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Financial Briefs

OCTOBER 2019

Ways to Save for Retirement

We all know we're supposed to save for retirement. But that's often easier said than done. There are many reasons for Americans' low savings rates, including stagnant wages and an increasing cost of living. Our own behavior plays a role as well. How can you save more in a time when every dollar seems to buy a little less? Consider the suggestions below:

Get a budget and reduce spending: If you're looking to save more, the first place to look is your current budget. Cutting spending where possible will free up more money to set aside for the future. While some of your expenses are fixed — most of us need to spend money on housing, food, and transportation, for instance — others are flexible. Spending a little less on dining out, canceling subscription services, or choosing a cheaper cell phone plan could free up $50 or $100 in your monthly budget to dedicate to retirement. That may not sound like a lot, but it's a good place to start.

Get your match: If you're lucky enough to work for a company that offers a 401(k) plan and matches employee contributions, make sure you take advantage of it. Not contributing enough to get your match is essentially turning down free money.

Max out your 401(k) plans: In 2019, most people are allowed to contribute up to $19,000 a year to their 401(k) plan. Not everyone can afford to save up to the max, but whatever your income, you should contribute as much to tax-advantaged retirement accounts as you're able.

Contribute to an IRA: If you can't contribute to a retirement plan at work or you want to save even more for retirement, consider setting up an IRA. Assuming you meet certain requirements, you can save up to $6,000 a year in these accounts.

Contribute to a health savings account (HSA): For people who are really intent on maximizing their retirement savings, HSAs can be a

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When Should You Consider a 401(k) Plan?

In 1981, tax laws established the 401(k) plan, a form of defined-contribution retirement plan. The government's motivation was to encourage Americans to increase their private savings as a supplement to Social Security. For employers, the appeal was that defined-contribution plans are simpler to administer and less troublesome to fund than pension plans. For workers, the advantages include an immediate reduction in taxable income, a potential investment boost in the form of employer matching contributions, and the potential for higher earnings accumulation from tax deferrals on capital gains and income.

No wonder, then, that defined-contribution plans are among the most recognized and prized benefits in the American workplace. Employers have learned that the range, quality, and performance of their plan's investment choices matter, as do the ability to make frequent changes in investment choices, take out loans, and flexibility to tap plan assets when employees experience financial hardship. They have also learned that a generous employer-matching contribution is the single most valued feature for employees.

But, is your employer-sponsored 401(k) always the best place for your money? The answer may not be an unequivocal yes. Here are five questions to answer when deciding whether and how much you should contribute:

1. Do you have an emergency fund? Typically, every household's

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Ways to Save

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good option. HSAs are primarily intended as a way for people who have high-deductible health plans to save for medical expenses. But any money not used for healthcare costs now can be used to pay for healthcare in retirement.

Make catch-up contributions: Once you reach age 50, you're eligible to make catch-up contributions to 401(k) plans and IRAs. You can contribute an additional $6,000 a year to your 401(k) plan and an extra $1,000 a year to your IRA. If you consistently make those contributions over the next 15 years (assuming you retire at 65), you'll have an additional $105,000 for retirement — and that's without considering any growth in your investments.

Save in taxable accounts: Most people focus on saving for retirement in various tax-advantaged accounts, like a 401(k) plan. But if you can't save for retirement that way, or you want to save even more, consider saving in more traditional ways. You can put money in a well-diversified investment account, bonds, or other savings vehicles. One advantage of putting some of your money in non-retirement accounts is that you won't have to worry about mandatory withdrawals when you reach age 70½.

Take enough risk: Saving as much as possible is key to having a healthy retirement portfolio. But squirreling away dollars alone isn't enough. To really make the most of your money, you need to invest it. That means investing more in stocks when you're younger and gradually dialing down risk as you get closer to retirement. Being smart about risk is essential to meeting your retirement savings goals.

Don't take early withdrawals: When times get tough, people often turn to the money they've set aside for retirement to close the gap. But if it's at all possible to avoid touching that cash, you should. Not only will you fall behind on your savings — creating a gap that is nearly impossible to make up — you'll also get hit with penalties. Unless you need that money for a true emergency, like you're facing the prospect of losing your home or a major health crisis, leave it alone. You'll be glad you did when the time comes to stop working.

Please call if you'd like to discuss saving for retirement in more detail.

Help Beneficiaries Avoid IRA Mistakes

While annual contributions to IRAs are still relatively modest, the ability to roll over 401(k) balances to an IRA can result in significant IRA balances. IRAs are thus becoming estate planning tools. If this is your situation, help your beneficiaries avoid these common IRA mistakes:

- **Using the IRA balance too quickly.** Your beneficiaries' goal should be to extend this growth for as long as possible. If the IRA has a designated beneficiary, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options which can stretch payments even longer. You should stress the importance of taking withdrawals as slowly as possible.
- **Not splitting the IRA when there are multiple beneficiaries.** When there are multiple beneficiaries, it is typically best to split the IRA into separate accounts by December 31 of the year following the original owner's death. If the account is not split, distributions must be taken by all beneficiaries over the life expectancy of the oldest beneficiary. By splitting the IRA into separate accounts, each beneficiary can take distributions over his/her life expectancy. This is especially important for a surviving spouse, who can only roll over the IRA to his/her own account if he/she is the sole beneficiary. With the rollover IRA, the surviving spouse can name his/her own beneficiary, thus extending the IRA's life, and can defer distributions until age 70½. When other than an individual or qualifying trust is named as one of the beneficiaries, the IRA must be distributed within five years when the owner dies before required distributions begin, or over the owner's life expectancy when the owner dies after required distributions begin.
- **Rolling the balance over to a spouse's IRA too quickly.** Once a spouse rolls over the balance to his/her own IRA, some planning opportunities are eliminated. While the IRA balance can typically be spread out over a longer period when the balance is rolled over, the spouse may need distributions. Spouses under age 59½ can take withdrawals from the original IRA without paying the 10% federal income tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the original IRA. The surviving spouse does not have to take distributions until the deceased spouse would have attained age 70½, even if the surviving spouse is past that age. The spouse may want to disclaim a portion of the IRA, which must be done within nine months of the original owner's death. If the account is rolled over, that disclaimer can't be made.
- **Not properly establishing the inherited IRA.** An inherited IRA must be retitled to include the decedent's name, the words individual retirement account, and the beneficiary's name.

When Should You?

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first priority is to establish an emergency fund equal to three to six months of earned income. While there are ways to access funds in your 401(k) plan (loans and hardship withdrawals), it is generally easier to use an emergency fund.

2. Are you properly insured? If you have dependents, life insurance is a much more cost-effective way to provide for their needs than a savings plan.

3. Does your employer match your contributions? An employer-matching contribution is the single most compelling reason to participate in a workplace defined-contribution plan. So, if your plan features a match, it's generally a good idea to participate at least up to the maximum matching amount.

That said, over the past few years, many employers have been forced to cut back or eliminate their ongoing matching contributions. If your plan doesn't offer one, it's not necessarily a reason to stay away from it. But it does mean you should research other ways to save for your retirement.

4. Does your plan offer enough diversification? Some plans offer very few investment choices. There may be nothing wrong with these choices, but limited choices may not offer the kind of diversification you need. You may need to open your own individual retirement account (IRA) to find the wider range of opportunities that will maximize your returns while controlling for risk.

5. Are the funds well managed? Not all funds perform equally well, and some charge more than others. While you shouldn't blame a fund when the financial markets underperform, you should evaluate a fund's performance relative to the markets in which it invests.

Is your employer's 401(k) the best place for your next retirement savings dollar? Only a thorough review of the plan and your needs can answer that question. Please call if you'd like to discuss your 401(k) plan in more detail.

Converting to a Roth IRA

Roth IRAs are a valuable retirement-planning tool, as they offer a source of tax-free income after you retire. And since the federal government relaxed conversion rules in 2010, even high-income earners have been able convert to Roth IRAs. Despite some advantages, Roth IRA conversions aren't right for everyone.

What Is a Roth IRA Conversion?

In simplest terms, a Roth conversion involves changing the tax treatment of your retirement savings. Generally, contributions to a traditional IRA are tax deductible in the year you make them (contributions may be allowed but not deductible if your income exceeds certain limits). The money you contribute grows over time; when you start making withdrawals in retirement, you pay taxes on the money you take out.

Contributions to Roth IRAs, on the other hand, aren't tax deductible in the year they are made. But earnings grow tax free; when you withdraw the money, you don't pay any federal income taxes. A Roth IRA conversion involves taking funds from a traditional IRA, paying tax on any previously untaxed funds, and then putting the funds in a Roth IRA so that you can have tax-free income in retirement.

Pros of Roth Conversions

For anyone who suspects they may be in a higher tax bracket in retirement, converting to a Roth IRA may be appealing. Roth IRA conversions may also be a smart move if the value of your IRA has recently dropped, because you'll pay less tax on the conversion, or if you have other deductions or credits you can claim to help offset the tax on the converted amount. If you're young and in a relatively low tax bracket, Roth IRAs are also advantageous since you won't get much of a tax break from current deductible contributions and your taxes are likely to be higher in the future.

People who have significant assets may also use Roth IRA conversions as an estate-planning tool. If your other assets will be sufficient for your retirement income needs and you don't anticipate a need to make withdrawals from your Roth IRA during your lifetime, you may want to use it as a way to leave tax-free income to your heirs. Since there are no required minimum distributions from a Roth IRA, the money can grow undisturbed during your lifetime, plus the distributions to your heirs should be free of income tax.

Cons of Roth Conversions

When is it not a good idea to convert to a Roth IRA? If the steep tax bill for converting makes you squirm, a Roth IRA conversion may not be for you. After all, if you're in the 32% tax bracket and convert a $100,000 IRA, you'll owe $32,000 in taxes. Plus, most experts recommend using cash outside the plan to pay the tax on conversion to avoid depleting your retirement savings. Paying the taxes with cash is especially critical if you are under age 59½, because if you use money from your IRA to pay the tax, you'll owe a 10% penalty on the amount not rolled over into the Roth IRA. Likewise, if you plan on spending the Roth IRA funds early on in retirement (within five years of the conversion), you may not have enough time for earnings in the Roth IRA to make up for taxes paid on the conversion.

Roth IRA conversions are complicated. If you're considering converting, don't attempt to go it alone. The tax- and estate-planning consequences of a Roth IRA conversion can be significant, so please call if you'd like to discuss this in more detail.

News and Announcements

From the Alexander Household

On September 11, we saw the documentary *You Are Here: A Come From Away Story*. After the terrorist attacks of 9/11, planes were forced to return to their countries of origin, but some did not have enough fuel to do so. Many were diverted to Gander, Newfoundland and the community rallied to care for the "plane people" who had "come from away." Gander welcomed 38 airplanes carrying nearly 7,000 passengers into a town of 9,000. The plane people stayed for four days.

On the 10th anniversary, thousands returned to Gander for the anniversary. Irene Sankoff and David Hein, who received a grant to write a musical, went to Gander to gather the stories, so many that their first draft of the show was five hours long. They wrote *Come from Away*, which is the longest-running Canadian musical in Broadway history.

"Our whole lives have been changed," Hein said. "It makes us look at our lives and want to be better people, open to stories from around the world, and to be more open to reaching out to people." Reviewer Ben Brantley said, it is a "reminder of the capacity for human kindness in even the darkest of times."

One of my favorite stories is about passengers from Africa who didn't speak English. When they saw Salvation Army officers in uniform, they refused to exit the bus in fear. The bus driver noticed their Bible, asked to borrow it and found Philippians 4:6 "Do not be anxious about anything." As they say in the musical "that's how we started speaking the same language."

Carol Ringrose Alexander,
CFP®, AIF®, CDFA™

From the Rudy Household

When I am not spending time with family or at the office, I like to be involved in the community. Five years ago, my involvement expanded to a new level when I decided to run for an elected position for the Frisco ISD Board of Trustees (School Board). Serving in this position has brought some truly unique experiences.

The first is actually running a campaign. You find out a lot about yourself and your fortitude. The initial campaign phase centers around meeting as many new people as you can and completing newspaper and community group questionnaires. You quickly move to public forums and debates. Finally, after greeting voters at the polls on election day, you stay up late eagerly awaiting the results.

Once elected, the role is a completely different activity with very broad responsibilities. A great deal of emphasis is on prioritizing the budget, which is something I expected and enjoy. What I didn't expect was the curriculum decisions, parent concerns, legal issues, land acquisitions, and advocating with our State and Federal legislators. One of the most unique opportunities is giving a speech to our 7,600 employees at the beginning of each school year.

While this role is much larger than I ever imagined, it is very rewarding. I truly value the opportunity to give back in a manner that has a significant and important impact on so many students, teachers, and community members.

Chad Rudy, CFP®

From the Bolander Household

Finally, there is a nip in the air! I do enjoy the changing seasons. Fall is one of my favorites, and October is a nice lull before the holiday frenzy. Also, October has been dubbed Cybersecurity month. Scammers can get access to your passwords and accounts by sending malicious emails that look like they're from someone you know. Please delete any emails that look suspicious and never open or click on attachments you weren't expecting, or even if you are, please beware. At home I've been getting messages that say something about my mortgage refi (even though we don't have a mortgage), my Amazon order (when I haven't ordered anything), and the best fake-out, Best Buy gift card awaiting your response. All of these contain links just to "see the details." Even if the email is from someone you know, it might be a good idea to give them a call before you click.

Be proactive and update passwords often, including at least 12 characters with a mix of letters, numbers and symbols, and try not to include personal information. An added form of security, such as a single-use code sent to your phone, is called two-factor authentication and many banks are offering it now. For more Cybersecurity tips go to the U.S. Federal Trade Commission site: **www.consumer.ftc.gov.**

Safe surfing!

Brenda C. Bolander,
CFP®, CPA/PFS