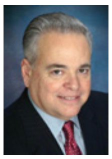
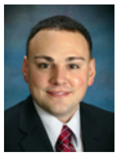
volume 21, number 2

21st century retirement





John Mezzasalma
CPA, CFP®
john@mezzcpa.com

Anthony Mezzasalma
CPA, CFP®
anthony@mezzcpa.com

Mezzasalma Advisors

2019 FIVE STAR WEALTH MANAGER John Mezzasalma

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

Mezzasalma Advisors is a Monmouth County, NJ and NYC based Investment Advisory firm. We provide high quality financial planning and INDEPENDENT fee based portfolio and wealth management.

Together with our closely related partner, Mezzasalma CPAs, we provide a total financial solution - tax, accounting, wealth management, and payroll services to medical professionals, the self-employed, and other high net worth individuals located nationwide.

They all combine to provide you with seamless wealth management strategies. We have built a solid reputation by establishing a working relationship with clients like you, which is why many of our clients have been with us since we started over 30 years ago!

See our web site – mezzadvisors.com - for more extensive information including our brochure.

https://www.fivestarprofessional.com/Spotlights/10052

in this issue:

Are You Planning an Early Retirement?

As your 62nd birthday approaches, the dream of early retirement may be a possibility. From that day on, you may qualify for Social Security retirement benefits. But as attractive as monthly checks may be, seriously consider your financial position to be sure you can afford to walk away from the nine-to-five routine.

When reviewing your retirement income, incorporate accurate Social Security figures into your financial equation. Keep in mind that Social Security benefits paid at an early retirement age will be less than the benefits paid at full retirement age (65–67, depending on your date of birth). To estimate your Social Security benefit amount, go to the Social Security Administration's website at www.ssa.gov to use the agency's online calculator.

Go Beyond Social Security

Beyond your Social Security benefits, however, are other major factors, such as your overall financial situation, prospects for future income, and satisfaction with your job. If early retirement seems a reasonable goal, determine how much income you can count on from savings to supplement your Social Security benefits. Remember to include income from employer-sponsored retirement plans, such as **401(k)s**, **Individual Retirement Accounts (IRAs)**, or **annuities**.

Once you have determined your retirement resources, add up your current living expenses and calculate a rough estimate of how much income you may need during retirement. It is possible to live on less than your pre-retirement income, depending on your lifestyle. If you find that your retirement funds will be insufficient, explore the possibilities of selling your home, and moving to an area with a lower cost of living, or finding part-time employment where compensation is within allowable Social Security limits to avoid benefit reduction.

Other Considerations

Another critical point to consider is whether retiring from your job would leave you without **life** and **health insurance** or other necessary benefits. You may want to investigate the cost of private health coverage until you reach age that you will be eligible for **Medicare**. It is also important to prepare for medical costs in retirement, including potential long-term

continued on page three

Retirees Report Having Multiple Sources of Income In Retirement

Along with Social Security, guaranteed income from pensions and annuities are key sources of income for retired Americans, the results of a survey conducted by the Insured Retirement Institute (IRI) showed.

The survey was completed in August 2018 by 820 Americans aged 65-85 with investable assets of at least $50,000. The survey report, "Retirement, Income, and Risk," is part of a series of studies examining the retirement experiences of people who have been living in retirement for a meaningful length of time, with this year's report focusing on retirees' reliance on guaranteed sources of income.

The survey found that relatively few respondents have taken a significant "pay cut" since retiring, with 43% saying their income is either the same or has increased, 32% indicating that they have seen a 25% reduction in income, and just 21% reporting that they have seen their income decrease by one-half or more.

The results also showed that more than 90% of respondents are collecting Social Security benefits, and that of those who are not, about half are eligible but have not yet filed. Among the survey sample, the average married couple receiving Social Security benefits reported receiving $28,080 per year. Almost half of respondents said Social Security accounts for less than 25% of their household income, and just 16% said these benefits account for 50% or more.

Meanwhile, 81% of the retirees surveyed reported that they receive at least some income from a pension, with 64% saying they depend on a pension for at least 25% of their income, and 40% saying they rely on a pension for 50% or more of their retirement income. The survey also found that one-third of respondents reported owning an annuity, although just 15% said they are receiving lifetime income payments from an annuity.

When retirees who have defined contribution plan accounts were asked about the frequency of their withdrawals, only 39% indicated that they are taking systematic withdrawals from their balances. Of those who reported making systematic withdrawals, 59% said they are doing so to satisfy the Required Minimum Distribution rule, and 66% said they are withdrawing 6% or less of the funds in the accounts annually. Moreover, 59% of these respondents reported that their withdrawals are in line with their expectations, while 21% said they are withdrawing less than anticipated, and just 20% reported that they are withdrawing more than expected.

The results further pointed to the importance of financial advisor relationships for retirees. The survey showed that 72% of respondents who retired with at least $100,000 in investable assets said they either have or had a relationship with a financial advisor, with 63% reporting that they continue to work with a financial advisor.

The survey also found that very few of the retirees polled are working, with 73% saying they receive no income from employment and only 4% saying employment accounts for 50% or more of their income. Of those respondents who said they are receiving no income from employment, just 15% said they have ever looked for paying work since retiring from a full-time occupation. Moreover, most of the respondents indicated that they have not moved in retirement: 63% said they are still living in the same home they lived in prior to retirement, while 25% said they have sold their home to move to a smaller place.

In addition, the survey showed that most of the respondents feel relatively secure in retirement, with more than one-half saying they believe they are better off financially now than at the point of retirement, and 36% reporting that they are about as well off now as when they retired. Interestingly, 72% of respondents said they feel more financially secure in retirement than their parents were or are.

Researchers cautioned, however, that many retirees may be underestimating the risks they face from high medical and long-term care costs. They noted, for example, that while there is a 68% chance that an American aged 65 or older will become disabled in at least two activities of daily living, only 25% of respondents said they think it is likely that they will need long-term care. Thus, researchers warned, "the risk of exhausting financial assets due to a long-term care event is quite real, and underappreciated." ■

are you planning an early retirement?

continued from page one

care needs. Typically, many people underestimate the cost of long-term care and overestimate the funding that will be available through public programs and private health insurance. In reality, Medicare only covers short-term care. It may also cover some nursing home or assisted living costs, but only for skilled care that is deemed medically necessary for the duration of an illness, usually limited to 100 days following a three-day hospital stay.

Consequently, Medicaid has become the primary source of public funding for long-term care. But, because it is a government program designed to help those in financial need, individuals must "spend down" their personal assets and meet the Federal poverty guidelines before qualifying for assistance.

However, **Long-term care insurance** is an alternative that can help cover extended care expenses before you or a loved one become eligible for Medicaid. Policies vary, but in general, they provide a daily, set amount of coverage that can be used in a number of ways. This type of insurance may help cover the expenses of nursing homes, assisted living facilities, adult day health programs, and/or at-home care. The cost of coverage is typically based on your age, current health status, and specific policy features, such as scope of coverage, levels of care, and duration of benefits.

Retirement Checklist

To begin preparation for retirement, read the following statements. If you have given careful consideration to the task, check it off.

- ❑ I have completed an assessment of my current financial situation, including income, expenses, assets, and liabilities.
- ❑ I have determined which of my expenses may be lower after I retire and which may be higher.
- ❑ I have determined how much I can expect from Social Security, veterans benefits, and pension plans.
- ❑ I have estimated how much I expect to receive from interest on my savings, real estate rentals, etc.
- ❑ I have reviewed my insurance policies to ensure that they meet my present and future needs.
- ❑ I have organized a strategy to pay off my large bills and debt before retirement.

Final Assessment

If you have any doubts about being able to make ends meet, working for a while longer may help improve your financial situation. If, however, income from savings, rents, royalties, or other non-employment sources, combined with Social Security benefits, is enough to meet your projected retirement expenses, you may want to focus on making your dream of an early retirement a reality. ■

The Long-Term Benefits of Roth IRAs

The **Roth IRA** is a tax-efficient option for retirement savings. Earnings in a Roth grow tax deferred, and distributions are tax free, provided you have reached age 59½ and have owned the account for at least five years. What many may not realize is that the Roth IRA offers another key, long-term benefit.

Unlike ***traditional*** **Individual Retirement Accounts (IRAs)** that have mandatory minimum distribution rules when the IRA owner reaches age 70½, the Roth IRA does not require mandatory minimum withdrawals for the Roth owner. Therefore, the Roth owner can continue to fully reap the benefits of tax-free accumulation well into his or her retirement years while retaining the ability to take withdrawals only when necessary. In addition, a Roth owner can continue making contributions after age 70½, provided the owner earns taxable compensation and his or her income is within the specified limit.

Bear in mind that eligibility for a Roth IRA begins to phase out when **adjusted gross income (AGI)** exceeds $122,000 for single taxpayers and $193,000 for married taxpayers filing jointly (complete phase out occurs when AGI exceeds $137,000 for single taxpayers and $203,000 for married taxpayers filing jointly). ■

Stretching IRA Withdrawals

The primary concern of some traditional **Individual Retirement Account (IRA)** holders who are approaching the mandatory distribution age (April 1 of the year *after* the year they reach age 70½) may be stretching their account assets over their lifetime and that of their spouse. Maximizing tax deferral and/or passing these assets to their heirs may be of lesser importance. Others, however, who are fortunate enough to enjoy sufficient retirement income from other sources, may wish to extend the tax deferral as long as possible.

Regulation reform finalized in 2002 makes this task much easier. In response to Americans living longer, healthier lives, the Internal Revenue Service (IRS) increased the life expectancy figures on which **required minimum distributions (RMDs)** are based. As a result, RMD amounts have decreased, and IRA owners are now allowed to withdraw *less* than was necessary under the original distribution rules. For most, RMDs are calculated using a uniform table **(uniform lifetime table)**, which assumes a **beneficiary** is fewer than ten years younger than the owner, regardless of the beneficiary's actual age. If the IRA owner has named his or her spouse as the sole beneficiary, and the spouse is ten or more years younger than the owner, a second table **(joint life and last survivor expectancy table)** may be used to calculate the RMD.

Beneficiary Choices

Married individuals quite often name a spouse as the beneficiary of an IRA. If the IRA owner dies prior to, or after, the mandatory minimum withdrawal date, only a surviving spouse can choose to make an inherited IRA his or her own. This would postpone mandatory distributions until April 1 of the year after the year in which he or she reaches age 70½.

In contrast, a nonspousal beneficiary is more limited and must begin taking distributions from an inherited IRA by the end of the year following the year of the owner's death. With the legislative changes, however, the consequences of beneficiary choices are no longer dependent on whether the IRA owner died *before* or *after* starting the required withdrawals, simplifying planning decisions. Unlike the old rules, such distributions no longer must continue to be based on the owner's original life expectancy calculation, but may now be stretched out over the life expectancy of the beneficiary, significantly extending the potential benefits of tax deferral.

What's the Advantage?

These simplified rules should make it easier for some retirees to meet the minimum distribution requirements, thereby avoiding unnecessary penalties, while enabling the greatest possible buildup of their tax-deferred assets. However, IRA owners should be aware that any such buildup could potentially lead to higher estate taxes down the road. If you have an IRA and have reached (or are approaching) age 70½, it may be best to consult a qualified tax and financial professional for assistance with your particular circumstances. ■