

Strategies for Retirement Planning

Retirement can be one of the most active and enjoyable times in one's life. However, it can also be one of the most expensive. Largely due to lack of planning, many retirees find themselves in their golden years without enough retirement resources to maintain their desired standard of living. Social Security benefits are just not enough. Income is needed to offset the impact of taxes and inflation, as well as meet retirement needs. Unfortunately, part-time work is becoming a requirement – rather than a choice – for many retirees. It does not have to be this way for you. Taking time to plan *now* can make a world of difference later.

Individual retirement accounts provide an excellent savings vehicle for any wage earner or self-employed person. IRAs can work for just about anybody. Over the past several years, rules for IRAs have undergone sweeping changes. What you once learned about IRAs may no longer be true. The end result of recent legislation is a better deal for individuals saving for retirement through IRAs.

Because of expanded IRA options, individuals who do not have a planned investment program for retirement may want to consider implementing one now to take advantage of new opportunities.

The traditional IRA is a tax-favored, flexible retirement planning tool. With recent legislation, tax deductible \$3,000 contributions to traditional IRAs have been expanded. Taxpayers who participate in their employer's retirement plan and have incomes in 2002 up to \$54,000 (\$34,000 for single taxpayers) are able to set aside money in traditional IRAs for retirement and fully deduct the contribution on their tax return. A spouse not covered by an employer retirement plan can make a fully deductible \$3,000 contribution to an IRA, even if the other spouse is covered. (This deductible contribution is phased out for the non-participant spouse if the couple's adjusted gross income is between \$150,000 and \$160,000.) Additionally, an individual who reaches age 50 by the end of 2002 can contribute an extra \$500 to his IRA.

In addition to expanding deduction/contribution provisions, penalty-free distribution provisions were added effective January 1, 1998. Distributions made for qualified higher

education expenses and first-time home purchases are permitted without a 10% early distribution penalty. With these improvements, traditional IRAs became better retirement planning vehicles, with much more flexibility to meet other financial needs.

Unlike contributions to a traditional IRA, contributions to a Roth IRA are not deductible. An individual may contribute up to \$3,000 per year to a Roth IRA (less contributions made to a traditional IRA), but the ability to make contributions is subject to income phaseout limits. Taxpayers with incomes in 2002 up to \$150,000 (\$95,000 for single taxpayers) are permitted to set aside \$3000 in a Roth IRA.

The earnings within a Roth IRA accumulate tax-deferred, as with a traditional IRA. But, when a distribution is made from a Roth IRA, it will be tax free and penalty free if it is a qualified distribution. A distribution is qualified if the Roth IRA has been in effect for at least five years and at least one of the following has been met: the investor has attained age 59½ dies or becomes disabled, or makes a qualified first-time home purchase. If the Roth IRA distribution does not meet these qualifications, the portion of the distribution representing earnings may be taxed as income and subject to a 10% penalty. Distributions from a traditional IRA, on the other hand, are subject to income tax.

Unlike traditional IRAs, an investor does not have to start withdrawing from a Roth IRA at age 70½. Required minimum distribution rules do not apply to a Roth IRA while the owner is alive. Distribution rules do apply, however, to the beneficiary of a Roth IRA following death of the owner.

While retirement is generally one of the most anticipated times in one's life, it should also be one of the most active. After all, Americans are generally living longer and retiring earlier. Yet so many people are financially unprepared when the time arrives to retire. Some do not start saving soon enough and others are not aware of how much they will need to maintain their lifestyle. The good news is it doesn't have to be that way.

To avoid the pitfalls of depending on Social Security in your retirement years, take time now to develop a plan designed to help you maintain – or enhance – your lifestyle when you're ready to retire. To find out more about proper retirement planning and how you may turn your dreams into reality, contact a CERTIFIED FINANCIAL PLANNER™ professional.