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Investment News

April 2020

How Women Can Prepare For Retirement

A practical financial checklist for the future.

When our parents retired, living to 75 amounted to a nice long life, and Social Security was often supplemented by a pension. The Social Security Administration estimates that today's average 65-year-old woman will live to age 86½. Given these projections, it appears that a retirement of 20 years or longer might be in your future.[1,2]

Are you prepared for a 20-year retirement? How about a 30-year or even 40-year retirement? Don't laugh; it could happen. The SSA projects that about 33% of today's 65-year-olds will live past 90, with approximately 14% living to be older than 95.[2]

Start with good questions. How can you draw retirement income from what you've saved? How might you create other income streams to complement Social Security? And what are some ways you can protect your retirement savings and other financial assets?

Enlist a financial professional. The right person can give you some good ideas, especially one who understands the challenges women face in saving for retirement. These may include income inequality or time out of the workforce due to childcare or eldercare. It could also mean helping you maintain financial equilibrium in the wake of divorce or death of a spouse.

Invest strategically. If you are in your fifties, you have less time to make back any big investment losses than you once did. So, protecting what you have may be a priority. At the same time, the possibility of a retirement lasting up to 30 or 40 years will likely require a growing retirement fund.

Consider extended care coverage. Women have longer average life expectancies than men and can require significant periods of eldercare. Medicare is no substitute for extended care insurance; it only covers a few weeks of nursing home care, and that may only apply under special circumstances. Extended care coverage can provide a huge financial relief if the need arises.[1,3]

Claim Social Security benefits carefully. If your career and health permit, delaying Social Security can be a wise move. If you wait until full retirement age to claim your benefits, you could receive larger Social Security payments as a result. For every year you wait to claim Social Security, your monthly payments get about 8% larger.[4]

Retire with a strategy. As you face retirement, a financial professional who understands your unique goals can help you design a wealth management approach that can serve you well for years to come.

Citations.
1 - cdc.gov/nchs/products/databriefs/db355.htm [1/20]
2 - ssa.gov/planners/lifeexpectancy.htm [2/25/20]
3 - medicare.gov/coverage/skilled-nursing-facility-care.html [2/25/20]
4 - investopedia.com/retirement/when-take-social-security-complete-guide/ [11/24/19]

INSIDE THIS ISSUE:

Key Provisions of the CARES Act

Distributions can be waived in 2020 for Inherited Accounts, 401(k)s, and IRAs.

Recently, the $2 trillion "Coronavirus Aid, Relief, and Economic Security" ("CARES") Act was signed into law. The CARES Act is designed to help those most impacted by the COVID-19 pandemic, while also providing key provisions that may benefit retirees.[1]

To put this monumental legislation in perspective, Congress earmarked $800 billion for the Economic Stimulus Act of 2008 during the financial crisis.[1]

The CARES Act has far-reaching implications for many. Here are the most important provisions to keep in mind:

Stimulus Check Details. Americans can expect a one-time direct payment of up to $1,200 for individuals (or $2,400 for married couples) with an additional $500 per child under age 17. These payments are based on the 2019 tax returns for those who have filed them and 2018 information if they have not. The amount is reduced if an individual makes more than $75,000 or a couple makes more than $150,000. Those who make more than $99,000 as an individual (or $198,000 as a couple) will not receive a payment.[1]

Business Owner Relief. The act also allocates $500 billion for loans, loan guarantees, or investments to businesses, states, and municipalities.[1]

Your Inherited 401(k)s. People who have inherited 401(k)s or Individual Retirement Accounts can suspend distributions in 2020. Required distributions don't apply to people with Roth IRAs; although, they do apply to investors who inherit Roth accounts.[2]

RMDs Suspended. The CARES Act suspends the minimum required distributions most people must take from 401(k)s and IRAs in 2020. In 2009, Congress passed a similar rule, which gave retirees some flexibility when considering distributions.[2,3]

Withdrawal Penalties. Account owners can take a distribution of up to $100,000 from their retirement plan or IRA in 2020, without the 10-percent early withdrawal penalty that normally applies to money taken out before age 59½. But remember, you still owe the tax.[4]

Many businesses and individuals are struggling with the realities that COVID-19 has brought to our communities. The CARES Act, however, may provide some much-needed relief. Contact your financial professional today to see if these special 2020 distribution rules are appropriate for your situation.

Under the CARES act, an accountholder who already took a 2020 distribution has up to 60 days to return the distribution without owing taxes on it. This material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. Under the SECURE Act, your required minimum distribution (RMD) must be distributed by the end of the 10th calendar year following the year of the Individual Retirement Account (IRA) owner's death. Penalties may occur for missed RMDs. Any RMDs due for the original owner must be taken by their deadlines to avoid penalties. A surviving spouse of the IRA owner, disabled or chronically ill individuals, individuals who are not more than 10 years younger than the IRA owner, and children of the IRA owner who have not reached the age of majority may have other minimum distribution requirements.

Under the CARES act, an accountholder who already took a 2020 distribution has up to 60 days to return the distribution without owing taxes on it. This material is not intended as tax or legal advice. Please consult legal or tax professionals for specific information regarding your individual situation. Under the SECURE Act, in most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Withdrawals from Traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act, as long as you meet the earned-income requirement.

Accountholders can always withdraw more. But if they take less than the minimum required, they could be subject to a 50% penalty on the amount they should have withdrawn – except for 2020.

MARKET PERFORMANCE
01/01/2020 to 03/31/2020

DJIA ^DJI Down –21.76%
S&P 500 ^GSPC Down –18.70%
NASDAQ ^IXIC Down –13.36%
Russell 2000 ^RUT Down –30.58%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Citations.

1 - CNBC.com, March 25, 2020.
2 - The Wall Street Journal, March 25, 2020.
3 - The Wall Street Journal, March 25, 2020.
4 - The Wall Street Journal, March 25, 2020.

Traditional Vs. Roth IRA

Do you know the difference?

Traditional Individual Retirement Accounts (IRA), which were created in 1974, are owned by roughly 33.2 million U.S. households. Roth IRAs, however, were created as part of the Taxpayer Relief Act in 1997, are owned by nearly 22.5 million households.1

Both are IRAs. And yet, each is quite different.

Know the limits. Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions into the account. Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10-percent federal income tax penalty. Remember, under the SECURE Act, in most circumstances, once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Additionally, you may continue to contribute to a Traditional IRA past age 70½, under the SECURE Act, as long as you meet the earned-income requirement.

Filing single. For singles, the maximum tax-deductible contribution starts shrinking once your modified adjusted gross income (MAGI) reaches $65,000. Singles with adjusted incomes of $75,000 and above are not eligible for a tax deduction.2

Filing jointly. For those who are married and filing jointly, things are a bit more complicated. If you or your spouse makes an IRA contribution that is covered by a workplace retirement plan, the deduction begins phasing out when your adjusted gross income is at $104,000, and it disappears at $124,000. However, if you do not have a workplace plan, but your spouse does (or vice versa), the 2020 limit starts at $196,000, and no tax deduction is allowed once the contributor's income reaches $206,000.

Also, within certain limits, individuals can make contributions to a Roth IRA with after-tax dollars. To qualify for a tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.3

Income impacts total contributions. Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2019, contributions to a Roth IRA are phased out between $193,000 and $203,000 for married couples filing jointly and between $122,000 and $137,000 for single filers.

Contribution limits. In addition to distribution rules, there are limits on how much can be contributed each year to either IRA. In fact, these limits apply to any combination of IRAs; that is, workers cannot put more than $6,000 per year into their Roth and traditional IRAs, combined. So, if a worker contributed $3,500 in a given year into a traditional IRA, their contributions to a Roth IRA would be limited to $2,500 during that same year.4

Catch-up contributions. Individuals who reach age 50 or older by the end of the tax year can qualify for "catch-up" contributions. The combined limit for these is $7,000.5

Let's chat. When it comes to picking an IRA, both traditional and Roth IRAs may play an important role in your retirement strategy. If you have any questions, let's chat soon about how these products may be a good fit for your goals.

Citations.
1 - irs.gov/retirement-plans/individual-retirement-arrangements-iras, [01/09/2020]
2 - irs.gov/retirement-plans/ira-deduction-limits, [12/20/2019]
3 - irs.gov/retirement-plans/are-you-covered-by-an-employers-retirement-plan [01/08/2020]
4 - irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits [02/07/2020]
5 - Internal Revenue Service, 2019. The Tax Cuts and Jobs Act of 2017 eliminated the ability to "undo" a Roth conversion.

We hope you enjoy our newsletter!
Please e-mail us any topics you would like to see covered in future newsletters.

We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

Saving Early & Letting Time Work for You

The earlier you start pursuing financial goals, the better your outcome may be.

As a young investor, you have a powerful ally on your side: time. When you start investing in your twenties or thirties for retirement, you can put it to work for you.

The effect of compounding is huge. Many people underestimate it, so it is worth illustrating. Let's take a look using a hypothetical 5% rate of return.

How does it work? A simplified example goes like this: Let's take a look using a hypothetical 5% rate of return. After a year, you earn 5% interest, or $5. Another year, another 5%, which adds $5.25 this time. In the third year, your 5% interest earned amounts to $5.51, bringing your balance to $115.76. The more money you deposit, the greater that 5% returns. So, if you were to deposit $100 every month into that same account, you'd make a hypothetical $836.63 in compound interest from $6,100 in deposits over five years. That compounding continues, even if you stop making deposits. All you really need to do is let that money stay put.1

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The earlier you start, the greater the compounding potential. If you start saving and investing for retirement in your twenties, you may gain an advantage over someone who waits to save and invest until his or her thirties.

Even if you start early & then stop, you may out-save those who begin later. What if you contribute $5,000 to a retirement account yearly starting at age 25 and then stop at age 35 – no new money going into the account for the next 30 years. That is hardly ideal. Yet, should it happen, you still might come out ahead of someone who begins saving for retirement later.

Are you wary of investing? If you were born in the late eighties to early nineties, you are old enough to remember the market volatility in the early 2000s and the credit crisis of 2007-09. Recent events, in the wake of the coronavirus, might bring back memories of that time. All this may have given you a negative view of equities, shaped during your formative years; these events are clear examples of how risk plays a part in this type of investment.

The reality, though, is that many people preparing for retirement need to build wealth in a way that has the potential to outpace inflation. You will retire on the compounded earnings those invested assets are positioned to achieve.

Citations.
1 - thebalance.com/compound-interest-4061154 [12/6/19]