

21st century retirement



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Executive Benefits ■ Employee Benefits
Wealth Preservation and Insurance Planning

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When envisioning retirement, you may picture living in tropical climates, traveling and sightseeing at leisure, or doing whatever suits you on any given day. Regardless of your age or circumstance, it might surprise you to learn that a “lifestyle plan” is an important part of retirement planning.

Knowing how you want to spend your retirement years, where you might like to live, and which activities you plan to pursue is necessary in determining the total amount of cash you’ll need. A general rule of thumb suggests that you may need 60% to 80% of your current income per year in order to maintain your current standard of living in retirement. If you find this figure surprising, you are not alone.

Social Security

Although many people think that their Social Security benefit will provide a large portion of their retirement income, for the most part, it is a *supplement* to their retirement savings, rather than a main source of income. You can get an estimate of your future Social Security benefits by going to the Social Security website at www.ssa.gov and using the online estimate calculator. By obtaining your estimate of benefits online, you can plan for the amount of income you will need to supplement your desired lifestyle.

Since Social Security provides only a portion of needed income, many people rely on savings to make up the difference. And yet, according to The 2014 Retirement Confidence Survey (RCS), 38% of respondents who are currently working report having total savings and investments of less than \$25,000.*

With the decline in traditional **pensions** and the uncertain future of Social Security, individuals are increasingly responsible for their own retirement funds.

Taking the First Step

Starting a retirement savings plan can be a lot easier than you may think. In fact, the first step is to accept “free” money. This means taking full advantage of all of your employer’s benefits. This may include a traditional

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Traditional IRAs vs. Roth IRAs

Currently, there are two popular **Individual Retirement Accounts (IRAs)** vying for your attention: the **traditional IRA** and the **Roth IRA**. While both are long-term savings vehicles with tax benefits, each has different rules concerning contributions, age, and income that may change from one year to the next.

Contributions

Perhaps the biggest difference between traditional IRAs and Roth IRAs is how and when taxes apply to the contributions and earnings. Contributions to traditional IRAs can be pre-tax (deductible on the taxpayer's income tax return). Although contributions and earnings accumulate on a tax-deferred basis, income taxes are due when IRA distributions are taken. On the other hand, contributions to Roth IRAs are made with after-tax dollars, and contributions and earnings accumulate tax free. No income tax is due when distributions are taken from a Roth IRA. For tax year 2015, the maximum contribution to either a traditional IRA or Roth IRA is \$5,500 (\$6,500 for individuals age 50 or older).

Age Restrictions

Contributions to traditional IRAs may be made in the years in which an individual receives compensation prior to attaining age 70½. **Required minimum distributions (RMDs)** must begin by April 1 of the year after an individual reaches age 70½ (or a considerable tax penalty may apply). In contrast, Roth IRAs have

neither an age limit for contributions nor minimum distribution requirements. However, both traditional and Roth IRAs have a minimum age for distributions: 59½. Distributions taken prior to age 59½ may be subject to a 10% Federal income tax penalty. Certain situations qualify as exemptions, such as distributions to pay first-time-homebuyer expenses or qualified education expenses. Furthermore, before tax-free distributions can be received from a Roth IRA, the account must be five years old.

Income Eligibility Limits

Depending on your tax-filing status, your income, and whether or not you participate in a qualified employer-sponsored retirement plan, you may be eligible to take an income tax deduction for contributions to a traditional IRA. If you are a single taxpayer, do *not* participate in a qualified employer-sponsored plan, and earn a minimum of \$5,500, contributions are deductible regardless of your **adjusted gross income (AGI)**. However, if you do participate in an employer-sponsored retirement plan, income limits apply. Deductions in 2015 phase out for single filers with **modified AGIs (MAGIs)** between \$61,000 and \$71,000, and for married couple joint filers with MAGIs between \$98,000 and \$118,000.

The income eligibility requirements are different for Roth IRAs. If you participate in a qualified employer-sponsored retirement plan, you may contribute to a Roth IRA; however, if you are also contributing

to a traditional IRA, your contributions may not exceed the annual contribution limits. You are eligible to make a full contribution to a Roth IRA if your MAGI in 2015 does not exceed \$131,000 for single filers or \$193,000 for married joint filers (contributions phase out for single filers with MAGIs between \$116,000 and \$131,000, and for married joint filers with MAGIs between \$183,000 and \$193,000). For a married individual filing separately who participates in a workplace retirement plan, the phase-out range is \$1 to \$10,000.

A Roth IRA is often a favored choice for those who participate in a qualified employer-sponsored retirement plan and exceed the income limits for a deductible IRA, but who meet the income eligibility requirements for a Roth IRA.

Analyze This

As you investigate which IRA—or combination of IRAs—offers you the best bottom line, you may want to consider the following questions:

- What tax benefits, current and long-term, are available to you?
- Would you like to make contributions beyond age 70½?
- When do you anticipate needing your IRA proceeds?

An analysis of your personal financial situation and retirement objectives with a qualified financial professional can help you develop a financial strategy to meet your specific needs. Scrutinizing the details *now* may save you time and money in the future. ■

Americans Express Confidence in 401(k) Plans

Most Americans have considerable confidence in 401(k) and other defined contribution (DC) retirement plans, and are largely opposed to changing the tax preferences or investment control in retirement accounts, according to the results of a survey conducted by the Investment Company Institute (ICI).

The survey, which was conducted among a representative sample of 3,046 U.S. households in November and December 2014, asked respondents about their views on DC retirement account saving and their confidence in 401(k) and other DC plan accounts. The survey showed that 71% have a favorable impression of 401(k) retirement plan accounts, up from 66% of those polled in fall 2013, and 65% of those surveyed in 2012/2013. However, just 47% in 2014 who do not own a DC account or IRA said they have a favorable view of these accounts, compared to 84% who do.

The 2014 findings also indicated that 73% of all respondents are confident that 401(k) and other employer-sponsored retirement plan accounts can help people meet their retirement goals, including 80% who own DC accounts or IRAs and 61% of non-owners.

In the most recent survey, 70% of respondents with DC accounts agreed with the statement: “Knowing that I’m saving from every paycheck makes me less worried about the stock market’s performance.” Researchers noted that younger respondents were just as likely as older respondents to agree with the statement.

The survey also showed that 46% of respondents with DC accounts agreed with the statement: “I probably wouldn’t save for retirement if I didn’t have a retirement plan at work.” The share who agreed with the statement was highest (66%) among those with annual incomes of less than \$30,000, and lowest (33%) among respondents with incomes of \$100,000 or more.

The findings further revealed that 82% of DC-owning respondents agreed that the “tax treatment of my retirement plan is a big incentive to contribute.” Agreement was found to be high across all age and income groups, although it tended to increase with age, and was somewhat higher among respondents with annual incomes of \$30,000 or more (more than 80%) than among respondents with incomes of less than \$30,000 (75%).

In addition, the survey found that most DC account-owning respondents agreed that employer-sponsored retirement accounts help them “think about the long term, not just my current needs” (91%), and that payroll deduction “makes it easier for me to save” (92%). According to researchers, there was little variation in responses to these questions across age and income groups.

The survey also showed that 82% of DC account-owning respondents agreed that their plans offer a good lineup of investment options. Researchers noted that satisfaction with the lineup of investment options was high across all age and income groups, although it was somewhat higher for respondents with incomes of \$100,000 or more (87%).

When asked about government policies related to DC accounts, 88% of all survey respondents said they are opposed to the government taking away the tax advantages of DC accounts, and 90% said they disagree with reducing the amount individuals can contribute to DC accounts. In addition, the findings indicated that even among respondents without DC accounts or IRAs, 82% rejected the idea of taking away the tax treatment of DC accounts, and 83% disagreed with reducing the contribution limits. ■

Making the Home Sales Process Go Smoothly

When you think about your retirement years, do you imagine living in a new home or community? Whatever your choice of retirement haven, you may wish to sell your current home. To facilitate

the sales process, consider the following points:

If you have already begun looking for a new home, place your existing home on the market as soon as possible to help minimize the

chances of simultaneously owning two homes.

If you have decided to work with a real estate agent, ask friends for recommendations. Negotiate the

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retirement savings: do yours measure up?

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pension, also known as a **defined benefit plan** that your employer contributes to on your behalf, which is then payable to you upon retirement.

Today, a more common benefit option is a **defined contribution plan**, such as a **401(k)**. Your employer may offer a company match in contributions up to a certain percentage. That's free money increasing your principal that did not come out of your paycheck, but you must make the contributions. Employer-sponsored 401(k) plan contributions may be deducted from your paycheck before taxes, and have the potential to grow tax deferred.

Because money is deducted from your gross pay, you may find that your contributions have a relatively small impact on net income, and can be of great benefit to your overall nest egg. For example, saving \$5,000

today, over a period of 15 years, at a hypothetical 5% rate of return, could amount to over \$10,569 in additional savings income.

Individual Retirement Accounts

Since retirement may require 75–90% of your current income, many people are contributing to **Individual Retirement Accounts (IRAs)** in addition to employer-sponsored retirement saving plans. **Traditional** and **Roth IRAs** allow for annual contributions of \$5,500 in 2015 for those under age 50. For those age 50 and older, annual “catch up” contributions of an additional \$1,000 are allowed in 2015. Funds in both accounts will be subject to a 10% Federal income tax penalty if distributions are taken before age 59½, however, certain exceptions apply.

Depending on your income and participation in an employer-sponsored plan, contributions to a traditional IRA may be tax deductible and earnings grow tax deferred until you retire. Contributions to a Roth IRA are made after taxes, but are tax exempt when you withdraw in retirement, provided you are age 59½ or older and have owned the account for at least five years. Taking the opportunity to save as much as you can afford each year could have a favorable and significant impact on your ability to reach your retirement goals.

You can achieve your retirement goals and live the lifestyle you desire, if you develop a game plan. Take time now to evaluate your resources, set retirement goals, and take the necessary steps to reach them. ■

* Source: Employee Benefit Research Institute (EBRI), *The 2014 Retirement Confidence Survey (RCS)*.

making the home sales process go smoothly

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commission *prior* to listing, and then sign for a limited period (such as three to six months).

Establish a fair asking price so your property doesn't sit on the market.

Hire an attorney with experience in real estate sales. Your attorney can help protect your interests from the time a contract is signed until you receive the purchase check.

Consult with your tax professional. Selling a home can impact your Federal and state tax returns.

Many retirees choose to sell their homes. Following these tips can help make the home sales process go as smoothly as possible for you. ■

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