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How To Save For Your Retirement At Every Age

When should you start saving for retirement? There's no time like the present, whether you're fresh out of school or in the middle of your career. And even if you haven't been able to set aside much, if anything, during your main working years, realize that it's never too late to begin.

Of course, you're more likely to secure a comfortable retirement if you can save consistently over your lifetime. Keeping that in mind, here's an overview of what you might do during different stages of your life.

Ages 20-40: It makes sense to get in on the ground floor when you can. For many people, the best place to start is with a 401(k) plan or another such employer-sponsored retirement plan that offers substantial tax advantages.

For instance, if you're eligible to participate in a 401(k), you can defer up to $18,000 to your personal account in 2016. (This figure is indexed for inflation annually and may be adjusted upward.) Your contribution isn't taxed now. Your employer may provide matching contributions, too, based on how much you put in. So if you're eligible and not actively participating in your company's plan, you're leaving money on the table.

But don't stop there. If possible, supplement your 401(k) or similar plan with an IRA or other kind of saving plans. With a traditional IRA, your contributions may be wholly or partly tax-deductible. Then, as with a 401(k), money withdrawn during retirement is generally taxable. With a Roth IRA, you can't deduct contributions, but future distributions are generally exempt from tax.

Starting to save early in one or more of these retirement plans puts time on your side, and the power of tax-deferred investment compounding can be formidable. Suppose you're age 30 and plan to retire at 67. Let's assume that you earn $100,000 a year and contribute 5% to your 401(k), while your employer provides an annual 50% match of 3% of your salary. If you earn a hypothetical return of 7% annually on account funds, your yearly contributions of $5,000, bolstered by your employer's $1,500, will grow to $1,081,038 by the time you're ready to retire.

Of course, this is a busy time of life, and the cost of buying a house and starting a family, among other expenses, could affect how much of your income you can earmark for retirement savings. But if you can manage to save regularly and steadily, the potential payoff could be substantial.

Ages 40-60: If you're able to sustain a sound retirement saving strategy that you began in your 20s and 30s, you'll be ahead of the game. But financial obligations during this 20-year stretch sometimes can be overwhelming. You might move to a larger home, expand your family, and shoulder part or all of the cost of putting your kids through college.

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With Or Without The New Fiduciary Rule, We Have Your Back

When the Department of Labor (DOL) proposed its fiduciary rule for retirement accounts in 2015, the department wasn't prepared for the controversy the rule generated. After months of review, the DOL unveiled the final rule early in 2016. It is slated to take effect on April 10, 2017.

Although the final rule reflects the basic tenets of the proposed rule, it does include some modifications designed to appease its critics.

At its core, the rule requires financial advisors and their firms to uphold fiduciary standards when those advisors and firms are compensated for investment advice and recommendations relating to retirement accounts such as 401(k)s and IRAs. Essentially, advisors and firms must promise that they're putting the best interests of clients before their own.

This "best interest" stipulation must be reflected in a written contract that says the advice being offered is based on a client's particular needs.

Among other modifications, the final rule covers assets that previously were thought to be excluded, such as variable annuities, and repeals certain requirements for projections of advisor fees. It also streamlines the procedures for the contracts.

At FSA, we have been committed to putting our clients' best interests first and will continue to do so. No regulation is needed to ensure our good faith.

Kim Scott, CFP®
Financial Advisor

Views On Retirement Communities

How do you feel about retirement communities? Such places, often reserved for those who are age 55, or older, have many supporters and detractors, and opinions may vary widely even from one spouse to another. In the end, this is a personal decision that you have to make for yourself or as a couple. Consider these key considerations:

Common Advantages

• There's generally plenty to do in a retirement community. Depending on the location, you may be able to use your newfound leisure time for golfing, tennis, swimming, gardening, theatre, clubs of all sorts, and numerous other activities.

• Security is another reason why many senior citizens are flocking to these developments. Many communities are gated and have a visible security presence. Plus, with so many neighbors around all the time—rather than being away at work—suspicious activities tend to be reported quickly.

• The homes usually are located close to a reputable medical facility, shopping, and other conveniences. Some even have retail stores.

• A retirement community may offer peace and quiet, with no teenagers revving up their car engines or having all-night parties.

• Homes are built with retirees in mind. They generally provide easy access for disabled individuals and the elderly.

• You can meet and socialize with people in your own age group.

Common Disadvantages

• You may have strong ties to your current community. Many people feel most comfortable staying in the home where they raised their kids and living close to long-standing friends and neighbors.

• Do you have adult children or grandchildren living with you? If that's the case, you may not want to uproot them. In addition, they may not be allowed to live full time in an age-restricted community.

• Even if you don't have youngsters living with you, you may enjoy being around younger people. The age mix in your neighborhood may suit you just fine.

• One frequent complaint of young retirees is that they don't want to live with "old" people. They see themselves as being young or at least acting as if they were. And some people view living in a retirement community as a stigma to be avoided at all costs.

• The association fees for maintaining the community grounds—often including swank clubhouses, golf courses, and other amenities—can be pricey. If you're not a golfer, or shun the swimming pool, the extra costs might not be worth it to you.

In any event, get all the information you need to make the best choice for your situation. Your advisers can help. ●

Social Security Options Remain

Recent federal legislation ended several strategies that could help you maximize Social Security retirement benefits. But with some advance planning, you still can take advantage of a few things the new law didn't change.

Under the Bipartisan Budget Act of 2015, three strategies have been eliminated:

1. File and suspend: A higher-earning spouse could apply for retirement benefits at full retirement age, which is age 66 for most baby boomers. Then the same spouse suspended the benefits, usually until age 70, when the amount of monthly payments from the government would be higher. In the meantime, the lower-earning spouse claimed spousal benefits, which would be larger than the other spouse would have received on his or her own.

This strategy disappeared on April 29, 2016 (six months from the date the new law was enacted). If you suspend benefits now, not only will you not receive benefits, but your spouse also won't be entitled to the higher spousal benefits. But if you turned age 62 before 2016 and you already chose to "file and suspend," you still qualify.

2. Restricted application: A spouse who was eligible for benefits either on his or her own or as a spouse could file a restricted application for spousal benefits only. Then that spouse waited—typically, until age 70—to apply for benefits based on his or her own earnings record. That entitled the spouse to higher Social Security payments.

The new law eliminates the restricted application option for those who turn age 62 after 2015. You now must claim all of your benefits when you file, and the benefits will be based on your own earnings history or the spousal benefit, whichever is greater.

3. Lump-sum payment strategy: Previously, if you used the file-and-

Don’t Be Victimized By These 10 Common Scams

Scams of all varieties continue to bilk unsuspecting victims out of billions of dollars each year. In particular, older Americans are being targeted, especially those who have been recently widowed. With that in mind, here are 10 scams to watch out for:

1. IRS imposters. This scam proliferates during tax-return season. A caller will say he or she is an IRS agent and claim you owe back taxes. Then the caller threatens you with stiff penalties or a lawsuit—and even arrest—if you don’t wire the money immediately. But the IRS doesn’t call debtors without sending a notice via U.S. mail first. To be on the safe side, if you get such a call, check with the IRS at 1-800-829-1040 to check the caller’s credentials.

2. Tech support. Typically, you receive a phone call purporting to be from Microsoft or another software company, and the caller says a virus has invaded your computer. Then you’re asked to provide access to your computer and the hacker installs malware that steals personal information. These software companies don’t make unsolicited phone calls, so hang up immediately.

3. Robo-calls. Are you a victim of those annoying automatic telephone calls? Although the call itself isn’t an attempt at ID theft, it helps the crooks build a “go-to list” for future phone scams. Use your caller ID to screen calls and don’t answer if someone is calling from a number you don’t know.

4. Charitable solicitations. Many legitimate charities call on the phone so it’s hard to weed out the real ones from the fakes. Investigate any charity before handing over cash or making a credit or debit card contribution by mail or online. If the charity is for real, the caller won’t hesitate to provide additional information. Check out charities at www.charitynavigator.org.

5. Credit cards. It’s not surprising that scam artists are working an angle as credit card companies change their cards from magnetic strips to chips. Someone impersonating a credit card company employee may request information or ask you to click on a link to update your status. But credit card companies don’t operate this way. If you have any doubts, call the company directly.

6. Dating websites. Initially, scams were based on prying money or sensitive data out of single people who recently have entered the dating scene. But now it has mushroomed into more sophisticated cons aimed at newcomers to religion-based sites. Because you’re “dating” someone from your faith, you may be more likely to let your guard down and give access to money.

7. Widows and widowers. A typical trick of con artists is to prey on your emotions. Of course, elderly individuals are especially vulnerable after the death of a loved one. It’s not unusual for a criminal to pretend to be a banker or other professional to coerce you to hand over funds. Rely on reputable financial planners you know and trust and close family members to steer you in the right direction.

8. Medical ID theft. ID theft often is associated with financial information, but loss of medical information can be just as damaging. Just imagine someone running up costs for expensive drugs, doctor visits, and even surgery under your name. What’s more, unlike theft of credit card data, you’re often held liable for these purchases. Don’t volunteer your particulars (for example, Social Security and insurance account numbers) unless you’re certain it’s for a valid reason. Check with your insurer about any charges you don’t understand.

9. Gift card vouchers. If you’re targeted for this scam, you receive an unsolicited email offering you a free gift card from a well-known retailer or restaurant if you click on a link. It can look legitimate—the scammers will go to great lengths to replicate logos and corporate designs—but often it isn’t. Clicking on the link will install malware on your computer that can siphon away personal data. No matter how appealing an offer is, don’t click on links you have not verified.

10. Counterfeit apps. Finally, in a highly publicized incident, Apple developed some applications that were found to contain vicious malware that spied on consumers. While Apple believes it has purged these malicious apps, similar occurrences could lead to loss of personal data. Try to use only well-known apps and consider reading reviews before purchasing them.

These are just 10 of the scams currently making the rounds. Be on your guard and be skeptical of anything that doesn’t seem just right. ●

suspend strategy at full retirement age, you could request that all suspended payments be paid in a single lump sum at a later date, up until age 70. This lump-sum option also is no longer allowed after April 29, 2016.

Despite these changes, Social Security rules still provide plenty of flexibility. For example, a lower-earning spouse can continue to base Social Security benefits on the work history of the higher-earning spouse if that produces greater benefits. Similarly, a surviving spouse still may be in line for increased benefits.

The 2015 law doesn’t affect the rules for “early” or “late” retirement, either.

You’re eligible for Social Security retirement benefits as early as age 62, but this choice results in reduced monthly benefits. Waiting instead to apply for benefits after your full retirement age results in higher monthly payouts—and the longer you wait, until you reach age 70, the more you may receive. ●

Do Roth IRA Math Before Converting

The Roth IRA conversion has been one of the most popular retirement planning techniques in recent years and there's nothing to indicate that this trend will change. The main attraction is that the money you take from a Roth after the conversion is generally free from income tax and you don't have to dilute your nest egg with required minimum distributions (RMDs) as you do with traditional IRAs. For many retirement-savers, it's a good deal.

But the benefits of Roth IRAs come at a price: When you convert funds in a traditional IRA to a Roth, you must pay tax on the conversion amount, just like you would with a regular distribution from an IRA. The trick is to minimize the tax liability when you pull off this maneuver.

Normally, withdrawals from a traditional IRA are fully taxable at ordinary income tax rates, currently reaching as high as 39.6%. In addition, these distributions increase your exposure to the 3.8% surtax on net investment income, as well as other potential adverse tax consequences such as the personal exemption phaseout (PEP). Furthermore, you must begin taking RMDs from your traditional IRA accounts after you reach age 70½—no exceptions.

Once you convert to a Roth, "qualified" distributions after five years are completely exempt from income tax. Qualified distributions, for this purpose, include withdrawals you take after age 59½, that are made because of death or disability, or are used for a first-time home purchase (up to a lifetime limit of $10,000). And you don't have to take RMDs during your lifetime no matter how long you live.

You may be able to contribute directly to a Roth IRA, but that option is phased out for upper-income taxpayers. A conversion may be your only viable route.

If you're thinking about a Roth conversion this year, you might consider limiting the amount you convert to the maximum you can add to your income without moving into a higher tax bracket. For example, if you expect to be in the 25% bracket and have another $50,000 to spare before crossing into the 28% bracket, you could take this opportunity to convert $50,000 from your traditional IRA to a Roth. Not only is that amount below the thresholds for the 3.8% surtax and PEP, the tax rate is limited to 25%. You then could repeat this strategy over multiple years to keep your tax liability at a reasonable level.

Finally, you're holding another tax card up your sleeve: If it suits your needs, you might decide to "recharacterize" part of the converted amount back into a traditional IRA. This could be a good idea if the value of the account declines significantly after the conversion. You have until the tax return due date for the year of the conversion plus extensions to recharacterize, giving you plenty of time to make an informed decision. ●

How To Save At Every Age

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However, if you can keep saving, your retirement plan and IRA contributions will continue to bolster your nest egg during a time when your job income may rise substantially. You can continue IRA contributions even if they're nondeductible. Moreover, once you reach age 50, you can make "catch-up" contributions that increase the maximum amount you can put in a 401(k) each year. The maximum catch-up contribution for 2016 is $6,000. (This figure, too, is indexed annually for inflation.) These extra amounts can help you make up for lost ground once you've paid those college tuition bills. Depending on your situation, you also might decide to convert traditional IRA funds to a Roth IRA. You'll owe current taxes on the amount you convert, but you may secure tax-free payouts in retirement.

Furthermore, if you can manage to pay off your mortgage during these years, you could earmark the money that had been going for monthly loan payments to increase the amount you put away for retirement.

Ages 60 and up: Now is the time for a final savings surge. Be sure to maximize retirement and IRA contributions, and set aside extra money in other accounts if you can.

At the same time, consider several crucial decisions that could affect your retirement lifestyle. One very important question is when to apply for Social Security benefits. For most Baby Boomers, full retirement age (FRA) is age 66, but it gradually increases to age 67 for younger people. If you apply before you reach FRA, as early as age 62, you'll receive lower monthly benefits. Waiting longer, until as late as age 70, will produce higher benefits. Other decisions about Social Security may affect married couples.

Another decision involves your home. Downsizing to a smaller, cheaper house, perhaps in an area with lower costs, could help you minimize your expenses as you approach retirement.

Finally, remember that retirement planning doesn't end when you retire. It's an ongoing process, and from now through the rest of your life, you'll probably need to make periodic adjustments to your investment strategy and your plan for tapping your savings. ●

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