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21st century retirement

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in this issue:

Retirement Focus on Women: Building Financial Security

Like so many women, are you constantly juggling family, professional, and personal responsibilities? No wonder retirement planning seems to always get shuffled to the bottom of your "to do" list. But, procrastination is not the answer. Putting it off will only increase your risk of becoming one of a growing number of women who will spend their golden years struggling to make ends meet. With the right planning, you may be able to avoid that situation.

Saving enough for a comfortable retirement can be difficult for most Americans, and it can be especially challenging for women who may, when compared with men, earn less, spend fewer years working, and live longer. Retirement income concerns are often more acute for women who are divorced, widowed, or otherwise single, as well as for those who have spent all or a significant portion of their adult years caring for children and other family members.

According to the U.S. Department of Labor (DOL), women typically spend 10-12 years out of the workforce while taking care of children or elderly parents. Also, the average woman in the U.S. who is employed full time earns less than her male counterpart. Women are further disadvantaged when their jobs are part time or with smaller firms that do not offer substantial retirement plan benefits.

Because of shorter careers and possibly lower incomes, a significant number of women currently do not receive enough in Social Security benefits to meet even their basic needs. Further, married women may not realize that the retirement benefits accrued by their husbands may be reduced if they are widowed or divorced. These combined factors put many women at high risk for poverty as they age, especially if they do not prepare accordingly.

Clearly, most women will need to build their own retirement savings to maintain their current standard of living in retirement. Here are some strategies you can use to get started:

- If your current employer does not offer a retirement plan, consider your options for securing better benefits. While companies with defined benefit plans that replace a percentage of income (based on your salary and years of service) are becoming increasingly rare, consider the long-term consequences of working at a firm that does not at least match contributions to a 401(k) or other defined contribution plan. If you are

continued on page three

Progress in Retirement Saving Varies According to Worker Characteristics

While American workers are making progress in reaching their income replacement goals for retirement, large differences remain between those workers who are planning and saving effectively for retirement, and those who are not, according to the findings of a study of how financially prepared Americans are for retirement published in April by the Empower Institute, the research arm of retirement plan record-keeping firm Empower Retirement.

The findings of the study, "Scoring the Progress of Retirement Savers," are based on the results of a survey of 4,038 working adults aged 18-65 conducted between December 18, 2017, and January 21, 2018. When asked to identify the sources they expect to provide income to their household during the first five years of retirement, 71% of respondents mentioned Social Security, 56% cited a workplace-provided defined contribution plan, 38% said personal savings, 29% said employment or self-employment, and 19% cited a traditional pension.

More than two-thirds (67%) of the workers surveyed reported that at least one earner in their household has access to a defined contribution plan at work. The median projected income replacement percentage among all survey participants was found to be 64%; meaning that the median respondent is on track to replace 64% of his or her current income in retirement. However, the results also showed that the median income replacement percentage is 79% for respondents who indicated they have access to a defined contribution plan and are

actively contributing to it, compared to 45% for those without access.

Looking at the impact of deferral rates, the analysis estimated that those respondents who are contributing under 3% of pay have a median lifetime income replacement percentage of 59%, while those who are contributing 10% or more have a median lifetime income replacement percentage of 128%. Focusing on the effects of automatic features, the analysis showed that respondents who were auto-enrolled in a retirement plan have a median lifetime income replacement percentage of 95%, compared to 84% for those who opted in; and that respondents in a plan with auto-escalation have a median retirement income replacement percentage of 107%, compared to 84% for those in a plan without this feature.

To explore the factors that might inhibit retirement plan participation, respondents were asked which circumstances would likely prompt them to start contributing to or to increase their contributions to a plan. Nearly one-third (32%) of the workers surveyed cited paying down debt, 22% said receiving a raise, and 12% said reducing their overall spending.

The analysis also revealed that respondents closest to retirement have the lowest projected replacement percentages, while those furthest from retirement have the highest projected replacement percentages: the millennials surveyed were found to be on track to replace 75% of their income, while the median projected income replacement percentage for the early boomers was shown to be just 55%.

The study additionally uncovered large differences in projected income at retirement based on gender, as the median projected income replacement percentage was 71% for the male respondents, but just 59% for the female respondents. Researchers attributed this gender gap in part to the somewhat higher retirement plan participation rates among men (69%) than among women (66%), as well as to the lower average contribution rates among women than among men.

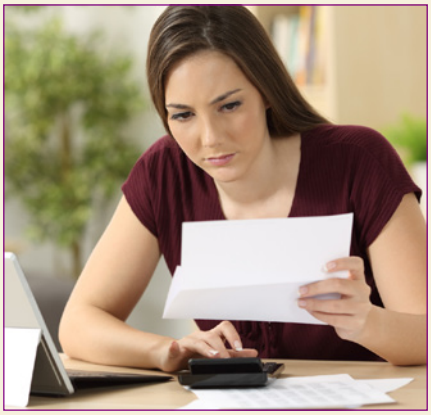
The findings further indicated that there are important differences in projected income replacement based on the industry in which respondents are employed: the median scores were found to be highest among respondents in the financial services industry; and lowest among those in health care, social assistance, trade, transportation, and utilities. ■

retirement focus on women: building financial security

continued from page one

employed by a company with a traditional pension plan, find out what your benefit is likely to be and at what age you can collect the maximum benefit.

- Take advantage of the tax benefits of qualified retirement plans and traditional Individual Retirement Accounts (IRAs). Depending on your financial situation, you may find that making pre-tax contributions to a retirement account will not significantly reduce your net income. Nevertheless, contributions may decrease your current taxable income (and, consequently, your ultimate tax bill), and potential earnings are tax deferred. Taxes will be due when you begin taking distributions. If you withdraw money prior to age 59½, a 10% Federal tax penalty may be due, in addition to income taxes, unless a qualified exception applies.
- Consider the role a Roth IRA or annuity may play in your long-term plan. Contributions to Roth IRAs must be made with after-tax dollars, but potential earnings grow tax deferred. Qualified distributions made after age 59½ are income tax free, provided the account has been owned for at least five years. Certain income limits apply. Annuities allow you to save money on a tax-deferred basis and offer you a variety of options for managing assets and receiving retirement income.
- Plan to work longer if necessary. A few extra years spent working may enable you to save more money for retirement, and you may want to consider working until you qualify for full Social Security benefits. In addition, your health care costs may be lower if you postpone retiring until you qualify for full Medicare benefits.
- Arrange to pay off your mortgage and other debt as quickly as possible. Owning a house outright in retirement not only ensures that you will have a place to live, but it can also serve as a valuable source of equity, should you need it. To give yourself an incentive to pay off your credit cards, resolve to turn your monthly credit card payments into retirement account contributions, when the debt is paid.
- If you are married, assess the capacity of your husband's retirement benefits to meet your future needs. Given the possibilities of divorce and widowhood, it is essential that you plan for a time when you may have to manage independently. If you are staying at home while your spouse is working, set up an IRA in your own name. Also, determine your rights regarding your spouse's pension in the case of death or divorce, and research the effects of divorce and remarriage on your Social Security benefits.
- If your family budget is tight, evaluate the benefits of putting extra funds into your own IRA or 401(k) versus putting money into a savings account for your children's college education. Your children may qualify for financial aid or low-interest loans to help pay for college, but remember, there are no grants or scholarships for retirement. Also, some funds may be withdrawn from a retirement account before the age of 59½ penalty free, if used for qualified education expenses.



- If you own a business, consider implementing a retirement plan for yourself and your employees. A retirement plan may help you accumulate funds to live more comfortably in your retirement years, and it may also be fully deductible, thereby reducing your business's current tax liability. If you already have a retirement plan for your business, review it with your professional advisors periodically to make sure you are taking advantage of all potential tax benefits.
- If you are an executive and your company offers you the chance to participate in a non-qualified deferred compensation plan, consider the opportunity. Again, it will decrease your current income tax liability while providing you with an additional pool of money for your retirement.

Prioritize saving for your own financial future, even when there are bills to pay, along with the wants and needs of your children and other family members. While taking care of others is important, you can take good care of yourself by preparing for your retirement. ■

Understanding IRA Minimum Distribution Requirements

Many people who have been contributing to **Individual Retirement Accounts (IRAs)** for years have watched their account balances grow through tax-deferred accumulation. However, did you know the Tax Code mandates that contributions to traditional IRAs are no longer permitted after reaching age 70½ and **required minimum distributions (RMDs)** must commence no later than April 1 of the year after the year in which you reach age 70½?

Let's take a look at the following example. Suppose Bob's 70th birthday was July 15, 2017 and he attained age 70½ on January 15, 2018. Bob will have until April 1, 2019 (the year after reaching age 70½) to begin taking distributions.

It is important to note: The first RMD is actually for the year in which you attain age 70½; however, you are allowed to *postpone* it until April 1 of the following year. For every year after the first distribution, the RMD must be taken by December 31.

At first glance, postponing the first RMD may seem like a good idea because you can gain additional tax deferral. However, a second RMD would be due by December 31 of the same year (i.e., *that* year's required distribution). Not only would this substantially increase your taxable income, but it could also limit some deductions based on adjusted gross income (AGI) and possibly subject your Social Security benefits to taxation.

Consequently, some people find that it makes sense to take the first RMD in the year when age 70½ is reached, rather than to postpone and "double up" the following year.

Calculating the Distribution

Each year, the RMD amount is calculated by dividing the IRA balance, as of December 31 of the previous year, by the applicable life expectancy factor from the appropriate IRS table. If an individual has more than one IRA account, the RMD amount must be calculated according to the total balance in all accounts. However, the amount can be taken out of any one (or more) IRA account. For each subsequent year, the RMD amount must be recalculated.

It is important to note: If you fail to withdraw the RMD amount for each year, you may be subject to a penalty tax. This tax is 50% of the difference between the amount actually withdrawn and the amount *required* to be withdrawn (i.e., the minimum distribution shortfall).

IRAs continue to be valuable vehicles for retirement planning. However, the time of reckoning (i.e., mandatory withdrawals) may be approaching for many IRA owners. Knowledge of the rules may help avoid potential tax problems. Be sure to consult a qualified tax professional for advice specific to your unique circumstances. ■

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