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Participant Perspectives

Consider Giving Your Graduate a Roth IRA

You can't wrap it and it won't fit in a card, but a Roth individual retirement account (IRA) is a graduation gift that can last a lifetime. It's a great way to encourage your new graduate to invest and to get a head start on retirement savings.

Let's say you contribute the maximum amount of $5,500 to a Roth IRA when your graduate is 21. Assuming a hypothetical 6% return and no withdrawals, the account could be worth $71,420 at age 65, even if no further contributions were made. And all the money in a Roth account can potentially be withdrawn income tax free.[1]

Roth Eligibility

You can open a Roth IRA for a graduate who has earned income at least equal to the amount contributed. Earned income from a salaried job or from odd jobs, such as yard work and babysitting, qualifies. Your graduate must keep accurate records of income that doesn't come from a salaried job and declare all earnings at tax time.

Tax Considerations

Contributions to a Roth IRA are made after tax, so they're not deductible. However, contributions can be withdrawn tax free at any time. Earnings generally can't be withdrawn before age 59½ without paying tax and a possible penalty, although there are exceptions. One exception that might add value to your gift: After a five-tax-year holding period, up to $10,000 (lifetime limit) of earnings may be withdrawn tax and penalty free to pay first-time homebuying expenses.

Growth Potential

Withdrawals from a Roth IRA aren't required during the account owner's lifetime, so the money in the account can potentially continue to grow income tax free until the account holder needs the funds. A Roth IRA can be passed on to future generations and retain its tax advantages, although beneficiaries must generally take annual distributions.

Before you give a Roth IRA for graduation, consider whether your graduate is mature enough to appreciate your gift.

Retirement Planning—Be Realistic

Are you a glass-half-full kind of person? There's something to be said for being an optimist. However, it's important to also be a realist, especially when it comes to your retirement. Regardless of how long it will be until you retire, if you simply assume that you'll have enough money when the time comes instead of planning ahead, you could be in for a big surprise.

1. This hypothetical example is for illustrative purposes only and is not representative of any particular investment. Your returns will be different.

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A Scary Thought

Running out of money in retirement is a big concern. But it happens. One reason is longer life expectancies. Your retirement could last 20 or 30 years or longer. If you haven't planned for that possibility, you could outlive your savings.

Lifestyle also plays a role. Some people are satisfied living a simple, financially conservative retirement. But if you hope to spend freely on travel and other expenses, you'll need a bigger pot of savings. And don't forget to include health care expenses in your retirement spending estimates.

A Proactive Plan

To avoid outliving your retirement assets, consider starting as early as you can to save as much as you can in your retirement savings account. If you have decades to go before you start tapping into your savings, time is on your side. Steady saving over a long period should allow you to build a healthy nest egg.

If you have years instead of decades to beef up your savings, you can help your cause by increasing the amount you're contributing to your plan. And if you're very close to retirement age, you might want to consider working for a few more years so you can continue building up your savings and delay taking distributions.

Wherever you are in your career, contributing as much as you can to your plan now may help you avoid outliving your savings later.

Your situation is unique, so be sure to consult a professional before taking action.

Are You Saving Enough?

Desired annual retirement income	Savings needed assuming 5% annualized return in retirement	Savings needed assuming 7% annualized return in retirement
$20,000	$281,879	$233,072
$40,000	$563,758	$466,143
$60,000	$845,637	$699,215
$80,000	$1,127,516	$932,287

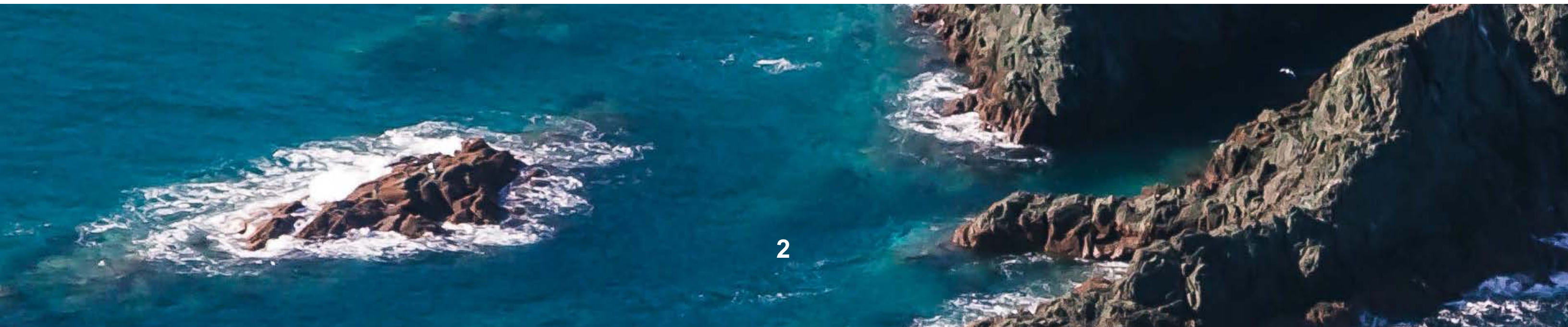
Source: DST Systems, Inc. Values assume a 25-year retirement and that all retirement savings would be depleted after 25 years. Future inflation will likely increase your income needs during retirement. The assumed returns in retirement do not account for the fees, expenses, and taxes associated with actual investments. Your investment returns and balances will vary.

65 and Still Saving? You May Qualify for the Saver's Credit

Should you still be saving for your retirement after you're retired? Maybe, especially if you can take advantage of a tax credit called the "saver's credit."

About the Credit

To qualify, you have to be one of those energetic seniors who is still working, at least part-time. Then, if you stash up to $2,000 of your earnings in an individual retirement account (IRA) or an employer's retirement plan (401(k), 403(b), 457, SIMPLE, or salary reduction SEP), the IRS may pay you back for your trouble by way of a tax credit—a dollar-for-dollar reduction of the amount of tax you owe. The table on the next page shows the credit rates and the income ranges that qualify for 2018.



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About the Credit

Credit Rate	Joint Filer AGI	Head of Household AGI	Single/Other AGI
50%	$0–38,000	$0–28,500	$0–19,000
20%	$38,001–41,000	$28,50–30750	$19,001–20,500
10%	$41,001–63,000	$30,750–47,250	$20,501–31,500
0%	Over $63,000	Over $47,250	Over $31,500

Additional Advantages

Besides the credit, how else might you benefit from this strategy? For one, any investment earnings would compound tax deferred in your account. Second, your contribution to an employer's plan or a deductible IRA would lower your taxable income. Note, however, that you can't contribute to a traditional IRA after age 70½.

That restriction doesn't apply to a Roth IRA. With a Roth, your withdrawals would be tax free after five years. Another plus: There are no rules mandating when Roth money must be distributed to you.

Be sure to talk to a professional before taking action.

Your Retirement Checklist

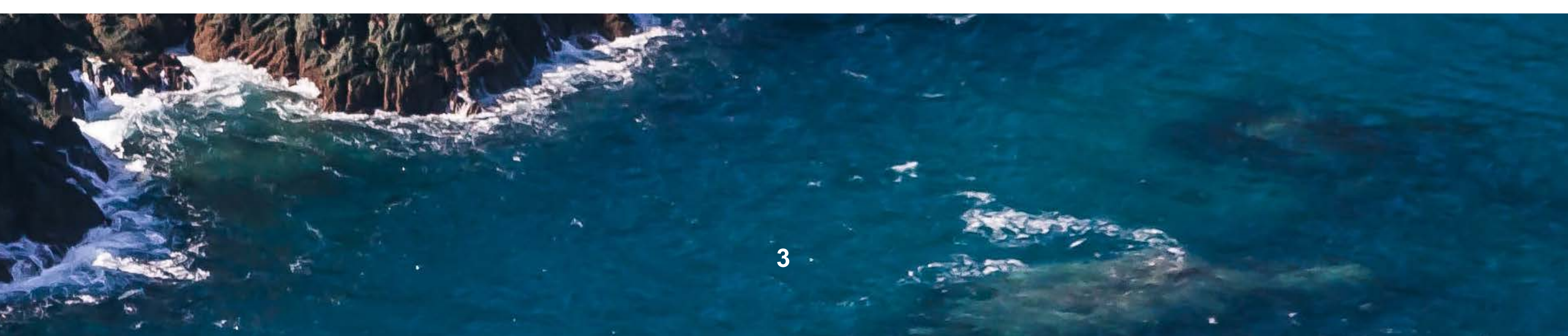
What does an artist and someone planning for his or her later years have in common? Each visualizes their final objective, but the process is fluid. Although your situation is unique, there are basic elements you can use to sketch an effective retirement plan.

Pointers for the Accumulation Phase

An important action you can take is to determine your retirement needs. This task involves identifying your potential retirement expenses, as well as estimating the amount you might receive from each potential source of retirement income (Social Security, pensions, personal investments, and employment earnings).

Doing this calculation will give you an idea of how much you may need to finance a comfortable retirement. Don't be surprised if the numbers add up to a large sum—after all, this money may need to support you for 20 or 30 years. Fortunately, there are ways to leverage your dollars.

Starting early and contributing as much as possible to employer-sponsored retirement plans and IRAs may help you to potentially accumulate more money. Why? Because investing in these tax-advantaged accounts means your money will work harder for you. The longer the money sits untouched, the more it can potentially compound.



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Another vital step: Determine an appropriate asset allocation—how you divide your money among stocks, bonds, and cash—for your portfolio. This should be based on your financial goals, tolerance for investment risk, and time horizon. Be aware that your asset allocation will need to be adjusted periodically in response to major market moves or life changes. Also remember that asset allocation does not assure a profit or prevent a loss.

Once you're nearing retirement, it will also be necessary to craft a solid plan for distribution of your assets. For example, do you know one of the greatest risks that retirees face? It's the possibility of outliving their money, according to the Society of Actuaries.

That's why it's essential to determine an appropriate annual withdrawal rate. This amount will be based on your overall assets, the estimated length of your retirement, an assumed annual rate of inflation, and how much your investments might earn each year.

Another consideration: After age 70½, you'll have to begin making an annual withdrawal from some tax-deferred retirement accounts (known as a required minimum distribution, or RMD), including traditional IRAs. Preparing for this phase ahead of time may help reduce your tax burden—especially if your annual RMD may push you into a higher tax bracket.

Likewise, this is the time to make sure your final wishes are accurately documented and estate strategies are well underway to minimize your heirs' tax burden. As you can see, planning for the different phases of retirement is a lifelong process. Following is a list that can help you along the way.

Retirement Planning Checklist

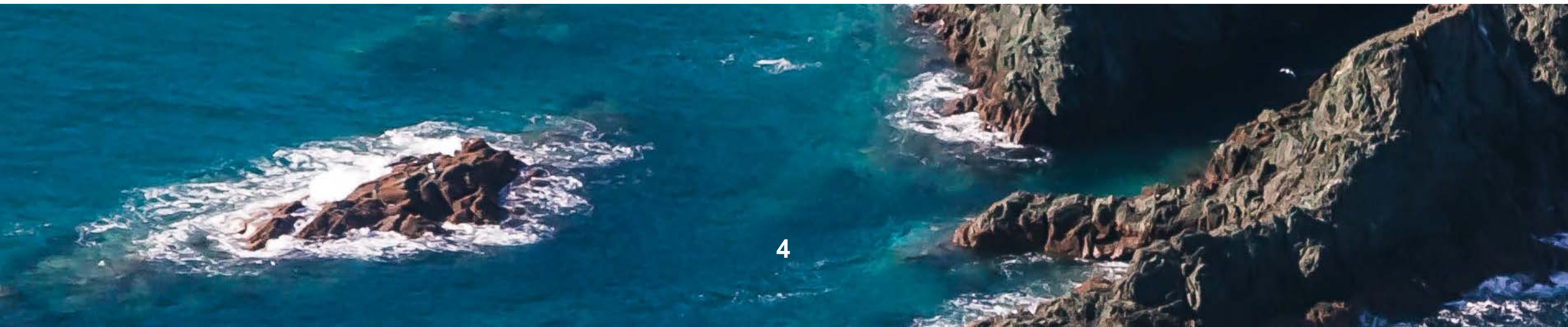
Find the category that best describes you. After answering the questions, bring the list to a qualified financial professional who can help make sure your retirement plan is on target.

Saving for Retirement

1. Have you performed a comprehensive retirement needs calculation?
2. Are you contributing enough to potentially reach your financial goal within your desired time frame, by maximizing contributions to tax-advantaged retirement accounts, such as your employer-sponsored retirement plan and an IRA?
3. Is your asset allocation aligned with your retirement goal, risk tolerance, and time horizon?
4. Have you determined if you might benefit from contributing to a traditional IRA or a Roth IRA?
5. Do you review your retirement portfolio each year and rebalance your asset allocation if necessary?

Nearing Retirement

1. Do you know the payout options available to you (e.g., annuity or lump sum) with your employer-sponsored retirement account, and have you reviewed the pros and cons of each option?
2. Have you considered your health insurance options, (i.e., Medicare and various Medigap supplemental plans or employer-sponsored health insurance), out-of-pocket medical expenses, and other related health care costs?
3. Have you contacted Social Security to make sure your benefit statement and relevant personal information are accurate?
4. Should you purchase long-term care insurance? If so, have you investigated which benefits are desirable?



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5. Is your asset allocation properly adjusted to reflect your need to begin drawing income from your portfolio soon?
6. Have you determined an appropriate withdrawal rate of your assets to help ensure that your retirement money might last 20, 30, or more years?
7. Have you figured the amount of your annual RMD and developed a strategy to reduce your tax burden once you're required to begin taking RMDs?
8. Have you appointed a health care proxy and durable power of attorney to take charge of your health and financial affairs if you are unable to do so?
9. Have you reviewed all your financial and legal documents to make sure beneficiaries are up-to-date?
10. Are you making effective use of estate planning tools (such as trusts or a gifting strategy) that could reduce your taxable estate and pass along more assets to your heirs while also benefiting you now?

Contact Information

To learn more, please contact:

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