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Q1 2019

Participant Perspectives

The Saver's Tax Credit – Can You Benefit?

If you qualify, the Saver's Credit can reduce your income tax liability for the year.

It's not always easy to keep contributing to your employer-provided retirement plan. Bills and unexpected expenses can leave little for retirement savings. You might be tempted to forget about it until you start earning more money.

But before you stop, cut back, or delay contributing to your plan, you should know that you may be eligible for a federal tax credit called the Retirement Savings Contributions Credit, or Saver's Credit, if you meet certain income requirements. In effect, the credit repays a percentage of the contributions you make to your 401(k) or other retirement savings plan by reducing your income tax liability for the year. It may be just the thing that enables you to keep participating in your retirement plan or increase your contributions.

What It Is

The credit is a percentage —50%, 20%, or 10% — of up to $2,000 in qualified retirement savings contributions for a maximum credit of $1,000 (or twice that amount for a married couple filing jointly who each contribute $2,000). The percentage depends on adjusted gross income (AGI) and filing status. The credit is available for contributions to a 401(k), 403(b), governmental 457(b), SIMPLE IRA, or salary reduction SEP, as well as for traditional and Roth IRA contributions.

To claim the credit, you must be at least age 18, not claimed as a dependent on another person's return, and not a full-time student. You will not be able to claim the credit if your AGI exceeds the top of the range for the 10% credit.

2019 Tax Credit				
	50% of Contribution	20% of Contribution	10% of Contribution	0% of Contribution
Tax Filing Status	**Adjusted Gross Income**			
Married filing jointly	$38,500 or less	$38,501–$41,500	$41,501–$64,000	> $64,000
Head of household	$28,875 or less	$28,876–$31,125	$31,126–$48,000	> $48,000
Single, married filing separately, or qualifying widow(er)	$19,250 or less	$19,251–$20,750	$20,751–$32,000	> $32,000

Source: irs.gov

Participant Perspectives

Choosing a Retirement Plan Distribution Option

Individuals have many financial decisions to make as retirement nears. If you participate in a defined benefit pension plan, one important decision is how to take your benefits.

Decisions, Decisions

If you are married, your distribution generally must be paid in the form of an annuity that provides a minimum survivor benefit to your spouse. This is commonly referred to as a 50% joint and survivor annuity, or more technically, a qualified joint and survivor annuity (QJSA). You can waive the QJSA and choose another distribution option if your spouse consents.

With a QJSA, should you predecease your spouse, your spouse would be entitled to receive a periodic payment for life equal to 50% of the annuity amount payable during the time you both are alive. You may be able to elect a distribution option that would provide a greater benefit to your surviving spouse, such as a 100% joint and survivor annuity. This distribution option would provide your surviving spouse with the same benefit that was payable during your lifetime.

A single life annuity option bases the monthly distribution amount on an actuarial calculation designed to deplete your entire vested benefit during your lifetime. A single life option provides a larger monthly payment than a QJSA.

In deciding which annuity option may be right for you, you'll want to consider several factors. Among them: the age difference between you and your spouse, your and your spouse's health, your current cashflow needs, and your spouse's anticipated cashflow needs after your death.

Annuity or Lump Sum?

Individuals tend to choose a lump-sum distribution from their retirement plan over an annuity. A potential advantage of a lump sum is that you can invest the money. Depending on the investment returns you are able to achieve, you might come out ahead compared to the annuity options offered by your plan.

However, that doesn't mean a lump sum is necessarily right for you. Your income needs in retirement, your tax picture, your tolerance for investment risk, your health and life expectancy, your and your spouse's experience handling investments, and asset management fees and costs should also be considered.

Two Plans

If you participate in both a defined benefit plan and a defined contribution plan, such as a 401(k) or profit sharing plan, you'll have additional decisions to make. For example, you might want to take your benefits from the defined benefit plan as an annuity so you'll have a regular income for life and take a single-sum distribution from the defined contribution plan. That way, you might roll the defined contribution plan distribution into a tax-deferred individual retirement account (IRA) and draw the funds out gradually as you need them during retirement.

Your financial professional can help you with the financial decisions you may face as retirement approaches.

Consider Gifting Your Graduate a Roth IRA

Contributing to a Roth IRA for your new graduate could encourage a lifetime of investing and help them get a head start on retirement savings. You can't wrap it, but a Roth IRA is a graduation gift that can last a lifetime.

Let's say you contribute the maximum amount of $6,000 to a Roth IRA when your graduate is 21. Assuming a hypothetical 6% return and no withdrawals, the account could be worth over $134,000 at age 65, even if no further contributions are 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

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

Participant Perspectives

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.

Frequently Asked Retirement Income Questions

When should I begin thinking about tapping my retirement assets and how should I go about doing so?

The answer to this question depends on when you expect to retire. Assuming it's between the ages of 62 and 67, you may want to begin the planning process in your mid-to-late 50s. Meeting with a financial advisor may help you make important decisions such as how your portfolio should be invested, when you can afford to retire, and how much you will be able to withdraw annually for living expenses. If you anticipate retiring earlier or enjoying a longer working life, you may need to alter your planning threshold accordingly.

How much annual income am I likely to need?

Financial advisors typically suggest that many people are likely to need between 60% and 80% of their final working year's income to maintain their lifestyle after retiring. But low-income and wealthy retirees may need closer to 90%. Because of the declining availability of traditional pensions and increasing financial stresses on Social Security, future retirees may have to rely more on income generated by personal investments than today's retirees.

How much can I afford to withdraw from my assets for annual living expenses?

As you age, your financial affairs won't remain static: Changes in inflation, investment returns, your desired lifestyle, and your life expectancy are important contributing factors. You may want to err on the side of caution and choose an annual withdrawal rate somewhat below 5%; of course, this depends on how much you have in your overall portfolio and how much you will need on a regular basis. The best way to target a withdrawal rate is to meet one-on-one with a qualified financial advisor and review your personal situation.

When planning portfolio withdrawals, is there a preferred strategy for which accounts are tapped first?

You may want to consider tapping taxable accounts first to maintain the tax benefits of your tax-deferred retirement accounts. If your expected dividends and interest payments from taxable accounts are not enough to meet your cashflow needs, you may want to consider liquidating certain assets. Selling losing positions in taxable accounts may allow you to offset current or future gains for tax purposes.

Also, to maintain your target asset allocation, consider whether you should liquidate overweighted asset classes. Another potential strategy may be to consider withdrawing assets from tax-deferred accounts to which nondeductible contributions have been made, such as after-tax contributions to a 401(k) plan.

If you maintain a traditional IRA, 401(k), 403(b), or 457 plan, in most cases you must begin required minimum distributions

Participant Perspectives

(RMDs) after age 70½. The amount of the annual distribution is determined by your life expectancy and, potentially, the life expectancy of a beneficiary. RMDs don't apply to Roth IRAs.

Are there other ways of getting income from investments besides liquidating assets?

One such strategy that uses fixed-income investments is bond laddering. A bond ladder is a portfolio of bonds with maturity dates that are evenly staggered so a constant proportion of the bonds can potentially be redeemed at par value each year. As a portfolio management strategy, bond laddering may help you maintain a relatively consistent stream of income while managing your exposure to risk.[2]

In addition, many of today's annuities offer optional living benefits that may help an investor capitalize on the market's upside potential while protecting investment principal from market declines or providing minimum future income. Keep in mind that riders vary widely and have restrictions, and that additional fees may apply. Your financial advisor can help you determine whether an annuity is appropriate for your situation.[3]

When crafting a retirement portfolio, you need to make sure it is positioned to generate enough growth to prevent running out of money during your later years. You may want to maintain an investment mix with the goal of earning returns that exceed the rate of inflation. Dividing your portfolio among stocks, bonds, and cash investments may provide adequate exposure to some growth potential while trying to manage possible market setbacks.

2 Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Bonds are subject to availability and change in price.

3. Annuity protections and guarantees are based on the claims-paying ability of the issuing insurance company.

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