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Pump Up Your Retirement Savings

Don't give up on your retirement goals if you find you've entered middle age with little to no retirement savings. Here are some strategies to consider:

✔**Reanalyze your retirement goals.** First, thoroughly analyze your situation. Calculate how much you need for retirement, what income sources will be available, how much you have saved, and how much you need to save annually to reach your goals. If you can't save that amount, it may be time to change your goals. Consider postponing retirement for a few years so you have more time to accumulate savings as well as delay withdrawals from those savings. Think about working after retirement on at least a part-time basis. Even a modest amount of income after retirement can substantially reduce the amount you need to save. Look at lowering your expectations, possibly traveling less or moving to a less expensive city or smaller home.

✔**Contribute the maximum to your 401(k) plan.** Your contributions, up to a maximum of $19,500 in 2020 and 2021, are deducted from your current year gross income. If you are age 50 or older, your plan may allow an additional $6,500 catch-up contribution, bringing your maximum contribution to $26,000. Find out if your employer offers a Roth 401(k) option. Even though you won't get a current year tax deduction for your contributions, qualified withdrawals can be taken free of income taxes. If your employer matches contributions, you are essentially losing money when you don't contribute enough to receive the maximum matching contribution. Matching contributions can help significantly with your retirement savings. For example, assume your employer matches 50 cents on every dollar you contribute, up to a maximum of 6% of your pay. If you earn $75,000 and contribute 6% of your pay, you would contribute $4,500 and your employer would put in an additional $2,250.

✔**Look into individual retirement accounts (IRAs).** In 2020 and 2021, you can contribute a maximum of $6,000 to an IRA, plus an additional $1,000 catch-up contribution if you are age 50 or older. Even if you participate in a company-sponsored retirement plan, you can make contributions to an IRA, provided your adjusted gross income does not exceed certain limits.

✔**Reduce your preretirement expenses.** Typically, you'll want a retirement lifestyle similar to your lifestyle before retirement. Become a big saver now and you enjoy two advantages. First, you save significant sums for your retirement. Second, you're living on much less than you're earning, so you'll need less for retirement. For instance, if you live on 100% of your income, you'll have nothing left to save toward retirement. At retirement, you'll probably need close to 100% of your income to continue

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The Need for an IRA

You may want to contribute to an individual retirement account (IRA) for some or all of the following reasons:

✔**You'll probably need the additional funds for retirement.** Even with Social Security and pension or 401(k) benefits, you'll probably need other savings to fund your retirement.

✔**You'll lower your taxes.** You can lower your taxes currently by contributing to a traditional deductible IRA or in the future by contributing to a Roth IRA.

✔**You're more likely to use the funds for retirement.** If you save in a taxable account, it's easy to use the funds for other purposes. However, the government discourages the use of IRA funds for other purposes by assessing a 10% federal income tax penalty when funds are withdrawn before age 59½ (except in certain limited circumstances).

✔**You have a wide variety of investing options.** With a 401(k) plan, you typically have a limited number of investment options. However, with an IRA, you can invest in a wide variety of investments. ❍❍❍

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Pump Up

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your current lifestyle. With savings of 10% of your income, you're living on 90% of your income. At retirement, you'll probably be able to maintain your standard of living with 90% of your current income.

✔ **Move to a smaller home.** As part of your efforts to reduce your pre-retirement lifestyle, consider selling your home and moving to a smaller one. If you've lived in your home for at least two of the previous five years, you can exclude $250,000 of gain if you are a single taxpayer and $500,000 of gain if you are married filing jointly. At a minimum, this strategy will reduce your living expenses so you can save more. If you have significant equity in your home, you may be able to use some of the proceeds for savings.

✔ **Substantially increase your savings as you approach retirement.** Typically, your last years of employment are your peak earning years. Instead of increasing your lifestyle as your pay increases, save all pay raises. Anytime you pay off a major bill, take the money that was going toward that bill and put it in your retirement savings.

✔ **Restructure your debt.** Check whether refinancing will reduce your monthly mortgage payment. Find less costly options for consumer debts, including credit cards with high interest rates. Systematically pay down your debts. And most important — don't incur any new debt. If you can't pay cash for something, don't buy it.

✔ **Stay committed to your goals.** At this age, it's imperative to maintain your commitment to saving. Please call if you'd like help reviewing your retirement savings program. ❍❍❍

Other Income Tax Provisions

The Act contains numerous changes to personal income taxes. Some of the more substantive changes include:

✔ **Payment of deferred payroll taxes extended to December 31, 2021** — Through executive order, employees were allowed to defer their share of Social Security taxes incurred from September 1 to December 31, 2020. Payment of these deferred taxes was supposed to happen between January 1 and April 20, 2021. As part of this Act, repayments can now be repaid from January 1 to December 31, 2021. Employers had the option to offer deferment of payroll taxes to employees, but many did not do so.

✔ **Permanent reduction in hurdle for medical expense deductions** — Medical expenses can now be deducted on tax returns when medical expenses exceed 7.5% of adjusted gross income (AGI), down from 10%. This change is permanent.

✔ **Deductions for college expenses** — 2020 is the last year that the above-the-line deduction for tuition and related expenses can be claimed. However, this Act replaced the above-the-line deduction by increasing the phase out ranges for the current Lifetime Learning Credit. Starting in 2021, the Lifetime Learning Credit phase out ranges will be aligned with the American Opportunity Tax Credit, phasing out from $80,000 to $90,000 for single taxpayers (up from $59,000 to $69,000) and from $160,000 to $180,000 for joint taxpayers (up from $118,000 to $138,000).

✔ **Charitable contribution deductions** — The CARES Act created an above-the-line deduction for cash contributions made to charitable organizations for individuals who do not itemize deductions. The deduction was for 2020 only with a maximum cap of $300 for both single and joint taxpayers. This benefit has been extended through 2021, and in 2021, joint taxpayers can claim a maximum of $600. The ability to deduct up to 100% (up from 60%) of an individual's AGI as a qualified charitable contribution when making an all cash contribution has also been extended through the end of 2021.

✔ **Full deduction for business meal expenses** — For 2021 and 2022, business meal expenses incurred for food or beverages provided by a restaurant can be fully deducted (up from a 50% deduction).

✔ **Earned income and child tax credits** — Since many individuals were out of work for a good portion of 2020, they may not have enough earned income to qualify for the full earned income or child tax credits. This Act allows individuals to use their 2019 earned income to calculate the amount they will receive for either credit for 2020.

✔ **Employer payments of student loans** — Originally authorized by the CARES Act for 2020 only, employers can provide up to $5,250 of annual tax-free education assistance to pay the principal or interest on an employee's qualified student loan debt through 2025. Neither the employer nor the employee is liable for employment taxes on this amount.

✔ **Discharge of qualified principal residence debt** — The Act extends the period of time that forgiven debt for a primary residence may be excluded from income through 2025. Beginning in 2021, the maximum amount of debt that can be discharged is reduced from $2 million to $750,000 for joint filers and from $1 million to $375,000 for single filers.

✔ **Carryforward of flexible spending account funds** — Typically, funds remaining in an individual's dependent care or health flexible spending accounts at the end of the year are forfeited, with employers able to provide some limited relief. This Act allows employers to let employees roll forward any unused 2020 balances to 2021 and any unused 2021 balance to 2022. Employers are not required to do this. Also, employees can modify future contributions for 2021 only. Individuals who cease participation in the plan during 2020 and 2021 can receive reimbursements through the end of the plan year that participation ceased.

✔ **Educator expenses include COVID-19 related supplies** — The above-the-line deduction of $250 per educator includes expenses for personal-protective equipment, disinfectant, and other supplies used for the prevention of the spread of COVID-19 incurred after March 13, 2020.

✔ **Mortgage insurance premiums** — The deduction for mortgage insurance premiums has been extended through 2021, subject to phase out limits. ❍❍❍

5 Facts about Estate Planning

When it comes to the future, most Americans have a blind spot: estate planning. Maybe it's because of an unwillingness to think about mortality or a sense that wills and trusts are only for the wealthy that people put off this important financial planning task. Whatever the reason, there are a lot of estate planning slackers out there. That's a problem, because not having an estate plan could put your family's financial future in jeopardy and cause other serious consequences. Here are five facts everyone should know about estate planning.

1. Everyone Needs an Estate Plan

Yes, estate planning is absolutely necessary for the wealthy. But the rich are far from the only ones who need to think about the future. Pretty much everyone needs an estate plan, regardless of how old they are or how much money they have, and can benefit from putting documents in place that clarify who should receive their property after they die, what kind of healthcare they'd like to receive if they were incapacitated, how surviving family members will be provided for, and more. Estate planning is especially important for those who have children, complicated family situations, special needs family members, or own certain types of assets (like art, intellectual property, or a small business).

2. A Will Is Not Enough

Wills are an important part of estate planning, but they are just one piece of a larger puzzle. Wills clarify who should receive your assets after you die. But you may also need other documents, like a living will, which explains what kind of medical treatment you'd like to receive if you can't make decisions on your own, a healthcare proxy (a person who will make healthcare decisions on your behalf) and a power of attorney (a person who is authorized to make legal decisions on your behalf when you're not able to). In some cases, you may want to set up trusts to provide for your heirs or charities. An estate planning attorney can help you understand which estate planning documents are necessary in your situation.

3. Your Beneficiary Designations Supersede Your Will

Many people assume that the instructions in your will take precedence over any other directions regarding their estate. That's not always the case. Beneficiary designations on retirement accounts, life insurance policies, and bank accounts aren't superseded by your will. So, even if your will leaves your entire estate to your surviving child, a retirement account that names your brother as the primary beneficiary will still go to your sibling. That's why it's important you review your beneficiary designations regularly and update them when your life changes (birth of a child, divorce, etc.).

4. You Can Leave More to Your Heirs if You Structure Your Estate Properly

If you have a sizable estate — one that exceeds the $11.7 million federal estate tax exemption in 2021 — you may want to look into strategies that will allow you to pass that money to your heirs in a way that avoids estate taxes. There are numerous legal techniques you can employ to do this, such as transferring assets and property to a trust, making gifts during your lifetime, setting up family foundations, or leaving money to charity. Even those with smaller estates should keep taxes in mind. Did you know, for example, that life insurance proceeds pass tax-free to beneficiaries? That's important to keep in mind when you're considering how to make sure your spouse and children will be provided for if you die unexpectedly.

5. It's Important to Talk to Your Family about Your Estate Planning Decisions

Disagreements among family members about how to distribute an estate are far from uncommon. Often, those squabbles break out over unexpected or unclear provisions in the deceased's estate plan. If one member of your family feels he/she isn't getting his/her due, it can make the process difficult for everyone. Drawn out legal battles that eat away at the wealth you've accumulated — and wanted to leave to your heirs — may result. Even if you think your family can handle your estate civilly, it may still be a good idea to sit down as a group or with individual family members to discuss your wishes and explain your estate planning choices. If you plan to leave more of your wealth to one child than the other, make sure your children know about that so they don't end up feeling blindsided and betrayed after your death. ❍❍❍

Keep Saving after Retirement

Just because you're retired doesn't mean you should stop saving. Carefully managing your money and looking for ways to save will help ensure you remain financially fit during retirement. Consider these tips:

✔ **Construct an investment plan.** Most retirees fear that they'll run out of money during retirement. To ease those fears, create an investment plan detailing how much money will be obtained from what sources and how that income will be spent. Make sure your annual withdrawal amount won't cause you to deplete your savings. Review your plan annually to ensure you stay on course.

✔ **Consider part-time employment.** Especially if you retire at a relatively young age, you might want to work on at least a part-time basis. Even earning a modest amount can help significantly with retirement expenses. However, if you receive Social Security benefits and are between the ages of 62 and full retirement age, you will lose $1 of benefits for every $2 of earnings above $18,240 in 2020. You might want to keep your income below that threshold or delay Social Security benefits until later in retirement.

✔ **Contribute to your 401(k) plan or individual retirement account (IRA).** If you work after retirement, put some of that money into a 401(k) plan or IRA. As long as you have earned income and meet the eligibility requirements, you can contribute to these plans.

✔ **Try before you buy.** Want to relocate to another city or purchase a recreational vehicle to travel around the country? Before you buy a home in an unfamiliar city or purchase an expensive recreational vehicle, try renting first.

✔ **Keep debt to a minimum.** Most consumer loans and credit cards charge high interest rates that aren't tax deductible. During retirement, that can put a serious strain on your finances. If you can't pay cash, avoid the purchase.

✔ **Look for deals.** Take the time to shop wisely, not just at stores, but for all purchases. When was the last time you compared prices for auto or home insurance? Can you find a credit card with lower fees and interest rates? When did you last refinance your mortgage? ❍❍❍

Evaluating P/E Ratios

Price/earnings (P/E) ratios are a common measure of stock value, both for individual stocks and the overall market. Calculating a P/E ratio is straightforward — it is simply the price of a single share of stock divided by the company's per share earnings.

When considering public companies, it seems reasonable that well-established businesses growing in a fairly predictable pattern would command a higher P/E ratio than a small private business. Typically, companies with higher growth rates command higher P/E ratios.

The difficulty is deciding what a reasonable P/E ratio is for a particular company or for the overall stock market. It generally helps to follow the P/E ratios of stocks that interest you, along with companies in similar industries, to develop a feel for how the P/E ratios fluctuate. Reviewing a company's P/E ratio for prior years can also be helpful. If a company's growth rate in the past is expected to continue in the future and market conditions are similar, you might not expect much change in P/E ratios. But you also must evaluate whether changes to the company, its industry, or the overall stock market would cause an increase or decrease in the company's P/E ratio. ❍❍❍

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