on the year you were born. To see how this works, assume you were born in 1960. Here are the numbers:

- Age 62: receive 70% of your monthly benefit (the minimum amount)
- Age 65: receive 86.7% of your benefit
- Age 67: receive 100% of your benefit
- Age 68: receive 108% of your benefit
- Age 69: receive 116% of your benefit
- Age 70: receive 124% of your benefit (the maximum amount)



Can you save more?

If you have a job and an emergency fund, you should try to boost the amount you save. Living below your means involves cutting down on discretionary expenses. Look for places you can reduce your spending. And look into selling household items, jewelry or clothes you no longer want on the online marketplace. Most online sales sites charge a small commission. Again, use any money you generate for savings or to pay down debt.

Are your investments sufficiently diversified?

Diversification[1] is an important investing strategy that involves spreading your money among a variety of funds or portfolios that

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hold different investments in different asset classes. Spreading out your investments may help you manage risk in your portfolio since one asset class may rise at the same time as another one declines. However, the severe turbulence in the stock market has forced many investors to revisit how they allocated their investments. You may need to reevaluate your asset allocation[1] in light of your particular risk tolerance, time frame and investment goals. For example, recent events may have convinced you that you are taking on more investment risk than you are truly comfortable with. You may be drawing closer to your anticipated retirement date and might want to focus on asset preservation rather than asset growth.

Should you stop or reduce your retirement plan contributions?

You may be tempted to preserve cash by reducing or eliminating what you contribute to your retirement plan. However, you should think carefully before doing so. The money you contribute to your plan is intended to provide for those years when you will be retired and no longer drawing a regular paycheck. You'll want your money to work 24/7 on your behalf for as many years as possible to take advantage of compounding.

Reach out to a professional

These are unusual and stressful times. If you think you would benefit from the input of an expert, consider contacting your financial professional.

[1] Diversification and asset allocation do not ensure a profit or protect against losses. Investing in mutual funds involves risk, including loss of principal. Mutual funds are offered and sold by prospectus only. You should carefully consider the investment objectives, risks, expenses and charges of the investment company before you invest. For more complete information about any mutual fund, including risks, charges and expenses, please contact your financial professional to obtain a prospectus. The prospectus contains this and other information. Read it carefully before you invest.

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