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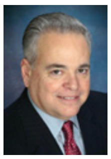

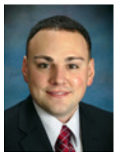

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Tax and Retirement Planning for Families with a Stay-At-Home Spouse

In many families, one of the spouses stays home, often to care for children and the household. This may be hard work, but for tax purposes the contributions of the stay-at-home spouse are not recognized in the same way as they are for individuals with earned income. If your wife or husband does not have paid employment, your family may have to do some additional planning to minimize your tax bill, while ensuring that you are saving enough for retirement to cover the needs of both partners.

Even if your husband or wife has not earned a significant amount of income through paid employment, he or she may be entitled to a Social Security spousal benefit. Based on the working spouse's earnings record, the spousal benefit can be claimed after the working partner has filed for benefits and the nonworking partner has reached retirement age. The spousal benefit generally amounts to 50% of the monthly Social Security payment received by the spouse who worked regularly, or less if claimed early.

But Social Security benefits alone are unlikely to cover the needs of most couples in retirement. Thus, your family's retirement strategy should include a plan for both partners, even if you are the sole earner. If you have not done so already, consider making the maximum contribution to your employer-sponsored 401(k) plan. While your nonworking partner is not permitted to contribute to your workplace retirement plan, the annual contribution limit in 2017 is $18,000, or $24,000 for individuals age 50 and over. The funds in the account will be held in your name, but can be inherited by your spouse, and are typically divided between the spouses in the event of a divorce.

Another option for tax-advantaged retirement savings is a spousal IRA, which is simply a regular IRA designed specifically for spouses who are not employed or are working too little to contribute to a qualified retirement account. While it is a fundamental rule that individuals need to have earned income, or wages, in order to contribute to an IRA, a nonworking spouse is permitted to open an account to which the working spouse may contribute. Provided you file a joint return, you are permitted to contribute up to $5,500 (or $6,500 for those age 50 and older) in 2017 to an account in your partner's name, while also contributing the same amount in your own IRA. Thus, your household may be eligible to contribute up to a total of $11,000 or $13,000 to two separate IRA accounts.

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Americans Express Interest in Lifetime Income Options

While a majority of Americans say they are confident that they will have sufficient income in retirement, large shares also express interest in purchasing a financial product that would provide them with a guaranteed monthly income in retirement, according to the results of a survey conducted by the Teachers Insurance and Annuity Association of America (TIAA).

The survey of 1,000 U.S. adults conducted in June 2016 showed that 58% feel confident that they can successfully turn their retirement savings into income after they stop working, and that only 35% are concerned about running out of money in retirement. Researchers pointed out, however, that this confidence could be misplaced, as only 46% of respondents indicated that they know how much they have saved in their retirement savings accounts, and just 35% said they know how much monthly income they will have in retirement.

The results also provided evidence that Americans are underestimating their retirement income needs. Of the respondents who are not currently retired, 41% said they are saving 10% or less of their income for retirement, and 63% estimated that they will need less than 75% of their current income to live comfortably in retirement. In addition, of the 28% of respondents who are not retired and indicated they are not saving anything for retirement, just 47% said they are worried about not having enough money in retirement.

Yet when asked to name the retirement plan feature they consider to be most important, 49% of respondents said the plan should provide a guaranteed monthly

income in retirement. Moreover, when offered a choice among several lifetime benefits, 68% of the adults surveyed chose a retirement "paycheck" that lasts as long as they live over options like an unlimited lifetime airline ticket (9%), a new car every year for the rest of their life (9%), or unlimited dining out (4%). However, only 43% of respondents said they are willing to commit a portion of their retirement savings to a choice that would allow them to receive a monthly payment for life, and 41% said they are unsure whether their current retirement plan provides an option for lifetime income.

When asked to identify the specific sources of income they expect to draw from in retirement, 73% of respondents said they expect to rely on Social Security; 29% said they anticipate receiving payments from a defined benefit pension plan; 54% indicated they intend to make withdrawals from retirement accounts like 401(k)s, 403(b)s, or IRAs; and 14% said they plan to use annuities to generate an income.

The survey also found that while most respondents expressed a desire to have reliable monthly income in retirement, the vehicles they expect to use to generate that income differ by generation and by income level. For example, 84% of the baby boomer respondents said they plan to rely on Social Security for retirement income, compared to 69% of Gen X and 61% of Gen Y respondents. By contrast, the Gen X and Gen Y respondents were more likely than the baby boomers to say they plan to make withdrawals from retirement accounts.

Of the generations surveyed, millennials were less likely to say they are familiar with annuities (20%) than Gen Xers (38%) and baby boomers (41%). However, millennial respondents were more likely than older respondents to say they would be willing to commit a portion of their retirement savings to a product that will provide them with a monthly payment for life.

Broken down by income, the survey showed that respondents with incomes over $100,000 per year were more likely to say they expect to draw from a wide array of income sources than people with incomes under $50,000 per year. For example, 69% of respondents at the higher income level said they intend to withdraw savings from a retirement plan, compared to 41% of respondents at the lower income level. The higher income respondents were also more likely than their lower income counterparts to say they expect to receive payments from a pension plan (40% vs. 19%) or income from annuities (27% vs. 10%).

A Look at Tax Planning for Retirement

After years of saving and planning for their golden years, many people nearing retirement fail to consider the tax burden they may face on income they receive after they stop working. While you will likely see a reduction in the amount of taxes you owe after the age of 65, you still need to plan ahead if you want to minimize your tax bill from the IRS.

Social Security Benefits

Depending upon your total income and marital status, a portion of your Social Security benefits may be taxable. For a rough estimate of your potential tax liability, add half of your Social Security benefits to your projected income from all other sources. This figure is your adjusted gross income (AGI), plus any tax-free interest income from municipal bonds or foreign-earned income. Up to half of Social Security benefits are taxable if this sum, which is called your provisional income, exceeds $25,000 for singles or $32,000 for married couples filing jointly. However, up to 85% of Social Security benefits are taxable if your provisional income is above $34,000 for single filers or $44,000 for married couples filing jointly.

Use the Social Security Benefits Worksheet in the instructions for IRS Form 1040 to calculate the exact amount of taxes owed. Rather than writing a large check once a year, you can arrange to have taxes withheld from your Social Security benefits checks by completing Form W-4V and filing it with the Social Security Administration.

Other Income Sources

In addition to collecting Social Security benefits, most retirees receive their income from a variety of sources, including distributions from 401(k) accounts and individual retirement accounts (IRAs); payouts from company pensions and annuities; and earnings from investments.

Contributions and earnings growth are tax deferred on 401(k)s and traditional IRAs; however, distributions from these accounts are fully taxable, but have no penalties if withdrawals are made after age 59½. If you have savings in 401(k) accounts or traditional IRAs, you must begin making withdrawals from these accounts—and paying taxes on the distributions—by April 1 of the year following the year in which you reach age 70½. If you are at least 59½ years old and have owned a Roth IRA or Roth 401(k) for at least five years, withdrawals are completely tax free. There are no minimum distribution requirements for Roth accounts.

Strategies to Minimize Taxes

Most retirees with nest eggs or pension income of any size will pay at least some taxes on their retirement income, but there are strategies to reduce the amount owed. While it usually makes sense to delay taking taxable distributions from retirement accounts until the funds are needed, or until distributions are required, you may want to withdraw more funds in tax years when claiming a large number of deductions temporarily lowers your tax rate. You may, for example, choose to take advantage of itemized deductions, such as the breaks for medical expenses or charitable gifts, in certain years, while taking the standard deduction in other years.

A desire to leave a portion of your assets to your family may also influence how you handle withdrawals from tax-deferred accounts. Keep in mind that, if you leave behind funds in a traditional IRA, the rules for inheritance can be complex. To avoid these issues and make it easier to pass on your estate to family members, consider converting traditional IRAs to Roth IRAs. While you will have to pay taxes on the funds converted, moving to a Roth IRA eliminates future tax liabilities, regardless of whether you use the funds in retirement or pass the money on to your heirs. Alternatively, you may wish to consider cashing in your traditional IRAs and using the funds to purchase tax-free bonds or a life insurance policy that will provide your heirs with a tax-free inheritance.

If you are planning to retire soon, consider the tax implications of your income to avoid an unexpected bill from the IRS. For more information, consult your tax professional.

Investing for a Future Lifestyle

It is never too early to begin planning for retirement. Many retirees may want to maintain a standard of living consistent with their pre-retirement years. As a general rule of thumb, this means that it may require from 60% to 80% of an individual's pre-retirement income to support a comfortable retirement lifestyle. For this reason, although pre- *and* post-retirement portfolios typically contain both income and growth investments, pre-retirement portfolios are generally more heavily weighted toward accumulation.

tax and retirement planning for families with a stay-at-home spouse

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A spousal IRA can be a traditional IRA or a Roth IRA. The traditional IRA is tax-deferred, which means that you won't pay income taxes on current contributions, but you will owe taxes on distributions in retirement. By contrast, Roth IRA contributions are made with after-tax dollars, but the funds in the account grow on a tax-deferred basis and can be withdrawn tax free in retirement. Thus, a Roth IRA may be an attractive option if you expect to be paying higher tax rates in retirement or wish to leave an IRA to beneficiaries. However, in 2017 the eligibility for contributing to a Roth account starts to phase out for married couples with a modified adjusted gross income (AGI) of $186,000, and is capped at $196,000.

It is also important to keep in mind that the deduction for taxpayers making contributions to a traditional IRA is phased out for married couples filing jointly when the spouse who makes the IRA contributions is covered by a workplace retirement plan. While the modified AGI phase-out range is $99,000 to $119,000 in 2017 for the spouse who is employed, it is raised to $186,000 to $196,000 for an IRA contributor who is not covered by a workplace retirement plan and is married to an individual who is covered.

Married couples in which one partner owns a business or is self-employed have additional options for saving for a stay-at-home spouse's retirement. For example, if you own a business, your partner may be able to provide services to your company, such as bookkeeping or answering calls, while still remaining primarily at home. If you pay your partner as an employee, he or she can qualify to participate in the company's retirement plan. This approach can lower your family's current income tax bill, while helping to secure your financial future as a couple.

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