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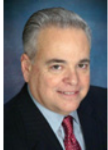
21st century retirement



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Retirement planning is a primary reason for long-term saving, and when people think about retirement, finances are often the focus. However, it is important to also look at the *nonfinancial* aspects of transitioning from the world of work to the world of leisure. Specifically, lifestyle changes and self-esteem issues associated with the loss of your professional identity may create difficulties. As you're preparing strategies for your future well-being, give some thought to the *kind* of retirement you envision for yourself.

Consider the following questions: What do you find fulfilling? What gets you out of bed in the morning? What are your strengths and weaknesses? Do you work well as part of a team, or do you thrive on solitude? Do you have a lot of physical energy, or do you prefer a more sedentary pace? Do you have a hobby you always wanted more time to pursue? Don't be afraid to think outside the box. This informal self-inventory may hold the key to your vision for retirement.

Challenging Conventions

The concept of retirement in America is changing. Traditionally, retirement has been idealized as a leisurely phase of life, a reward for the many years of working and raising children. This concept is based on the assumptions that people will enjoy themselves in retirement, and that work, as we commonly know it, is the province of younger generations. However, is this concept realistic for those of us still years away from retirement, and if it is, is it what we really want? Rethinking retirement means reexamining conventional ideals to determine whether they apply to today's reality and what we envision for ourselves.

Intrinsic to the conventional notion of retirement are significant assumptions about work, money, and retirement standards of living. For previous generations, work was thought to be something you did for about 45 years (until roughly age 65), and then, suddenly, you never had to (or wanted to) work again. A company pension, Social Security, and some savings generally provided enough income for funding a comfortable lifestyle in retirement, including leisure, travel, and recreation.

If that's what you want for your retirement, there is nothing wrong with pursuing that goal. However, for some, work is too much a part of their sense of "self" to be suddenly cast aside. Moreover, with so much of their daily lives centered around work, some people have difficulty imagining their life without that structure.

Furthermore, changes in employer-sponsored retirement plans (i.e., the decline of defined benefit plans and the rise of defined *contribution* plans) have

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Non-Working Spouses and Roth IRAs

For many married couples, retirement planning has become not only a personal responsibility but a financial necessity. Since Americans are living longer, retirement funding may need to span several decades beyond the normal retirement age. When you consider the escalating costs of health care, the uncertainty of **Social Security** and **Medicare**, and the pace of inflation, it is more important than ever to explore tax-advantaged saving options that can fit into you and your spouse's overall financial plan for retirement. Let's take a closer look at some of the benefits of a **Roth Individual Retirement Account (IRA).**

Roth IRA contributions are made on an *after-tax* basis from earned income only, and no income tax is due when distributions are taken. Distributions from a Roth IRA are free of income taxes after the account has existed for five years *and* you have reached age 59½. If you take withdrawals prior to age 59½, you may be subject to a 10% Federal income tax penalty. However, certain situations qualify as exceptions, such as early withdrawals for qualified education expenses or first-time homebuyer expenses.

In addition to tax-free withdrawals, a Roth IRA has two other important features: 1) There are no Internal Revenue Service (IRS) restrictions on *when* you must begin taking withdrawals (e.g., age 70½ with traditional IRAs), and 2) You can continue to contribute to a Roth beyond age 70½ if you have earned income. Over the long term, this can lead to the potential for additional savings, especially if you plan to work past age 70½, or if you have other sources of retirement income and do not expect to rely heavily on your Roth IRA.

Who Is Eligible?

While earned income is one of the requirements for opening up a Roth IRA, a married couple with only one income may open and contribute to a Roth IRA under certain guidelines. The Roth IRA eligibility rule allows married couples to make contributions, as long as at least one spouse has taxable earned income from working *and* a joint tax return is filed. Under the IRS provision for married taxpayers filing jointly in 2018 with one earned income, and who have $11,000 in **modified adjustable gross income (MAGI)** or more, you and your non-working spouse can each contribute the maximum amount of $5,500, or $6,500 (if you are *both* age 50 or older and have at least $13,000 in MAGI) to a Roth IRA.

When a joint tax return is filed, the IRS regards a married couple's income as **joint income**, even with a non-working spouse. A married couple's total income is considered to equally belong to each spouse. Since both of you are joint recipients of the total income earned, you are both eligible to open a Roth IRA in your own names. You can each contribute up to the maximum contribution limit of $5,500 (or $6,500, if 50 or over) in 2018.

Income Limits

The Roth IRA income limits for a married couple filing a joint tax return with both spouses earning taxable income are the same for a married one-income couple filing jointly. The **adjustable gross income (AGI)** limit for maximum contributions is $189,000 or less for joint filers in 2018. If joint filers earn between $189,000 and $199,000, the allowed contribution amount is phased out per IRS guidelines.

The Roth IRA is a retirement savings vehicle that may offer multiple advantages for one-income married taxpayers, including tax-free distributions with no age restrictions. Be sure to consult your qualified financial and tax professionals to determine what is appropriate for your unique circumstances. ■

america's changing vision of retirement

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altered our expectations about retirement funding. The responsibility has shifted from employ*er* to employ*ee*, which means that an individual's long-term saving for retirement must now be factored in with other savings objectives, like purchasing a house or funding a college education for children, and ongoing financial responsibilities.

Finally, the traditional concept of retirement is based on the belief that one's standard of living will be sustainable in retirement, and it may be for some. For others, however, it may be more practical to ask what standard of living can be maintained based on projected resources. This type of approach might help you see what is realistic (and what may be unrealistic) in your situation, and it may help you set more realistic retirement priorities. For some people, downsizing their standard of living in retirement may be acceptable. For others, however, maintaining the same standard of living during retirement as during their working years may be the goal.

Consider Phased Retirement

As you consider the traditional concept of retirement, you may discover that it doesn't meet your needs. *Phased retirement* is a term coined to describe a range of employment arrangements that allow an employee who is approaching retirement to continue working, usually with a reduced workload, in transition from full-time work to full-time retirement. Many individuals may want to continue some form of work, such as consulting, job-sharing, mentoring, or providing back-up management. Mentoring, in particular, enables an individual to transfer a lifetime of learning and experience to a friend, relative, or younger colleague. Aside from money earned from continued work, phased retirement may help you maintain a feeling of involvement in the world and may provide a sense of purpose.

For some, phased retirement may be an option. For others, it may be a necessity. For still others, phased retirement may provide structure to daily life and the opportunity to explore other activities while maintaining a meaningful role within an organization, the community, or society in general. What's most important, however, is to define your vision of retirement in a way that makes sense to you and is realistic considering your goals and resources. ■

A Checklist for Retirement Planning

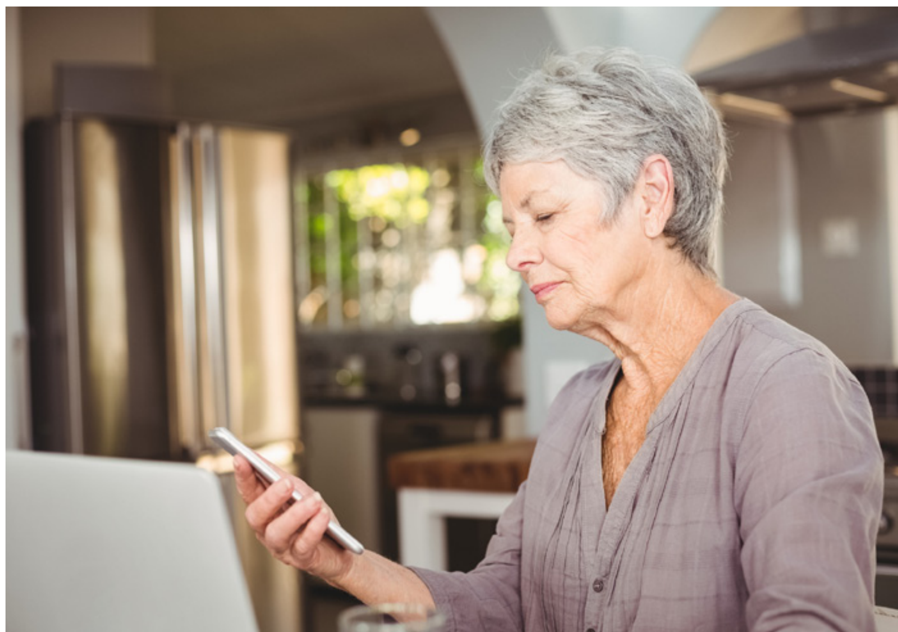
The time to begin planning for your financial future is *now.* So, when it comes to preparing for retirement, the earlier you start, the better. Here are some steps to help you achieve your overall objectives:

1. Review your current financial situation by assessing your income and assets versus your expenses and liabilities.
2. At first, determine a realistic amount to contribute regularly to your employer-sponsored qualified retirement plan, e.g., a **401(k) plan**. Over time, try to maximize allowable contributions to your savings plan and take advantage of the company match, if offered.
3. In 2018, you can contribute up to $5,500 into a traditional **Individual Retirement Account (IRA)** or **Roth IRA.** If you are age 50 or older, you can contribute an additional $1,000. Depending on your participation in other qualified plans, contributions to a traditional IRA may be tax deductible. Earnings for both traditional and Roth IRAs have the potential to grow on a tax-deferred basis.
4. Work toward reducing your debt. Pay off large bills as soon as possible. Curb your spending to avoid taking on any new debt that could carry over into retirement.
5. Consult with a qualified professional about your **life**, **health**, and **disability income insurance** policies to determine the amount of coverage for your current and future needs.
6. Find out how much you can expect to receive in retirement from pension plans, veterans' benefits, or Social Security. To get an estimate on your *future* Social Security benefits, visit www.socialsecurity.gov.
7. Analyze which expenses are likely to decrease after you retire (clothing, commuting, etc.) and which are likely to increase (medical, travel, etc.), and plan accordingly.

If you adhere to your checklist, you may see your savings increase as you get closer to reaching your retirement income goals. Remember, it is never too early to start planning for your future. ■

Getting to the Bottom of Inherited IRAs

Naming a beneficiary for your **traditional Individual Retirement Account (IRA)** need not be a difficult task. Most people choose their spouse, if married, or another loved one. However, the rules governing the distribution of IRA assets to beneficiaries are not as simple. They generally involve two separate issues: 1) the *age* of the IRA owner at the time of death, and 2) the *identity* of the IRA **beneficiary**.



Under IRS regulations, taxpayers who own an IRA must begin taking **required minimum distributions (RMDs)** by April 1 of the year following the calendar year during which they reach age 70½. If an IRA owner dies *before* RMDs have begun, a spousal beneficiary can choose to withdraw all IRA assets within five years, to maintain the IRA under the deceased spouse's name, or to treat the IRA as his or her own.

Suppose Alan (a hypothetical case) dies and his wife, Monica, is the beneficiary of his IRA. If Monica maintains the IRA in Alan's name, minimum distributions do not have to begin until December 31 of the later of 1) the year following the year of Alan's death, or 2) the year in which Alan would have reached age 70½. However, distributions would be based on Monica's life expectancy. If Monica chooses to treat the IRA as her own, she is entitled to name new beneficiaries, and the rules governing RMDs would be the same as if the IRA were originally her own. Therefore, distributions would have to begin by April 1 of the year after the year in which she turns 70½, and the required amount would be based on her life expectancy.

If Alan were to die *after* RMDs had begun, the options for Monica would be different. She could choose to continue receiving distributions based on Alan's life expectancy or her own, whichever is longer. As another option, Monica could opt to **roll over** Alan's assets into her own IRA. (Note that this option is not available for IRAs that have been annuitized.)

Suppose Alan had named his son, Ryan, as the beneficiary of his IRA. Nonspousal beneficiaries may not treat IRAs as their own and cannot name additional beneficiaries. If Alan were to die *before* RMDs had begun, all assets in the account must be distributed by the end of the fifth anniversary year of his death. Alternately, Ryan may elect to receive distributions over his own life expectancy. The amount of distributions is based on *Ryan's* life expectancy, and distributions must begin by December 31 of the calendar year immediately following the calendar year of Alan's death. If Alan were to die *after* RMDs had begun, the assets must be distributed over a period not exceeding the larger of Alan's or Ryan's life expectancy.

Be sure to consult your qualified tax professional for more information about inherited IRAs. ■

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