March 2018

Taylor Financial Group's Monthly Planning Letter

Retirement Planning Month

March is Retirement Planning Month at Taylor Financial Group

According to recent Gallup polls, the average American is retiring at age 66, which is up from age 63 in a 2014 poll. By all accounts, data suggests that American's are working (and living) longer. Have you reviewed your financial plan to determine if you are on track to meet your retirement goals? Creating a Financial Plan is an important first step to protect yourself and your family.

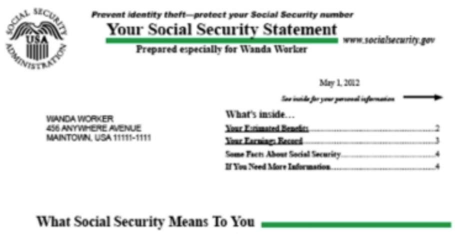
We hope that this short newsletter will offer you actionable tips whether you are planning for retirement, are already retired, or even if you are not considering retirement for several years.

Should you have any questions, do not hesitate to contact our office.

Debbie

Monthly Planning

Have you reviewed your Social Security benefits statement?


Prevent identity theft—protect your Social Security number

Your Social Security Statement

www.socialsecurity.gov

Prepared especially for Wanda Worker

May 1, 2012

See inside for your personal information

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What Social Security Means To You

The Social Security Administration has stopped mailing paper benefits statements to pre-retirees (if you are age 60 or older, you can request a statement be mailed to you). You can still view your benefits online however at www.socialsecurity.gov/mystatement. By creating an account, you can view estimates for retirement, disability, and survivor benefits.

However, when reviewing benefits statements, it is important to remember that the benefits are a projection based on a number of assumptions. If you're under age 62, your benefits statement will list an amount for your retirement at age 62, your full retirement age (ranging between age 66 and age 67), and age 70. If you leave full-time work and don't earn the same as you earned in the most recent report (or if you receive a substantial raise), your earnings history will be different from what was assumed and your benefits may differ.

SSA has tools available on their website (www.SocialSecurity.gov) to help you estimate your benefit using more realistic future anticipated earnings. You may also be eligible for additional benefits that are not reflected on your benefits statement.

This is especially true if you are married or were previously married and are now divorced or widowed. If you are married, you're likely eligible for a Spousal Benefit based on your spouse's Social Security earnings record. If you were married for at least 10 years and are now divorced, you also may also be eligible for a spousal benefit based upon your ex-spouse's earnings record. In addition, if you are a widow(er), you may have a survivor's benefit available to you based upon your late spouse's (or late ex-spouse's) record.

The rules are complex and there are many combinations of ways to collect (in fact, there are over 8,000 collection combinations for a married couple). Luckily, we have special software to help our clients review their benefits and strategize as to the best collection strategy to meet their specific needs. For example, this year we advised one of our clients on the availability of spousal benefits. This client was able to begin collecting a spousal benefit on her retired spouse's earnings record while allowing her own benefit to continue to grow until age 70. These additional benefits are worth over $55,000 to them over the next 4 years! Please do not hesitate to contact our office should you have any questions!

Should I start collecting my Social Security Benefits at age 62?

Unfortunately, there is no one right answer for this question. The sliding scale used to calculate benefits (paying you a smaller monthly check for retiring "early" and more if you wait to collect) depend on the year you were born, and your lifetime payout depends on how long you live. For example, if you collect Social Security Benefits at age 62, your monthly benefit will be between 20% and 30% less than if you waited until your full retirement age (depending upon the year you were born). And if you work after your retirement age, you may have to give some of your benefits back (depending how much you earn).

For example, if we assume that your full retirement age benefit is $2,000 per month, you live to age 90, and Social Security provides a 1.5% annual cost of living adjustment, your benefits could be worth $609,371 in lifetime benefits if you collect at age 62. However, if you delay and collect at age 66, those benefits could be worth $721,503 in lifetime benefits. And if you delayed to age 70, those benefits could be worth $809,188 in total benefits ($199,817 more than collecting at age 62)!

Luckily, we have software to help you plan for Social Security and attempt to maximize your lifetime benefits through a number of different collection strategies (including the use of spousal benefits). If you would like assistance in reviewing your benefits statement, or strategizing on when to collect benefits, please do not hesitate to contact our office.

Do you have the best health care coverage to fill the gaps in Medicare?

If you are age 65 or over, you have a slew of choices for filling the gaps in Medicare during open enrollment season (which runs from October 15th through December 7th). Most people choose either Medicare Part D prescription-drug coverage or a Medicare Advantage policy, which covers both medical and prescription-drug costs. The coverage and costs can change every year, and you have only eight weeks to make a decision that generally locks you in for a year.

Medicare's Plan Finder (www.medicare.gov/find-a-plan) makes it easy to find out which plan is likely to offer the best deal for you. You type in your zip code, the names and dosage of any prescription-drugs you may take, and the tool shows you how much you would pay over a year in total out-of-pocket costs (including premiums and co-payments). You can also input your general medical condition to compare the coverage and costs for the Medicare Advantage plans in your area. A State Health Insurance Assistance Program (SHIP) representative can walk you through the tool and help find the best plan for you. Call 1-800-633-4227 or visit www.shiptalk.org for contact information.

Don't delay enrolling for Medicare

If you don't sign up for Medicare Part B when you are first eligible or if you drop Part B and then get it later, you may have to pay a late enrollment penalty for as long as you have Medicare. Your monthly premium for Part B may increase 10% for each full 12-month period that you could have had Part B, but didn't sign up for it. You should call the Social Security Administration at 1-800-325-0778 three months prior to your 65th birthday to determine your eligibility.

Did you make your 2017 IRA contribution?

If you haven't contributed funds to your Individual Retirement Account (IRA) for 2017, or if you have put in less than the maximum allowed, you still have time to do so. You have until April 17, 2018 to contribute to either a 2017 Traditional IRA or Roth IRA.

For 2017, you can contribute the lesser of $5,500 or all of your earnings to an IRA ($6,500 if you are age 50 or older). You can fund a Traditional IRA, a Roth IRA (if your income is below the threshold), or a combination, but your total contributions cannot exceed the amounts mentioned above. And, it is never too early to consider making your IRA contribution for 2018. The 2018 contribution limits are $5,500 (under 50) and $6,500 (50 or older) respectively.

You can file your tax return claiming a Traditional IRA contribution before the contribution is actually made. However, the contribution must be made by the due date of your return (April 17, 2018), not including extensions.

Maximizing your retirement savings is a critical goal for all investors. Please be sure to consult with your tax advisor prior to making any Traditional IRA or Roth IRA contributions. Let us know if you have any questions or would like more information.

Don't overlook an HSA to boost your retirement savings!

An HSA or Health Savings Account is a tax-deferred savings account that is intended to be used to pay for medical expenses. You must be enrolled in a High Deductible Health Plan (HDHP) to be eligible to make contributions. Contributions (up to $3,450 per individual, or $6,900 per family) are deductible for income tax purposes and can be withdrawn tax-free to pay for medical bills but not health insurance premiums (copays, doctors bills, medications, etc.).

However, unlike a Flexible Spending Account (FSA) you are not required to withdraw funds from an HSA each year. Therefore, you can contribute funds to an HSA, receive a tax deduction for doing so, and allow the funds in your HSA to continue to grow until you retire! At age 65, you can start to withdraw funds from an HSA for any purpose (not just medical expenses) without incurring a penalty (in essence making the HSA account a supplemental IRA account).

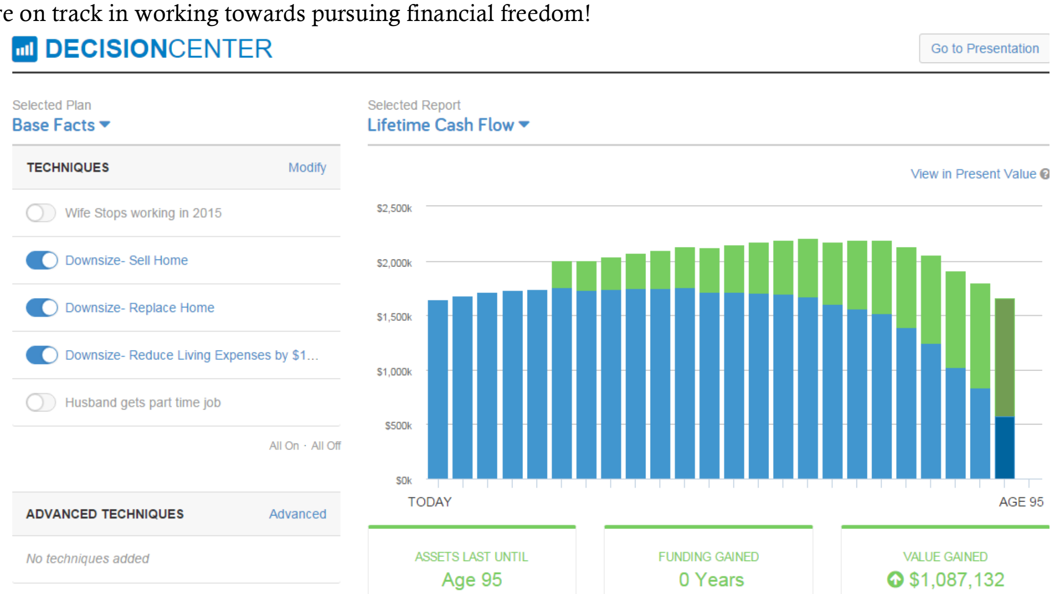
If you contribute $3,450 to an HSA every year from 30 through 65 and achieve a 6% rate of return, you could have more than $384,000 that has grown tax-deferred and is available to help supplement your retirement savings!

*Withdrawals from an HSA prior to age 65 that are not used for medical expenses will be subject to a 20% penalty and potential income taxation. Above investment returns are hypothetical and not indicative of any particular investment.

Ever wonder if you are saving enough money to retire comfortably? Are you considering a major financial expense such as a vacation home?

WealthMatch is our custom financial planning and modeling software that we use to help our clients make informed financial decisions and plan for their financial future. Whether you want to understand if your current savings may be able to support your standard of living in retirement, how decisions on collecting Social Security or a pension will effect your retirement, how annual gifting to your children or grandchildren will effect your retirement, or even how the purchase of a vacation home or a downsize will effect your financial future, we can help! Below is a hypothetical example of how WealthMatch's Decision Center can help model how a client downsizing their home in five years can potentially, assuming a 6% rate of return, increase their estate by over $1 million over the next 25 years! In this hypothetical example, the blue bars represent the client's portfolio assets in the base case and the green bars represent the potential increase on portfolio assets after a downsize.

With WealthMatch, the modeling capabilities are endless. We are already using WealthMatch for many families who are seeking confidence when making important financial decisions such as gifting to their grandchildrens' 529 Plans, buying a vacation home in Florida, and even making the decision to retire ahead of schedule. Please do not hesitate to contact our office today to review how WealthMatch can help you to make more informed financial decisions and provide confidence that you are on track in working towards pursuing financial freedom!



This chart is for a hypothetical example and is intended for illustrative purposes only.

Have you considered the costs of healthcare and long term care into your retirement plan?

The most recent 2017 study by Fidelity Benefits Consulting estimates that a healthy 65-year old couple will need $275,000 in today's dollars to pay for medical care in retirement. This applies to retirees who have traditional Medicare coverage and does not include nursing care facilities and long term care.

In addition to traditional medical care, 1 in every 2 Americans will require skilled nursing care or assistance at some point in their lives. The cost of an assisted living facility is high with an average national cost of $41,724 per year and $78,110 per year for a semi-private room in a nursing care facility. A traditional long term care insurance policy could help pay for these expenses in the event that you require assistance in your home, or a facility, subject to the provisions of the policy.

We continue to see healthcare and long term care as the biggest unknown and risk to clients' financial plans. Please do not hesitate to contact our office today to assess your readiness and review how we can help you to plan for the potential unknown.

Have you considered a Roth conversion?

The majority of retirees' incomes come from sources that are taxed as ordinary income on their tax return (Social Security, IRA and 401(k) distributions, pensions, interest, and annuity distributions). Though you will pay taxes up front on a Roth IRA conversion, a Roth IRA offers retirees a potential source of tax-free money in retirement since withdrawals from a Roth IRA are generally not taxable.* In addition, there are no required minimum distributions from a Roth IRA when you reach age 70 ½. Therefore, the funds in a Roth IRA can continue to grow tax free until you pass away (making them a potential estate planning tool)!

Many investors may make partial conversions to avoid increasing their income enough to push them into a higher tax bracket. If you would like to review whether or not a Roth conversion might benefit you, do not hesitate to contact our office.

*The Roth IRA offers tax deferral on any earnings in the account. Withdrawals from the account may be tax free, as long as they are considered qualified. Limitations and restrictions may apply. Withdrawals prior to age 59.5 may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth IRAs. Their tax treatment may change.

Have you reached age 70 ½?

After reaching age 70 ½, Traditional IRA account holders are required to begin taking withdrawals from their IRA, called RMD's (Required Minimum Distributions). If you reached age 70 ½ in 2017, you have until April 1, 2018 to take your RMD. Likewise if you turn 70 ½ in 2018, you have until April 1, 2019 to take your 2018 RMD. You should note, however, that if you wait until 2019 to take your first required minimum distribution, you will realize your 2018 and 2019 RMD within the same tax year and may pay higher taxes. All IRA account holders who are age 70 or older should review their IRA withdrawals to ensure that they have fulfilled their minimum distribution requirements.

Taking your RMD at the appropriate time is important! If you do not take your RMD, the IRS can assess a penalty of 50% of the RMD amount. If you do not require your RMD to support your annual living expenses, you can always reinvest those funds in your non-retirement accounts. Remember that a Roth IRA is not subject to Required Minimum Distributions. As a result, a Roth IRA conversion (or partial one) can help to reduce or eliminate your RMD requirements.

Have you maximized your contributions to your employer sponsored retirement plan?

The elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is $18,500 for 2018 (up $500 from $18,000 last year). In addition, participants age 50 and over can contribute an additional $6,000 (totaling $24,500). You should confirm with your Human Resources Department that the appropriate deferral is being made to maximize your contribution through 2018.

In addition, your plan may allow for "additional after-tax contributions" up to a specified limit. We recommend that to the extent our clients' cash flow allows, they consider making these additional after-tax contributions as the contributions can be rolled over to a Roth IRA after your retirement or separation from service. For example, if we assume that you make a $20,000 after-tax contribution in 2018 (above and beyond the $24,500 maximum deferral) and that $20,000 grows to $30,000 before you retire (or separate from service), $20,000 can be rolled over to a Roth IRA and the $10,000 earnings can be rolled over to an IRA. This strategy allows you to defer tax on gains while increasing the value of your Roth tax-free accounts.

Have you prepared a financial plan?

Have you considered where your income will come from in retirement? Are you saving enough to sustain your standard of living in retirement? Is your investment portfolio aligned with your long-term financial goals? If you have not completed your financial plan, you should contact our office today. We utilize comprehensive financial planning software, WealthMatch, to build a plan that works toward your goals. We also prepare cash flow projections and help track your progress in working towards your financial goals. In addition, we can analyze different scenarios (such as working longer, saving more, or changing your overall asset allocation) to help you make informed decisions about your retirement! Contact us so that we can discuss how WealthMatch can help you to have confidence knowing that you are working towards pursuing financial freedom.

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