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JIM: We’re now in the second half of 2015 and, today, we’re going to discuss some planning considerations that are still important to think about before yearend when it comes to retirement contributions or retirement savings accounts, whether we’re talking about IRAs or SIMPLE plans or SEP plans or 401(k)s, 403(b)s, and all the other plans that are available to us. I want to focus, today, on some things you want to think about before yearend and things you definitely want to be discussing with your financial advisor to make sure you’re really taking advantage of these types of vehicles. Now, I will tell you, I have a personal bias when it comes to funding retirement vehicles. One consideration that all these vehicles have and it varies from state-to-state is creditor protection. I find that when we look at all the different assets that we might have, creditor protection of these accounts if you were to get sued or bankruptcy, retirement accounts have some of the best protections in place and it is something I’m always looking at as a major reason that if I’m going to save money that is a huge consideration and it usually puts retirement accounts right at the top of the priority list of where I’m going to put money if I have extra money to put away but, again, it’s something you should be talking about with your advisors and have a strategy as to where you’re putting money away. I want to take advantage in the first half of this program to talk about personal considerations of things that you might want to think about and then, in the second half, I’m going to talk about business considerations if you have your own business at home or you’ve got a larger business with employees. We’re going to talk about some things that you want to think about that you can take advantage of before yearend so let’s start with IRAs.

One of the advantages of IRAs is we have until April 15, 2016, so next April 15, to put money in and have it receive credit for 2015 or this year. The limits for this year is people can put up to $5500 into their IRA and, if they’re over age 50 this year, they can put an additional $1000, which is considered the catch-up provision. 401(k)s, we have a different deadline for funding and one thing about 401(k)s is those have to be funded by payroll deduction. Same thing with 403(b)s and maybe some of the other plans that are out there but 401(k)s is what most of you are familiar with. Well, this year, the amount of money that you can put into a 401(k) is $18,000 and there’s a catch-up provision with that of an additional $6000. You also can fund things, if you have a SIMPLE plan at work, the limits are $12,500 with a catch-up of $3000, and all of these plans, in the old days, you used to be limited to a percentage. Well that percentage was increased to 100% and, as long as your plan provides for you and allows you to put the maximums in, you can put 100% of income up to those caps so, for example, if I’m over 50 years old, with my 401(k), I can put $24,000 a year away. In addition to that, I can put $6500 into an IRA. Now, whether or not these things are deductible, whether or not I’m eligible to contribute, there’s also some income considerations that you want to look at as well and it’s something to sit down with your tax advisor as well as your financial professional to determine what those limits might be. Now, I don’t want to confuse people with throwing out all these numbers with the phase-ins and phase-outs but the most important thing to be considering is, number one, putting too much money away for retirement usually is not a problem. The opposite of not putting enough away affects a lot of Americans. With 10,000 Baby Boomers a day retiring, we want to make sure that when we retire, we retire comfortably and the sooner you put money away and the more that you put away, the better chance you’re going to have of having a financially sound retirement so let’s talk about what we want to think about before yearend.

I find that a lot of clients are not even aware of exactly how matches might work on their 401(k) at work so one thing I always want to make sure is that people are taking advantage of those matches. That’s free money. The way the 401(k) works is, in order to take advantage of the match, you have to put in whatever percentage that they will match and it has to come on payroll deduction for this tax year. For example, let’s say I make $50,000 at my employer and he has a 50% match up to 6%, okay, so, in other words, if I put in 6%, they will put in 50% of 6% or another 3%. If my wages are $50,000, if I put away 6% of $50,000, that’s $3000, my employer will match $1500. Now, it doesn’t matter when in the year you start. If you’re eligible for the match, let’s say you took on the job in September, okay, as long as you get the full amount of $3000 in by yearend, you could be eligible for that match. Now, you do have to read your plan benefits and make sure you understand that with your employer. If you have a 50% match, that’s an instant 50% on your money and you don’t want to leave that money on the table because there’s no going back and getting it. It’s use it or lose it so the first thing you want to make sure of and we have enough time in the year that if you’re not putting away enough money to take advantage of those matches, you may want to see if you can make a change. Some plans will restrict how often you can increase what you’re putting into your 401(k) plan but, if you have the option to do that, you want to make sure that you’re making those adjustments now so you have enough time to take advantage of that.

Another thing that I find, a lot of times, people will be sitting on a lot of cash on the sideline and they wonder, well, geez, how can I afford to put more in the 401(k), I need that money to live on. Well, one advantage is, if someone comes into an inheritance or a bonus or something else where they’ve got a bunch of cash, why not live on that cash and put more money into the 401(k) to take advantage of those matches.

Another consideration with 401(k)s is also deductibility. Now, here’s something a lot of people just put money in and a lot of times what they’ll do is they’ll just settle for what everybody else is doing. Should we do a Roth? Should we do a Traditional? One thing you want to look at is what is your bracket today and what do you anticipate your bracket to be in the future. If you’re in a tax bracket right now of 25% and you anticipate you’re going to be in a 15% bracket in retirement, you may want to consider deductible. On the other hand, if you’re in a 15% bracket now and you anticipate you’re going to be in a 15% or maybe even 25% bracket in the future or you think tax rates are going up, you might want to do a Roth. The advantage of a Roth is you don’t get the tax deduction now but you don’t pay taxes on it later when you’re withdrawing the money so, again, it’s something you want to sit down with your financial professional, maybe have your tax advisor available, and see what is going to be most beneficial to you. For example, a husband and wife, with the tax brackets from last year, at approximately $75,000 of adjusted gross income, a married couple now hits the 25% bracket. Well, I might have somebody that has $80,000 of adjusted gross income. I might recommend they do $5000 in Traditional and then everything else we might do as a Roth because we’re getting a 25% deduction on that. Once we adjust the taxable income down to that $75,000 roughly, now, we’re only getting a 15% savings. I tell a lot of people as we diversify our risk in the marketplace with stocks, bonds, and other types of investments, whether it’s mutual funds or whatever, diversification is always key, I find very few people plan to diversify how things might be taxable in the future and once you get to retirement, if you have too much taxable income, they also might start taxing your social security so all the more reason as you’re putting money into your accounts that you have a strategy or plan in place and you don’t just default to what everybody else is doing. Right now, being that we’re getting close to yearend, there might be opportunities to change whether or not you’re doing Roth or Traditional, how much you’re putting away, maybe you want to increase it, maybe you want to decrease it, but one thing about 401(k)s is you want to make sure you’re taking full advantage of whate4ver you want to put away and that there’s enough paychecks left to do it because it does have to be done by payroll deduction and, if you’re missing out on a match at work and you’re contributing to an IRA and you don’t feel you can afford to increase what you’re doing at work, maybe you want to scale back some of those other things to take advantage of that match and you still have time to do it.

Now, let’s talk about the IRAs. The IRAs we have until April 15 of next year to fund so that’s why we want to get on top of the 401(k)s right away because we still have IRAs available to contribute to. Now, if you have a 401(k) or other type of plan provided through your employer, you may not be able to have the full option of choices of what you can do as far as an IRA is concerned. There are phase-outs, depending on your adjusted gross income and whether or not you’re married versus single, as to whether or not your contributions to an IRA can be deductible. There’s also phase-outs onto whether or not you can put into a Roth IRA but you’re always able to do a nondeductible IRA and, if you’re a spouse of someone who has a 401(k) and you do not have any money being put in an employer sponsored program, those phase-outs will not apply to you when it comes to deductible IRAs so, again, talk to your tax advisor, talk to your financial professional, and figure out whether or not you should be doing the Roths on the 401(k) and the IRA side. Now, one big advantage to Roth IRAs is principal is accessible so, if you need money in an emergency, there is a way to get at principal without penalty. Both Traditional and Roth IRAs also have some ways to get money out prior to retirement. There’s provisions for first-time home purchases. There’s provisions for college education. There’s provisions if you’re disabled. There are a lot of different ways to get money out prior to 59-1/2. A consideration with IRAs, because of that extra flexibility, your 401(k) may not have options to access that money without, literally, quitting your job and having the ability to access a rollover. Some 401(k) might have loan provisions, which might give you access. They might be restricted. It’s really important to understand what your options are so, if there are considerations of things like college education for yourself or your kids or a down payment for a house, then we might look at the 401(k) and say, well, we want to take advantage of the match but maybe it’s better to get a little bit more money into these IRAs so we have some of that flexibility in the future. With the IRAs, we definitely have some more flexibility because we have until April to fund it and one big advantage with the IRAs, if we wait until after the first of the year, we can figure out what our adjusted gross income is and, now, make our decisions based on what’s actually there. Another consideration with IRAs, too, you can do re-characterization so even if you guess wrong during the year, you do have some opportunities to say, oops, I changed my mind, I want to do deductible IRA or I want to do a Roth IRA. It does create a lot of extra paperwork but it does give you that flexibility whereas, with the 401(k), you may not have quite as much flexibility.

I hope what you gathered from all of this is there are a lot of considerations, a reason to sit down with your advisor, and see if there are some things you should be taking advantage of as far as funding before yearend. Now, we’re going to take a short break and, when we come back, I’m going to give you a few business considerations that you might want to be thinking about so please stay tuned.

12:19

BREAK

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JIM: Welcome back as I continue to discuss retirement planning considerations for the second half of 2015. In the beginning, I was talking about a lot of personal considerations for people that have IRAs, 401(k)s, or other types of retirement plans at work, things you want to think about to take advantage of those, whether it’s a SIMPLE, 401(k), 403(b), all that money has to be funded from the employee standpoint by payroll deduction by yearend. We don’t have that flexibility like we do on some other things like IRAs where we’ve got until April 15 to fund them so we still have enough time left in the year that if we wanted to make adjustments and our plan allows for it that we can make those adjustments now. What about if you’re a small business owner? What are some of the considerations you want to think about? Well, there’s several different types of plans that you have available. Some of the most common that I see are the SIMPLEs, the SEPs, and the 401(k)s, and here’s some dates you want to be mindful of. One big advantage of the SIMPLE plan is these are very low cost plans so, if you have employees and you don’t want to spend a lot of money on administrative costs and you don’t want to be obligated to have large amounts of money that you’re obligated to pay for employees but you want to have a vehicle available, a SIMPLE plan might be the solution for you but, in order to contribute to a SIMPLE plan, these plans need to be formed in writing prior to October 1. October 1 is the deadline if you want to make a contribution for 2015 and what these plans allow for is $12,500 all pretax based on a payroll deduction and, for employees over 50, an additional $3000, so that’s very attractive and, if you don’t have employees, you can put that whole amount away for yourself. There’s also a small match. There’s some different rules with it but, basically, you can do matches up to 3%. There’s different ways that you can lower the match or do a little bit more some years and less other years and it’s something that, definitely, you want to talk to your advisor about but the maximum obligation that you would have for employees is 3%, the minimum, and, again, there’s some rules there, is 0% so it does have some flexibility, it does give you some options for saving on some taxes, but it does have that deadline of October 1 and there is no Roth option with that.

Kind of a cousin to that is the SEP plan, Simplified Employee Pension plan. These give us even more flexibility as far as funding. We have until tax filing date plus extension so, literally, we’d have as late in some circumstances as October 15 of next year to fund the SEP plan. Now, the SEP plan seems to be very attractive for family businesses that don’t have employees because this allows you to put away 25% of pay, fully deductible up to a maximum for 2015 of $53,000. The disadvantages, if you have a lot of employees, if you’re going to put away let’s say 10% of your income, you’ve got to do 10% of the employees or, 25%, you’ve got to do 25%. For most employers, this simply isn’t affordable if you have a lot of employees but the flexibility of let’s say you’re getting your taxes done and you didn’t realize the taxable situation you were in and you’re going to owe a lot of taxes, this is a way to get a deduction after the year is done so we find a lot of employers using this as a way to help reduce taxes. Now, you can’t have more than one plan in one year so, if you’re a small business, you’re just getting started, all of a sudden you have a fantastic year, you didn’t even think about retirement plans, this could be a real good solution for you.

Now, the other type of retirement plan we’ve already talked about in the first segments, that’s 401(k)s, and this has to be in place by December 31. 401(k)s are a formal plan, you have ERISA requirements, there’s filing requirements. It’s a lot more rigorous to set up but there are third party administrators, there are plan providers. It can be fairly simple for an employer to have these set up but there are going to be other costs, there’s going to be other obligations, but with that comes a lot more flexibility and a lot more options. 401(k)s allow us to put as much money into an account as a SEP but it doesn’t take as much income to get there because, with a 401(k), we can put up to, this year, $18,000, 100% of income to a maximum of $18,000, and an additional $6000 if we’re over 50, for a total of $24,000 on a payroll deduction plus 25% of payroll to get to that $53,000 max. You can also combine it with a defined benefit plan, which allows even greater deductions, but, for someone who, let’s say, started a business, doesn’t have a retirement plan in place, this could b e a very good option. The other thing is, even if we’re not looking for deductions, one of the beauties of the 401(k) is we can do Roth or Traditional, we can mix or match, so if we want that diversification of taxes, we can have that. Another attractive feature of 401(k)s is there can be loan provisions, which can allow access without penalty before 59-1/2, but this should be looked at for emergency situations. There’s rules you have to follow. There is a danger of paying taxes and penalties with it so you really want to make sure you understand that with that flexibility can come some risks in the form of some taxes or penalties down the road that may not have been anticipated so all of these are very viable plans and I know as a business owner myself, we get so wrapped up in business and, all of a sudden, where did the year go and, without some planning, we could get stung unnecessarily with some taxes. Also, keep in mind that we need to put some money away for retirement. all of these vehicles, whether you’re an employee or an employer, are great vehicles to get a lot of money put away and, with what we’re looking at with social security, with health insurance costs., pensions, and all of that, if you don’t have a plan of where your money is going to come from, you need to get that figured out and you need to get serious about putting some money away for your future so you can have an enjoyable retirement.

Thanks for joining us. Reach out to your advisor. Make sure you have a plan in place and, by the way, if you have a family member that you care about, and I’m sure you’ve got at least one of those, I think we all do, someone who really needs some help in putting some money away and saving, with these types of retirement plans and with the tax incentives that are there to go with them as well as the matches that are provided with a lot of 401(k) plans and SIMPLE plans, it’s a great way to accumulate money in a hurry when you’re not doing all the lifting yourself. And remember, everybody’s situation is different. For your particular situation, please consult a tax and/or legal professional.

Thanks for joining us this week and tune in again next week as we explore another phase of the Real Wealth process and, remember, if anything you heard in today’s show you’d like to get more information about, contact your Real Wealth advisor. Also, if you feel that any of this information would be helpful to a friend or family member, just click the Forward to a Friend button.