RETIREMENT
INVESTMENT ADVISORS, INC.

3001 United Founders Blvd.
Oklahoma City, OK 73112
(405) 842-3443
(800) 725-4530

2952 Via Esperanza
Edmond, OK 73013
(405) 246-0404

99300 John Hickman Pkwy.
Suite 504
Frisco, TX 75035
(972) 377-2850

www.TheRetirementPath.com

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left to right: Joe Bowie, Andrew Flinton, Brenda C. Bolander, Carol Ringrose Alexander, Randy Thurman, and Chad Rudy

Financial Briefs

OCTOBER 2016

Should You Contribute to a Retirement Plan or IRA? Or Both?

If you're eligible to contribute to an employer-sponsored retirement plan, should you? Should you contribute to an individual retirement account (IRA)? How about contributing to both? The answers are: Yes, yes, and yes. If this comes as a surprise, it's probably because there are so many rules about eligibility for contributing to IRAs and workplace retirement plans, it's easy to become confused about what is allowed and what isn't.

But whatever rules there are, one thing is never ruled out: you can always contribute to both a workplace retirement plan — like a 401(k) or 457 plan — and an IRA, as long as you have earned income. What's open to question are how much you can contribute, to which type of account, and whether your contributions are tax deductible. Keep these three important points in mind:

Point 1: There are limits to your annual contributions. Every year, the IRS sets limits on how much you can contribute to retirement plans, and the amounts are different for various types of plans. The one rule common to them all is this: you can't contribute more than your earned income (except for contributions to a spousal IRA for a spouse who does not work).

Let's say your employer sponsors a 401(k) plan. If you participate in the plan by a) making contributions of your own, b) your employer makes contributions for you, or c) you and your employer both contribute to your account, then you can still contribute to your own IRA outside the workplace. If you are 49 or younger, in 2016, you can contribute $18,000 to a 401(k) plan and another $5,500 to an IRA, for a total of $23,500 in retirement plan

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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. Thus, in addition to retirement planning vehicles, IRAs are becoming estate-planning tools for individuals who won't use the entire balance during their lifetimes. If you are in that situation, help your beneficiaries avoid these common IRA mistakes:

- **Using the IRA balance too quickly.** After an IRA is inherited, a traditional deductible IRA still retains its tax-deferred growth, and a Roth IRA retains its tax-free growth. Your beneficiaries' goal should be to extend this growth for as long as possible. If the IRA has a designated beneficiary that includes individuals and/or certain trusts, the balance can be paid out over the beneficiary's life expectancy. Spouses have additional options that can stretch payments even longer. Your beneficiaries can also elect to take the entire balance immediately, paying any income taxes due. 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 own life expectancy. This is especially important for a surviving spouse, who can only roll over

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Should You Contribute?

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contributions. If you're 50 or older, those numbers are $24,000 for the workplace plan and $6,500 for an IRA, for a total of $30,500.

Point 2: Your income can affect the tax treatment of IRA contributions. Originally, there was only one kind of IRA: the kind that enabled you to reduce your taxable income by the amount of your contributions when you file your income tax return. Today, it's referred to as a traditional IRA to distinguish it from a Roth IRA, to which you can only contribute after-tax money.

There are good reasons to choose either the traditional or Roth IRA, but if you participate in a workplace retirement plan *and* have income above the IRS limits, your ability to take the tax deduction for a contribution to a traditional IRA is limited. In 2016, tax deductibility begins to phase out if you're a single filer and earn more than $61,000, and disappears altogether at $71,000. For joint filers, the range is higher: $98,000 to $118,000.

Take note, however: if you make too much to be eligible for the upfront income tax benefit in the year you contribute to a traditional IRA, you can still make contributions to it *and* to your workplace retirement plan. In this case, you might want to consider contributing to a Roth IRA instead. Here, as well, you might be limited by income: for 2016, eligibility to contribute to a Roth IRA phases out for single filers above $117,000 and joint filers above $184,000 and disappears completely for those earning more than $132,000 and $194,000, respectively.

Step 3: Doing either can build assets faster — both, faster yet. The complexity of the rules regarding whether IRA contributions are tax deductible has obscured the most important benefit of qualified retirement plans: they compound free of annual taxes. This gives them a distinct advantage over taxable savings accounts, because at the same rate of return, assets grow faster when returns are not taxed.

For someone with an effective federal tax rate of 25%, an annual contribution of $5,500 to a taxable account that returns 6% a year grows to almost $226,000 in 25 years. But that same contribution to an IRA, at the same rate of return, grows to more than $301,000 — a difference of more than $75,000, regardless of whether the contributions were tax deductible. Increase the contribution to $20,000 a year, and your retirement fund grows to nearly $1.1 million after 25 years — and the advantage over a taxable account exceeds $200,000. *These examples are provided for illustrative purposes only and are not intended to project the performance of a specific investment vehicle.*

The bottom line: you should contribute as much as possible to tax-advantaged retirement plans. For many people who work, there are multiple retirement savings options available, including dividing your IRA contributions between both a traditional and a Roth IRA. There are even IRA options open for nonworking spouses. To make sure you're taking full advantage of the options open to you, please call.

Get Your 401(k) Plan on Track

For many people, their 401(k) plan represents their most significant retirement savings vehicle. Thus, to make sure you have sufficient funds for retirement, you need to get your 401(k) plan on track. To do so, consider these tips:

- **Increase your contribution rate.** Strive for total contributions from you and your employer of approximately 10% to 15% of your salary. If you're not able to save that much right away, save what you can now and increase your contribution rate every six months until you reach that level. One way to accomplish that is to put all pay increases immediately into your 401(k) plan. At a minimum, make sure you're contributing enough to take advantage of all employer-matching contributions.
- **Rebalance your investments.** You can't select your investments once and then just ignore your plan. Review your allocation annually to make sure it is close to your original allocation. If not, adjust your holdings to get your allocation back in line. Selling investments within your 401(k) plan does not generate tax liabilities, so you can make these changes without tax ramifications. Use this annual review to make sure you are still satisfied with your investment choices and your allocation is still appropriate for your situation. Avoid common mistakes made when investing 401(k) assets, such as allocating too much to conservative investments, not diversifying among several investments, and investing too much in your employer's stock.
- **Don't raid your 401(k) balance.** Your 401(k) plan should only be used for your retirement. Don't even think about borrowing from the plan for any other purpose. Sure, that money might come in handy to use as a down payment on a home or pay off some debts. But you don't want to get in the habit of using those funds for anything other than retirement. Similarly, if you change jobs, don't withdraw money from your 401(k) plan. Keep the money with your old employer or roll it over to your new 401(k) plan or an individual retirement account.
- **Seek guidance.** It is important to manage your 401(k) plan carefully to help maximize your future retirement income. If you're concerned about the long-term future of your 401(k) plan, please call for a review.

Help Beneficiaries

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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. Separating the account or paying out the nonindividual's portion then allows the individual beneficiaries to take distributions over their life expectancies.

- **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. Once the account is rolled over, withdrawals before age 59½ would result in a 10% tax penalty. Also, spouses who are older than the original owner can delay distributions by retaining the original IRA. The surviving spouse is not required 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. Thus, it is typically best for the surviving spouse to determine his/her financial needs before rolling over the IRA balance.
- **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. The IRA cannot simply remain in the decedent's name. The beneficiaries should also designate beneficiaries for their own IRAs.

Please call if you'd like to discuss this topic in more detail.

Are You Saving Enough to Retire Well?

Are you saving enough to retire well? It depends on what your definition is — i.e., how much money you'll need during retirement, when you plan to retire, and how much you have already saved. **So how much might the average worker *actually* need?**

Assume a current income of \$50,000 per year, an 8% return on your savings before retirement, 35% of your portfolio invested in stocks after retirement, inflation of 3% per year, and a life expectancy of 90 years. Not counting any other forms of retirement income (Social Security or pension benefits, for example), you'll need between \$1.3 and \$2.5 million in your account when you're ready to retire.

That's a big range and the decisions you make can dramatically affect how much you'll need to save for retirement. For example, if you're 50 when you start saving, you can cut the total amount you'll need to save per month almost in half by delaying your retirement by five years. If you really want to retire at age 65, you can cut how much you need to save substantially if you scale back the retirement lifestyle you're planning (for instance, from 85% of your current income to 75%).

To determine how much money you'll need to have saved for your retirement, you'll need to consider:

1. How much do you already have saved? If you're 50 years old and you have \$250,000 in your retirement account, you won't have to save nearly as much as if you had no nest egg.

2. How many more years do you plan to work? The longer you are saving and earning returns on those savings, the more money you'll have when you're ready to retire. When you take into account the fact that your Social Security benefits will be reduced if you retire before full retirement age, delaying retirement makes even more sense.

3. What is your estimated Social Security benefit? Most Americans will likely receive some sort of benefit from the program. It's important to remember, however, that Social Security is just a supplement to your other retirement savings. How much you'll need to count on those other savings depends on how long you worked (and thus paid into Social Security), what you earned, and when you'll retire.

4. How much income will you need in retirement? A huge factor that will determine how you answer this question is whether you'll have a mortgage payment when you're retired. For most people, a mortgage payment makes up about a quarter of their pretax monthly income. So if you plan to have your house paid off by the time you retire, you can keep all of your other expenses the same and still only need 75% of the income you needed when you had a mortgage payment.

Of course, you'll also want to think about the activities you want to pursue. If it's traveling the world, you'll need more income than if your plans are to stay home and spend more time with your grandchildren.

Please call if you'd like to discuss this in more detail.

News and Announcements

From the Thurman Household

Levi is now a sophomore in college, still working at the YMCA and taking on clients as a fitness trainer. He is down to 5% body fat and continues to lift weights. My big toe in high school was about that.

We just had Johnny Quinn as a speaker at a client event. Johnny was a professional football player who made the natural transition to bobsledding. Ha ha! He is an Olympic bobsledder now, and I'm looking forward to the next Olympics and watching him compete.

I'm working on my next book, *More Than a Millionaire*. It is for those ages 20–35, and I expect the first rough draft to be completed by the end of the year. My other book, *The All-Weather Retirement Portfolio* continues to sell well in its category. If you're a client or a potential lifetime client and would like a book, just call our office, and we will send one out.

My father is in skilled rehab again, after a short stay at home. Please keep him in your prayers.

Pati just finished a 70-mile bike ride. She's into bicycling, running, swimming, spin class, and water aerobics, on her easy weeks. Just the thought of it makes me tired. I'll stick to running.

Have a great month,

Randy Thurman, CFP®, CPA/PFS

From the Rudy Household

Over the summer, Amy and I celebrated our 20th wedding anniversary. We realized we hadn't been on a week-long vacation, just the two of us, since our honeymoon. Amy and I are SCUBA certified, but hadn't been diving in quite some time. We wanted to choose a location that offered beauty and relaxation, as well as the option to dive.

We decided on a dive resort in St. Lucia in the eastern Caribbean Sea. During the boat rides to our dive destinations, we enjoyed getting to know other people vacationing in St. Lucia. One young couple was celebrating their honeymoon, just as we had done 20 years ago. Our favorite dive spot of the trip was St. Lucia's landmark, The Piton Mountains. Not only were The Pitons spectacular above water, but they provided a unique and vibrant dive experience below the surface.

While we did quite a bit of diving, we also enjoyed the many other resort and island activities. We even found some time just to relax, which for those who know me, was quite a feat. We are looking forward to another long vacation, and this time, we will not wait 20 years.

Knowing that Amy is an active reader of our newsletter…Happy Anniversary, Amy!

Chad Rudy, CFP®

From the Misialek Household

"Very few people or companies can clearly articulate WHY they do what they do. By 'why,' I mean your purpose, cause or belief — Why does your company exist? Why do you get out of bed every morning?"

~Simon Sinek, Author of *Start with Why: How Great Leaders Inspire Everyone to Take Action*

Our staff is currently exploring Simon Sinek's "Start with Why" concept. We asked the question, "What is Retirement Investment Advisors' 'Why'?" We looked at our mission statement to focus our thoughts:

Retirement Investment Advisors commits to be the company worthy of helping people achieve financial security for life.

We also asked our employees, "What is your personal "why" regarding working for this company? The answers varied greatly. Some said the company cares about their family and work/life balance. Others cited our willingness to give back to the community and being client-service driven. But we all felt very strongly about our willingness to work hard for a company that cares about our well-being. Collectively, we agreed that we feel inspired that our company truly cares about the future of its clients and its employees. Our staff created our own mission statement:

Let us work together to effectively communicate and foster trust, while committing to provide ethical, confidential, and professional service.

When employees feel like they belong, they will not be working hard because it's required, they will be doing it for themselves. We know that passion comes from feeling like you are a part of something you believe in — something bigger than yourself.

Heather Misialek,

Senior Vice President