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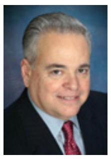
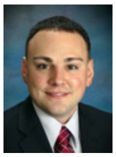
21st century retirement





John Mezzasalma
CPA, CFP®
john@mezzcpa.com

Anthony Mezzasalma
CPA, CFP®
anthony@mezzcpa.com

Mezzasalma Advisors

FIVE STAR WEALTH MANAGER
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106 Apple Street • Suite 107 • Tinton Falls, NJ 07724
Tel: (732) 842-1120 • Fax: (732) 676-7639

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in this issue:

Build It from the Ground Up–A Blueprint for Retirement

A comfortable and worry-free retirement is the goal of many Americans. However, the biggest obstacle in attaining retirement goals is that people may tend to procrastinate and avoid thinking ahead to formulate a plan of action. As a result, many are left scratching their heads, with little time on their side. How will they attain the funds needed to enjoy their retirement years?

Whatever your age, it is never too soon to look ahead and begin giving thought to your retirement. Planning for retirement has become a more difficult task. Therefore, it's important that you plan well in advance by setting goals and deciding how they will be met.

Invest for a Future Lifestyle

Although pre-retirement and post-retirement investment portfolios should each have both income *and* accumulation aspects, your pre-retirement portfolio should be more heavily weighted toward accumulation for later use. It is never too early to begin planning for your retirement. Generally, you will desire to maintain a standard of living consistent with your pre-retirement years. However, you may need about 60-80% of your pre-retirement income to support a comfortable retirement lifestyle.

Proceeds from pension plans and Social Security may account for as little as 35% of the typical retiree's income. Another 25% may be derived from earned income—either full or part-time employment. In order to retire comfortably, the remaining amount needed would have to come from your personal retirement savings or investments.

Fill the "Void"

The amount needed to fill this income "void" will depend on the amount of Social Security you will receive and what income you will have from other sources such as a **company pension plan** or your own **Individual Retirement Account (IRA).** That is why the steps you take today (investing, diversifying, increasing already existing investments, etc.) will be vital to help fill this gap and secure a comfortable retirement.

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Traditional IRAs vs. Roth IRAs

Currently, there are two popular **Individual Retirement Accounts (IRAs)** vying for your attention: the ***traditional*** **IRA** and the ***Roth*** **IRA**. While both are long-term savings vehicles with tax benefits, each has different rules concerning contributions, age, and income that may change from one year to the next.

Contributions

Perhaps the biggest difference between traditional IRAs and Roth IRAs is how and when taxes apply to the contributions and earnings. Contributions to traditional IRAs can be pre-tax (deductible on the taxpayer's income tax return). Although contributions and earnings accumulate on a tax-deferred basis, income taxes are due when IRA distributions are taken. On the other hand, contributions to Roth IRAs are made with after-tax dollars, and contributions and earnings accumulate tax free. No income tax is due when distributions are taken from a Roth IRA. For tax year 2017, the maximum contribution to either a traditional IRA or Roth IRA is $5,500 ($6,500 for individuals age 50 or older).

Age Restrictions

Contributions to traditional IRAs may be made in the years in which an individual receives compensation prior to attaining age 70½. **Required minimum distributions (RMDs)** must begin by April 1 of the year after an individual reaches age 70½ (or a considerable tax penalty may apply). In contrast, Roth IRAs have neither an age limit for contributions nor minimum distribution requirements. However, both traditional and Roth IRAs have a minimum age for distributions: 59½. Distributions taken prior to age 59½ may be subject to a 10% Federal income tax penalty. Certain situations qualify as exemptions, such as distributions to pay first-time-homebuyer expenses or qualified education expenses. Furthermore, before tax-free distributions can be received from a Roth IRA, the account must be five years old.

Income Eligibility Limits

Depending on your tax-filing status, your income, and whether or not you participate in a qualified employer-sponsored retirement plan, you may be eligible to take an income tax deduction for contributions to a traditional IRA. If you are a single taxpayer, do *not* participate in a qualified employer-sponsored plan, and earn a minimum of $5,500, contributions are deductible regardless of your **adjusted gross income (AGI)**. However, if you do participate in an employer-sponsored retirement plan, income limits apply. Deductions in 2017 phase out for single filers with **modified AGIs (MAGIs)** between $62,000 and $72,000, and for married couple joint filers with MAGIs between $99,000 and $119,000.

The income eligibility requirements are different for Roth IRAs. If you participate in a qualified employer-sponsored retirement plan, you may contribute to a Roth IRA; however, if you are also contributing to a traditional IRA, your contributions may not exceed the annual contribution limits. You are eligible to make a full contribution to a Roth IRA if your MAGI in 2017 does not exceed $133,000 for single filers or $196,000 for married joint filers (contributions phase out for single filers with MAGIs between $118,000 and $133,000, and for married joint filers with MAGIs between $186,000 and $196,000). For a married individual filing separately who participates in a workplace retirement plan, the phase-out range is $1 to $10,000.

A Roth IRA is often a favored choice for those who participate in a qualified employer-sponsored retirement plan and exceed the income limits for a deductible IRA, but who meet the income eligibility requirements for a Roth IRA.

Analyze This

As you investigate which IRA—or combination of IRAs—offers you the best bottom line, you may want to consider the following questions:

- What tax benefits, current and long-term, are available to you?
- Would you like to make contributions beyond age 70½?
- When do you anticipate needing your IRA proceeds?

An analysis of your personal financial situation and retirement objectives with a qualified financial professional can help you develop a financial strategy to meet your specific needs. Scrutinizing the details *now* may save you time and money in the future. ■

build it from the ground up–a blueprint for retirement

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Steps to Take Now

- Contribute the maximum amount to your IRA. The tax law changes give taxpayers more flexibility than ever, but also become more confusing. There are some enhancements to traditional IRAs and the **"Roth" IRA** provides tax-free growth and flexibility of withdrawals after five years. In addition, if your spouse is not working, you might consider getting a **spousal IRA**. However, it is essential that you consult with a qualified professional to determine which course of action best suits your needs (especially when comparing the benefits of the "traditional" IRA to the "Roth" IRA).
- If you have an employer-sponsored **401(k)** or **403(b) plan**, you may wish to maximize your contributions there also. The same applies if you are self-employed and enrolled in a **Keogh**, **SEP-IRA**, or **SIMPLE plan**.
- Devise and utilize your own individual investment strategy.

Individualize Your Portfolio

Diversification, or spreading your investible assets among a group of different asset classes (stocks, bonds, and cash), is an investment strategy intended to help protect against a severe crisis every few years and avoidance of the old "feast or famine" characteristic of the investment markets. Diversification is used to create a portfolio by spreading your investible assets among various groups, including **mutual funds**, **variable annuities**, **fixed-return** accounts, and **money market funds**. Today, the majority of all retirement assets are contributed to tax-deferred retirement plans through employers or through individual retirement accounts. Diversification does not eliminate risk, does not guarantee a profitable investment return, and does not guarantee against a loss. It is a method used to manage risk. Diversification offers returns that are not directly related over time and is intended for the structure of a whole portfolio to reduce the risk inherent in a particular security.

Periodically Review Your Goals

When you are younger, you may opt for growth-oriented investments. Consider, however, that investment return and principal value of stocks and mutual funds may rise or fall due to market conditions and shares may be redeemed for more or less than their original purchase price. Thus, the degree of comfort you have with market fluctuation should determine your overall investment strategy. As you grow older, you may wish to moderate risk with fixed income investments, particularly if you plan to take distributions soon after retiring. A balanced asset mix should be employed.

A post-retirement portfolio should show a greater allocation of investment resources toward *income-producing* vehicles, with a portion allocated for accumulation, in order to be able to create a greater income in the future; inflation will erode some of the purchasing power of current income-producing investments.

Irrespective of your age, you can use different investment management techniques as you create your own portfolio and consider the different investment alternatives available to you.

It's In Your Hands

If you are financially independent at retirement, it can become a time of new opportunities, a time to try a second career, to develop a new lifestyle, or to pursue new dreams and goals. Instead of a period of boredom, worry, and disenchantment, retirement can be your most stimulating, fulfilling time ever—truly your golden years. When the time finally comes and you've done the proper planning, the transition will be smooth and you will feel comfortable and secure about it. ■

Planning for a Social Security Shortfall

The Social Security program offers a retirement benefit to workers and their spouses. You can start receiving benefits as early as age 62, which would be considered early retirement, or wait until you reach the **full retirement age** of 65 to 67 (depending on your year of birth). The benefits you receive are based on the income you earned over the course of your working life, and are subject to a maximum amount.

What you may not realize, however, is that Social Security was not originally designed to be a retiree's sole source of support. For most people, Social Security provides only a base level of income. The maximum benefit for a person who retires in 2017 at full retirement age is $2,687 per month. Therefore, it is important to plan for retirement by preparing to supplement Social Security.

Here are some important savings strategies that may help you reach your retirement funding goals.

Participate in your employer's retirement plan. Regular contributions to an employer-sponsored retirement plan, such as a **401(k),** can be an essential part of your retirement savings program. Contributions to such plans offer three key benefits: they are made with pretax dollars; they reduce your current taxable income; and they have the potential for tax-deferred accumulation. Generally, these plans allow you to set aside a percentage of income each year, up to a maximum amount.

Open a traditional Individual Retirement Account (IRA). Contributions to a traditional IRA may be tax deductible, depending on your participation in an employer-sponsored retirement plan, your adjusted gross income (AGI), and your tax filing status. Potential earnings accumulate on a tax-deferred basis. For tax year 2017, you can contribute up to $5,500 (or $6,500 for individuals age 50 or older). Contributions are limited to the amount of earned income and the owner must be under age 70½ at the end of the year. If funds are distributed prior to age 59½, a 10% Federal income tax penalty may apply, unless certain qualified exceptions apply.

Consider a Roth IRA. Contributions to a Roth IRA are not tax deductible; however, qualified distributions, including potential earnings, are tax free if you have held your account for at least five years and are over age 59½. Like a traditional IRA, you can contribute $5,500 ($6,500 for individuals age 50 or older) to a Roth IRA in 2017. Contributions are limited to the amount of earned income. Note that the limit applies to the total of all IRAs that a person may hold in a given tax year. Contributions phase out for single filers with AGIs between $118,000 and $133,000 and for married joint filers with AGIs between $186,000 and $196,000, in 2017. Withdrawals made prior to age 59½ may be subject to a 10% Federal income tax penalty,

unless certain qualified exceptions apply. *Note:* A nonworking spouse can fund an IRA or Roth IRA based on the earned income of the working spouse.

Purchase a fixed annuity. Because an annuity is not subject to income limitations, it can be a valuable addition to your long-term savings program. With a fixed annuity, premium payments accumulate on a tax-deferred basis, and you receive a guarantee that your money will earn interest at a specified rate and that your return (the money paid back to you) will occur on a set schedule in fixed amounts. In general, annuity payments are guaranteed by the issuing company and are based on that company's continued ability to pay claims.

It is important to plan for retirement by preparing to supplement your Social Security benefits. With a disciplined approach to saving, you will be on track to enjoying the retirement you envision.

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