The Tax Office, Inc.

The Final Piece of the Puzzle...

20 things you need to know about retirement

Some facts

1 Twenty years ago, Americans typically retired between the ages of 62 and 65. Now people are as likely to delay retirement and continue working longer or to work part-time in retirement.

2 Plan for a long retirement in calculating the amount you must save. If you don't, you may outlive your retirement fund. And don't forget the effect of inflation. At just 3% a year, inflation could reduce the purchasing power of your income by more than 25% in ten years.

3 Health care costs are increasing each year even as life expectancies increase. Almost half of today's retirees say they're spending more on health care than they anticipated.

4 Women need to save more for their retirement than men do. Statistics show that women live longer than men, but earn less than men during their working years (which are often fewer due to time taken off for child rearing). According to the Census Bureau, 57% of the population over age 65 are women, and 70% of older people living in poverty are women.

5 For years, the standard advice was to build a retirement fund that would provide 70% to 90% of your pre-retirement income. But with longer life spans, steep medical costs, and higher costs in general, the replacement estimate has been increased to 126% of your pre-retirement income.

How to save

6 Participating in a 401(k), IRA, or other retirement plan is a great way to save for retirement. With many of these plans, you get a current tax deduction for contributions; with all, you get tax-deferred growth.

7 With retirement plan contributions, it's the early bird who maximizes tax-deferred earnings. Make your contributions as early in any given year as you can.

8 Don't rule out saving for retirement just because your income is low. If you contribute to an IRA or company retirement plan, you might qualify for a tax credit of up to $1,000.

9 If you're self-employed or run an owner-only business, look into saving for retirement with a solo 401(k) plan. You'll generally be able to save more for retirement than with other plans.

10 Using a Roth IRA for retirement savings means you won't get an upfront tax deduction for contributions. But withdrawals in retirement are completely tax-free provided you meet the age and time requirements. Also you don't have to start taking minimum distributions at age 70½ as you do with other plans.

11 Once you hit age 50, take advantage of the "catch-up contributions" that let you put additional amounts into your retirement plan each year.

12 Don't hold too much company stock in your retirement account. If your company hits hard times and you lose your job, you don't want your retirement savings to take a hit, too.

Decision time

13 What's more important – saving for your children's education or your retirement? A typical retirement will generally last longer and cost more than your child's education. If you cannot adequately fund both, maximize your retirement savings first. There are far more options for financing a college education than for funding one's retirement.

14 If your child has a job, encourage him or her to set up an IRA. The amount that can be contributed is that year's annual limit or the child's earnings, whichever is less. If you wish, you can even provide the cash for the IRA and let your child spend his or her earnings. Roth IRAs are generally a smarter choice for children than traditional IRAs.

15 Avoid these common retirement blunders:

- ***Ignoring your company's 401(k) plan.*** At least contribute enough to get your company's match.
- ***Allowing your personal savings to lag.*** Many people believe that if they max out their company retirement account, nothing else need be done. That's simply not true. Save as much as you can as early as you can, so that the power of compounding can work its magic.
- ***Mismanaging your investment mix.*** Your investments need to change as your situation changes and as you get closer to retirement. The proper asset allocation for people in their twenties is different from those in their fifties.
- ***Falling for investment scams.*** The surest way to ruin your retirement is to lose your savings in an investment scam. If an investment seems too good to be true, it almost certainly is. Two good basic rules are never to buy any investment over the phone, and never to invest under time pressure.
- ***Paying too little attention to your debt.*** Avoid piling up new debt in the years leading up to retirement.
- ***Underestimating health care costs.*** One study found that retirees who are not covered by their former employer's health plan could spend 20% to 40% of their retirement income on health care.
- ***Letting your spouse do it all.*** If you let your spouse do all the planning and investing for retirement, you'll be at a loss if he or she dies first.
- ***Outliving your money.*** Longer life expectancies mean you could underestimate the number of years you'll spend in retirement. Make sure your planning factors both a long life and inflation into the amount you must save.

16 Though you can start taking social security benefits as early as age 62, your benefits will be reduced if you do. To get full benefits, you must wait to begin drawing social security until you reach "full retirement age," which varies depending on your birth year. Social security benefits increase for each year you delay starting benefits past full retirement age until age 70.

Tax rules

17 Reverse mortgages provide a way for seniors to tap their home equity for needed income during retirement.

18 If you continue working past age 70, you can still add to a 401(k) or Roth IRA, but not to a traditional IRA. At age 70½, you must start withdrawing from a traditional IRA, and, unless you're still working, from a 401(k) plan. There is no age requirement for starting withdrawals from a Roth IRA.

19 Full retirement doesn't end your income tax obligations. You'll owe income taxes on withdrawals from a traditional IRA or 401(k) plan, and you'll owe taxes on investment income outside your retirement plans (interest, dividends, capital gains, etc.). Also, if your income exceeds a threshold amount, you could owe taxes on your social security benefits.

20 It's more important than ever to save for your retirement. Companies are providing fewer pensions, and the social security system may or may not be able to provide benefits at today's levels when you retire. Remember, the earlier you start and the more you save, the more likely you'll be able to enjoy a financially secure retirement.

This brochure provides general information that should not be acted upon without further details and/or professional assistance. For help with your retirement planning, give our office a call.

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