Retirement Planning

2021 Financial Planning Guide

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RETIREMENT PLANNING 101

15%	Target annual investment savings* *(employee contribution + employer match)*
4-7%	Americans' average annual savings rate**
70-85%	Approximate income replacement ratio for estimating future retirement expenses
1 in 3	Number of workers who will have saved enough for a comfortable retirement by age 67**

Common Retirement Mistakes

- Retiring too early / Saving too little
- Filing for early (reduced) Social Security benefits despite expected longevity
- Assuming too little or too much risk pre- and/or post-retirement
- High concentration risk with individual securities or company stock
- Attempting to time the market
- Underestimating future healthcare expenses
- Spending beyond one's means, particularly early in retirement

Factors that might require individuals to save more for retirement and/or delay retirement

- Starting to save/invest too late
- Investing portfolio assets too conservatively (lower expected returns require greater savings)
- Anticipating a life expectancy well beyond actuarial calculations
- Experiencing a significant portfolio drawdown shortly before retirement

** General rule of thumb; target savings rate may be higher or lower depending on age, existing savings, anticipated retirement.*
*** Source: Aon "The Real Deal: 2018 Retirement Income Adequacy Study"*

RETIREMENT CONTRIBUTION LIMITS

Retirement Benefit Limits

	2020	2021
Contribution Limits for 401(k)/403(b) Plans	$19,500	$19,500
Age 50+ Catch-up	$6,500	$6,500
Contribution Limits for SIMPLE IRA Plans	$13,500	$13,500
Age 50+ Catch-up	$3,000	$3,000
Contribution Limits for IRAs	$6,000	$6,000
Age 50+ Catch-up	$1,000	$1,000
Contribution Limits for Defined Benefit Plans	$230,000	$230,000
Contribution Limits for SEP IRA and Solo 401(k) Plan	$57,000	$58,000

Modified Adjusted Gross Income (MAGI) Limitations for IRA Contributions

	2020	2021
Traditional IRA		
Single, Head of Household	$65,000 - 75,000	$66,000 - 76,000
Married Filing Jointly	$104,000 - 124,000	$105,000 - 125,000
Roth IRA		
Single, Head of Household	$124,000 - 139,000	$125,000 - 140,000
Married Filing Jointly	$196,000 - 206,000	$198,000 - 208,000
Roth Conversions	None	None

Source: Internal Revenue Service

RETIREMENT PLANNING UPDATES

The SECURE Act

The "Setting Every Community Up for Retirement Enhancement Act" was attached to a fiscal year 2020 appropriations bill and was passed by Congress in late December 2019. The Act represents one of the more significant pieces of retirement legislation to be passed over the last decade, with a number of notable changes.

Select Provisions for Individuals:

	Old Provision	New Provision	Applicability
IRA Contributions	*No contributions to IRAs after age 70½*	No longer an age limit; contributor must have earned income	Tax year 2020 and beyond
Starting Age for Required Minimum Distributions (RMDs)	*Age 70½*	Age 72	Age 72 provision for individuals who had not yet reached 70½ as of 2019
RMDs for Inherited Retirement Accounts	*Beneficiaries can take RMDs based on their life expectancy*	With limited exceptions, beneficiaries are required to fully withdraw assets within 10 years after account owner's death	Beneficiaries of account owners who died after 2019
Penalty-Free Withdrawal for Birth/Adoption	*10% early withdrawal penalty for individuals under age 59½ (with some exceptions)*	Individuals can withdraw up to $5,000 penalty-free within 12 months after a birth or qualified adoption of a child	Tax year 2020 and beyond

RETIREMENT PLANNING UPDATES

The “Stretch IRA”

The SECURE Act largely eliminated the “stretch IRA” as most beneficiaries will now be required to fully withdraw inherited retirement account assets within 10 years of the account owner’s death, whereas previously such beneficiaries could take withdrawals based on their life expectancy.

Many future heirs of IRAs, such as grandchildren, will be required to drain the accounts within 10 years of receiving the IRA, but some individuals will still be able to stretch payouts over decades.

Who is still eligible for the longer payout period:

- Heirs of IRAs whose original owners died *before* 2020
- Surviving spouses
- Chronically ill or disabled heirs
- Heirs within 10 years of age of the original owner
- Minor children of the account owner, up to the age of majority or age 26 if the child is still in school; at that point, the 10-year payout begins

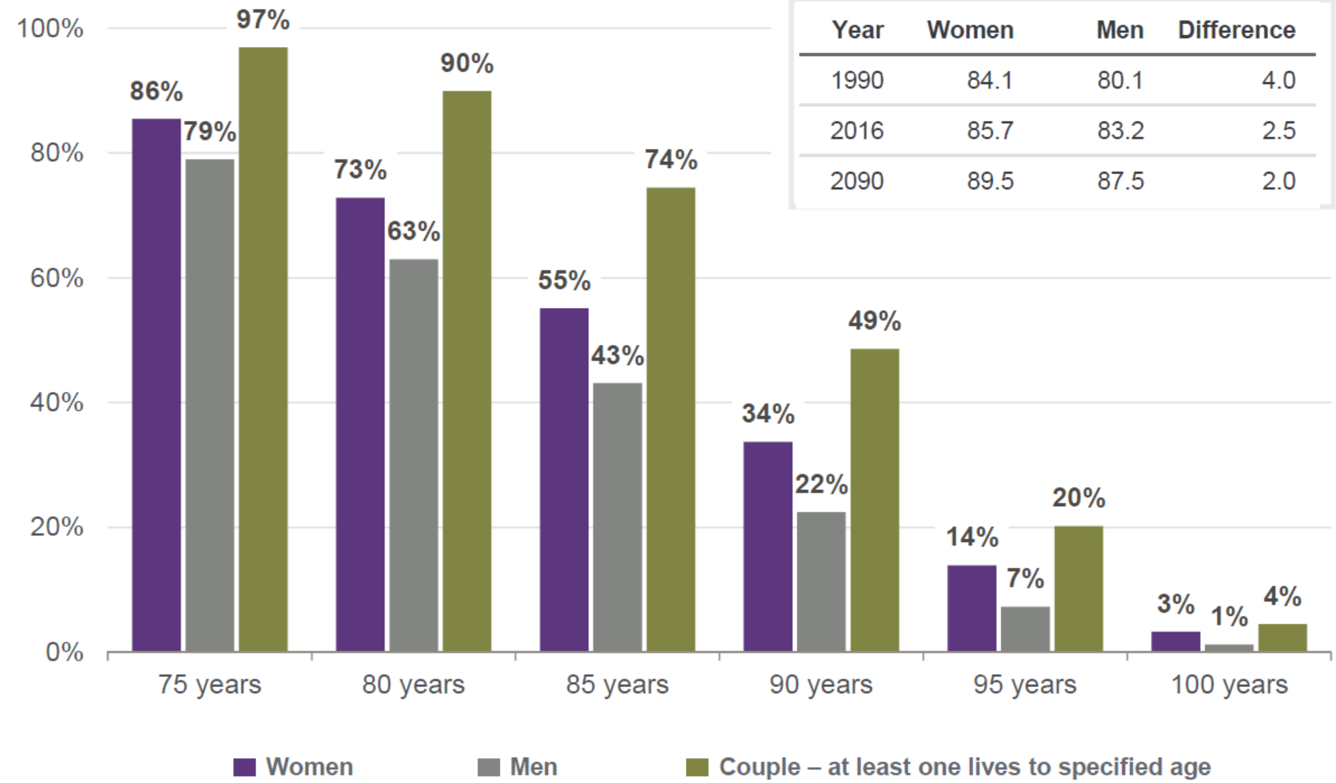
Source: The Wall Street Journal, SECURE Act, Ed Slott

Beneficiaries do not need to withdraw inherited assets each year over the 10-year period. As such, beneficiaries may consider deferring withdrawals until a given tax year when taxable income will be lower.

PLANNING FOR A LONG RETIREMENT

The Challenge: Individuals are living longer, and forward-looking returns are likely to be lower than in the past.

If you're 65 today, the probability of living to a specific age or beyond



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.1	80.1	4.0
2016	85.7	83.2	2.5
2090	89.5	87.5	2.0

Source: Social Security Administration, Period Life Table, 2016 (published in 2019), JPMorgan Asset Management

SAVING FOR RETIREMENT

Types of Savings Accounts	Taxable	Pre-Tax	After-Tax
Account Examples	**Individual/Joint/Trust accounts**	**Pre-Tax 401(k), Traditional IRAs (funded with deductible contributions)**	**Roth 401(k), Roth IRAs**
Taxable Income	Interest, Dividends and Capital Gains	Account Withdrawals	Earnings/Withdrawals not taxable
Tax Deductions	Contributions Not Tax-Deductible	Contributions Tax-Deductible	Contributions Not Tax-Deductible
Contribution Limits	None	Yes, specific to type of account	Yes, specific to type of account

Ways to maximize retirement savings:

1. Maximize contributions to Retirement Plans (401(k), 403(b)), deferring at least your company's match
2. Maximize after-tax assets in your portfolio:
   - Maximize contributions to after-tax accounts
   - Consider Backdoor Roth IRA contributions
   - Consider Roth IRA conversion
3. Consider establishing a Spousal IRA
4. If self-employed, maximize retirement savings by contributing to a SEP-IRA, Keogh, Defined Benefit Plan or Solo 401(k)

ON TRACK FOR RETIREMENT?

Use the table below to assess current retirement savings

- Household income is assumed to be gross income (before tax and savings)
- Go to the intersection of your current age and your closest current household income
- Compare your current savings to the savings checkpoints below
- Example: For a 40-year-old with a household gross income of $100,000, current savings should be approximately $290,000

	Current Household Annual Income (Gross)					
Age	**$50,000**	**$100,000**	**$150,000**	**$200,000**	**$250,000**	**$300,000**
25	-	60,000	150,000	260,000	375,000	510,000
30	15,000	120,000	255,000	420,000	600,000	750,000
35	45,000	200,000	390,000	600,000	850,000	1,050,000
40	80,000	***290,000***	540,000	840,000	1,150,000	1,440,000
45	125,000	400,000	720,000	1,100,000	1,500,000	1,860,000
50	175,000	530,000	945,000	1,420,000	1,925,000	2,400,000
55	235,000	690,000	1,215,000	1,820,000	2,425,000	3,030,000
60	310,000	880,000	1,530,000	2,280,000	3,050,000	3,780,000
65	405,000	1,130,000	1,950,000	2,900,000	3,875,000	4,800,000

Model Assumptions

10%* Annual Savings Rate

6.0% Pre-Retirement Return

5.0% Post-Retirement Return

2.25% Inflation Rate

Retirement age –
Age 65 Primary earner
Age 62 Spouse

30 Years in Retirement

**10 percent is approximately twice the U.S. average annual savings rate*

Source: J.P. Morgan Asset Management, 2018 Guide to Retirement

TRADITIONAL VS. ROTH ACCOUNTS

Investors should review objectives and marginal income tax bracket to evaluate whether to contribute to a Traditional retirement account, a Roth retirement account, or a combination of both.

	Traditional IRA	Traditional 401k/403b	Roth IRA	Roth 401k/403b
Tax Benefits	Tax-deferred growth		Tax-free growth and tax-free qualified withdrawals	
Tax Deduction	Contributions may be tax-deductible depending on AGI	Yes, for current year contributions	No, funded with after-tax contributions	
Taxation of Withdrawals	Taxed as ordinary income		Qualified withdrawals are tax-free	
Early Withdrawal Penalties	With limited exceptions, withdrawals prior to age 59½ result in a 10 percent penalty (in addition to the distribution being treated as ordinary income)		Contributions can be withdrawn penalty-free while earnings are taxable and may be subject to a 10 percent penalty	The earnings portion of a non-qualified distribution will be taxable and may be subject to a 10 percent penalty
Income Limits for Contributions	No, but deductibility is subject to income limits	None	Yes	None
Age Limits for Contributions	As of 2020, none	None	As of 2020, none	None
Eligibility to Contribute	Must have earned income	Actively employed	Must have earned income	Actively employed
Deadline to Contribute	April 15th of the following tax year	December 31st	April 15th of the following tax year	December 31st

Tax Diversification: Individuals may consider utilizing a combination of both Traditional and Roth retirement accounts as a 'tax hedge' given uncertainty over future income tax rates.

ADDITIONAL ROTH CONSIDERATIONS

Planning Tip: Backdoor Roth Contributions

If a taxpayer's income is higher than the noted thresholds for contributing to a Roth IRA, a taxpayer may fund a Traditional IRA with a "non-deductible" contribution. This contribution may, in turn, be converted to a Roth IRA tax-free, provided the taxpayer does _not_ have any other holdings in a Traditional IRA. If a taxpayer has an outstanding Traditional, SEP or SIMPLE IRA balance, a portion of the conversion will be treated as taxable income.

Example:

- John is a single taxpayer, age 55, with a modified adjusted gross income of $450,000 which prevents him from directly contributing to a Roth IRA.
- John currently has a 401(k) but no Traditional IRA.
- John makes a $7,000 non-deductible contribution to a Traditional IRA and leaves the entire contribution in cash.
- John waits 30+ days and then converts the non-deductible contribution to a Roth IRA.
- Since John had no Traditional IRA holdings and only converted a non-deductible contribution (which had no earnings over the 30-day period), the conversion is not taxable.

Planning Tip: Roth Conversions

Unlike income limits for Roth IRA contributions, there are no such income limitations for completing a Roth conversion. Taxpayers should recognize that converting a Traditional IRA to a Roth IRA typically produces taxable income. Individuals should evaluate their income tax picture to compare how their current tax bracket might compare to a future tax bracket:

- Individuals might consider a partial conversion where income is recognized up to a certain tax bracket.
- For ultra-high net worth individuals that will otherwise have a taxable estate, a Roth conversion may be beneficial as it reduces the size of the taxable estate by the amount of taxes paid on conversion while eventually leaving a favorable asset to heirs (i.e. inheriting a Roth IRA is preferable to inheriting a Traditional IRA).

Source: Social Security Administration (2017 OASDI Trustees Report)

ROTH CONVERSIONS: PROS & CONS

	Maintain Pre-Tax IRA Balance / No Roth Conversion		Convert Pre-Tax IRA to Roth IRA	
Income Tax On Roth Conversion	Not applicable	+	The amount of the conversion creates taxable income, but such income could potentially be offset by charitable gifts	?
Additional Contributions	If above AGI limits, deductible contributions to pre-tax balance disallowed; however, non-deductible contributions are allowed	−	If the entire pre-tax IRA balance is converted, creates opportunity for Backdoor Roth IRA contributions without additional tax impacts	+
Required Minimum Distributions	In retirement, RMDs must be taken from account, reducing the overall balance	−	After Roth conversion, RMDs from the Roth IRA will not be required for the original account owner	+
Income Tax	Distributions are subject to income tax at ordinary income rates	−	Roth IRA distributions are not subject to income tax	+
Estate Tax	Account balance at death subject to estate tax	−	Account balance at death subject to estate tax	−
Post-Death Beneficiary Income Tax	RMDs to beneficiaries subject to income tax	−	RMDs to beneficiaries not subject to income tax	+

RETIREMENT PLANNING CHECKLIST

Preparing for a comfortable retirement requires diligence and discipline

Review What Has Changed
- Tax Laws
- Retirement Goals
- Health/Longevity

Assess whether Savings are "On Track"
- Compare current savings versus checkpoints
- Review portfolio allocation and asset location
- Look for opportunities to increase/optimize savings across account types
- Determine if retirement goals need to be adjusted

Plan Ahead
- Periodically review estate plans
- If nearing retirement, review Social Security benefits and determine an appropriate claiming age/strategy
- Enroll for Medicare prior to age 65

Review Beneficiary Designations
- Periodically review beneficiary designations to ensure listed beneficiaries are as intended
- Especially important upon life events such as marriage, divorce, birth/adoption, etc.

of the general population
don't have a plan in place

Source: Fidelity Investments "Retirement Mindset Study"

4 in 10 workers
6 in 10 retirees
have tried to calculate how much monthly income is needed in retirement

Source: 2020 Retirement Confidence Survey (RCS)

ADDITIONAL RESOURCES

Curious in learning more?

- **Complete 2021 Financial Planning Guide**
    - **Tax Planning**
    - **Estate Planning**
- **Additional Zuckerman Group Resources**
- **Our Website**