IRA NEWSLETTER

IRAs

Keeping You Informed

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When To Take Social Security Benefits: A Key Decision In Retirement Planning

Generally, one of the first steps in retirement planning is deciding when to start taking Social Security Benefits. The Social Security website (**www.socialsecurity.gov**) provides all the information you need, plus some helpful calculators and tables. Here are just some of the possibilities and what happens to your benefits.

Delaying Benefits. If you can afford to delay Social Security until past full retirement age, it might make sense to do so. That is because your benefit will increase because of "delayed retirement credits" of 8% for each full year benefits are delayed, up to age 70. For example, someone born between 1943 and 1954 who delays his or her benefit until age 70 will have a benefit worth 132% of the benefit he or she would have had at age 66, thanks to the credits. This increases any spousal survivor benefit as well. (Such spousal benefits are 50% of your benefit at full retirement age.)

Taking Benefits Early. You can begin collecting Social Security at age 62, though the benefits will be reduced if taken before full retirement age; 65 for people born before 1937, and 66 for those born between 1943 and 1954. From 1955 to 1960, full retirement age creeps up in intervals, until it reaches 67 for those born in 1960 or later. For example, if you were born in 1957, it is 66 and six months.

The reduction can be significant. If your full retirement age is 66 and you begin taking benefits at age 62, your payment will be reduced by 25%; at age 63, it is about 20 percent; at age 64, it is about 13.3 percent; and at age 65, it is about 6.7 percent.

Working and Taking Benefits Early. If you are working and have so-called earned income—earnings from wages or self-employment—it might not make sense to take Social Security early. That is because if you are under full retirement age for the entire year, for every $2 you earn that exceeds a threshold—$17,040 in 2018—you will forfeit $1 in benefits.

For example—if you are entitled to $800 a month in benefits ($9,600 for the year)—you work and earn $27,040 ($10,000 over the $17,040 limit) during the year. Your Social Security benefits would be reduced by $5,000 ($1 for every $2 you earned over the limit), but you would still receive $4,600 of your $9,600 in benefits for the year. ($9,600 - $5,000 = $4,600).

Since this is one of the toughest retirement decisions you will have to make, you should consult your attorney, accountant, tax or financial advisor concerning your own personal situation. ■

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It's Not Too Late!

You can make 2018 contributions to an IRA until April 15, 2019.

Have You Asked Yourself These Questions?

1) Do you have a will? **Yes** *or* **No**

2) If so, is it current? **Yes** *or* **No**

(You may need to update your will if your marital status has changed, if you have moved to another state, if the size of your estate has increased or decreased significantly, if children or grandchildren have been welcomed into your family, or if the person named as your executor may be unable to serve.)

3) Have you executed an enduring power of attorney to provide for management of your affairs if you are incapacitated? **Yes** *or* **No**

4) Have you made a list of personal property items and who is to receive each? **Yes** *or* **No**

5) Have you compiled information about assets, bank or credit union accounts, deeds, insurance policies, financial advisors, etc., and told the person(s) responsible for administering your estate where the information is located? **Yes** *or* **No**

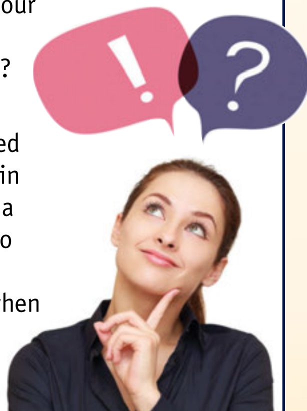
6) Have you provided for guardianship of any minor children or disabled adult children? **Yes** *or* **No**

7) Have you reviewed beneficiary designations of life insurance policies and retirement accounts to make sure they reflect your current wishes? **Yes** *or* **No**

8) Have you executed a living will, setting forth your wishes about medical treatment? **Yes** *or* **No**

9) Have you estimated taxes and other expenses that might be due at the end of your life, taken steps to minimize taxes, and arranged for your estate to have sufficient liquidity? **Yes** *or* **No**

10) Have you developed a retirement plan in consultation with a financial advisor to ensure the quality of life you want when you quit working? **Yes** *or* **No** ■



Considering A Roth Conversion?

While it may not be the right choice for everyone, Roth conversions can provide tax diversification and more income flexibility in retirement. Having a Roth IRA can increase a retirees after-tax income since qualified withdrawals from the account are income tax-free*. Additionally, Roth IRAs aren't subject to required minimum distributions (RMDs), which make them a valuable retirement and estate planning tool.

Deciding whether to convert to a Roth IRA hinges on issues like your income tax bracket now versus later, the tax bill you'll have to pay to convert, and your future plans for your estate.

Anticipating Your Future Tax Bracket

A Roth conversion could be especially beneficial if you are highly confident you'll be in a higher tax bracket in retirement—you'll pay taxes now at your lower current rate. Having tax-free Roth assets can provide you with freedom to use that money to pay for expenses in retirement without increasing your taxable income. If for instance you pay for those expenses using money from your Traditional IRA, those assets would be included in your taxable income and potentially could increase your marginal tax rate as well as your Medicare premiums.

Your Heirs Can Benefit

If you don't need to tap your IRA funds during your lifetime, converting to a Roth allows your savings to grow undiminished by RMDs, potentially leaving more for your heirs—who will also benefit from tax-free withdrawals during their lifetimes. Although your heirs will be required to take RMDs each year, the amount you pass on to them can continue to grow tax-deferred in their Inherited Roth IRAs.

Paying Taxes at the Time of a Conversion Rather Than Later

Tax considerations are the key to a Roth IRA conversion. It makes little sense to convert if you'll be handed a tax bill now that will be much larger than if you had waited to withdraw the funds. Another factor is that you don't want a large conversion in any one year to bump you into a higher tax bracket. To lessen the impact, you could gradually convert from a Traditional IRA to a Roth over the course of several tax years. An effective Roth conversion strategy takes into consideration how much you can convert each year without being pushed into a higher tax bracket.

If you do decide a Roth IRA conversion is right for you, you'll need to figure out how you'll pay the resulting tax bill. Ideally, you'd have cash on hand outside your IRA to pay the income tax on any converted funds. If you don't have enough savings to pay the taxes, there are other options to consider. Consult a qualified tax advisor and financial planner to help you make the best choice for your personal circumstances.

Any decision to convert has to be based on your personal financial status, current tax rates, anticipated future tax rates, goals, age and estate planning intentions. And remember, the conversion will be permanent—you can't revert the money back to a Traditional IRA.

*Qualified distributions are those that occur at least five years after the account is established. At least one of the following conditions must also be met: the account holder is 59½ or older at the time of withdrawal; the account holder is permanently disabled; distributed assets (up to $10,000) are used toward the purchase or rebuilding of a first home for the account holder or a qualified family member; or withdrawals are made by the account beneficiary after the holder's death. ■

Let's Compare Traditional & Roth IRA Withdrawals

Both Traditional IRAs and Roth IRAs offer unique tax advantages.

One major difference between Traditional IRAs and Roth IRAs is when the savings must be withdrawn. With a Traditional IRA, you have to start taking required minimum distributions (RMDs)—mandatory, taxable withdrawals of a certain percentage of your funds—at age 70½, whether you need the money at that point or not. Roth IRAs, on the other hand, don't require any withdrawals during the owner's lifetime. If you have enough other income, you can let your Roth IRAs continue to grow tax-free throughout your lifetime, making them an ideal wealth transfer strategy.

Taxes on Withdrawals

Traditional IRA

Withdrawals of pretax contributions and earnings are taxed as ordinary income.

Roth IRA

Generally, withdrawals of contributions and converted assets are tax-free. Withdrawals of investment earnings are also income tax-free if:

- you've held the account for at least 5 years, and
- you are age 59½ or older

Required Minimum Distributions (RMDs)

Traditional IRA

- Must take your first RMD by April 1 of the year after the year you turn age 70½.

Roth IRA

- None

Early Withdrawal Penalties

Traditional IRA

- Withdrawals of contributions and earnings prior to age 59½ may be subject to a 10% penalty (with some exceptions).

Roth IRA

- Withdrawals of earnings that are not qualified distributions may be subject to a 10% penalty (with some exceptions). Withdrawals of converted assets may be subject to a 10% penalty (with some exceptions) before the converted account is five years old.

Advantages*

Traditional IRA

- Tax-deferred potential growth
- Tax-deductible contributions (when applicable)

Roth IRA

- Tax-deferred potential growth
- Tax-free qualified withdrawals
- No RMDs
- Heirs can take potentially tax-free withdrawals from Inherited Roth IRAs

Considerations

Traditional IRA

- Withdrawals of pretax contributions and earnings are taxed as ordinary income.
- RMDs begin at age 70½.

Roth IRA

- Contributions are not tax-deductible
- Heirs must take RMDs

Spousal Beneficiaries**

Traditional IRA

- Subject to RMD rules.

Roth IRA

- No RMDs

Non-spousal Beneficiaries

Traditional IRA and Roth IRA

- Non-spousal beneficiaries can take distributions from an Inherited IRA before age 59½ without incurring the 10% early withdrawal penalty. They also can designate their own beneficiaries for the Inherited IRA.

* Subject to phase-out based on IRA owner's modified adjusted gross income for deductibility to a Traditional IRA or for contributions to a Roth IRA.

** If spouse elects to treat the Inherited IRA as his/her own. ■

Make Use Of Tax-Advantaged Retirement Accounts & Matching Funds

Look into all your retirement savings options at work, which may come with matching contributions from your employer. Chances are your retirement savings will hardly reduce your take-home pay because of what you'll save in income taxes, and the sooner you start in your career, the more you can take advantage of compound growth.

If you've contributed the maximum at work or if your employer doesn't have a retirement savings program, consider establishing your own IRA and then make regular transfers into it.

Remember, you can set up an automatic transfer from a checking account into savings for retirement. ■

Dear Ira,

Will I still be able to recharacterize a Roth conversion made in 2018?

The ability to convert Traditional IRAs to Roth IRAs, and qualified rollovers from employer-sponsored retirement plans to Roth IRAs, is not affected; however, individuals no longer have the ability to later recharacterize, or undo that conversion. The Tax Cuts and Jobs Act of 2017 repeals the rules permitting recharacterizations of Roth conversions, made on or after January 1, 2018.

My 15 year old daughter works at a local nursery. Can she open an IRA?

Yes. There is no minimum age requirement for opening an IRA. Regulations require only that the account owner has earned income in the tax year for which the contribution is made. ■

Open Your IRA Early In The Year

"The older, the better" could not be more true when referring to IRA accounts. The earlier in the tax year that you contribute to your IRA accounts, the sooner you can put the power of compounding to work for you.

Your earnings accumulate and compound on a tax-free basis in a Roth IRA or on a tax-deferred basis in a Traditional IRA which is the real advantage of an IRA.

Although you may contribute to your IRA until the due date of your tax return for the previous tax year (generally April 15th), you will earn more on your invested dollars by making your contribution as early in the tax year as possible.

The older your IRAs are, the larger your retirement funds will be. ■

IRA Fast Fact

You can have your federal income tax refund deposited directly to your IRA.

Keep Your Designated Beneficiaries Current

By naming a beneficiary(s), your IRA is excluded from probate. On the other hand, if you fail to name a beneficiary for your IRA, it becomes a part of your estate.

Please note that beneficiaries designated on your IRA account supersede those designated in a will. You may want to review your IRA beneficiary designations to see if they are correct.

If a change of beneficiaries is warranted for your IRA, we would be happy to provide a new beneficiary designation form. Call or stop in today! ■

AT-A-GLANCE

TRADITIONAL & ROTH IRA CONTRIBUTION LIMITS

INDIVIDUAL* Tax Year	Annual Contribution Limit	Annual Catch-Up Contribution Age 50 or Older	Maximum Annual Contribution Limit Age 50 or Older (including Catch-Up)
2018	$ 5,500	$ 1,000	$ 6,500
2019	$ 6,000	$ 1,000	$ 7,000

MARRIED/ SPOUSE Tax Year	Annual Contribution Limit	Annual Catch-Up Contribution Both Age 50 or Older	Maximum Annual Contribution Limit Both Age 50 or Older (including Catch-Up)
2018	$ 11,000	$ 2,000	$ 13,000
2019	$ 12,000	$ 2,000	$ 14,000

2018* Total yearly contributions that can be made by an individual to all IRAs (Traditional and Roth) is $5,500 ($6,500 if age 50 or older).

2019* Total yearly contributions that can be made by an individual to all IRAs (Traditional and Roth) is $6,000 ($7,000 if age 50 or older).

IMPORTANT NOTE: *The information contained in this newsletter is not intended to provide specific advice or recommendations for any individual. We suggest that you consult your attorney, accountant, tax or financial advisor with regard to your personal situation.*

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