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RETIREMENT PERSPECTIVES

Planning for Retirement? Don't Overlook These Milestones

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You're never too young to start saving for retirement. Here are some pointers on starting a nest egg and avoiding mistakes that might jeopardize it.

With millions of Americans owning tax-advantaged retirement accounts, totaling $28 trillion in assets, in many types of accounts—such as a 401(k), 403(b), 457, and an IRA (Roth, traditional, SIMPLE, SEP, SAR SEP, rollover, inherited, etc.), each with their own rules—it's little surprise that slip-ups and or oversights occur all too frequently. Misunderstanding or outright ignoring a number of key dates, for example, can be costly—in terms of financial penalties and/or lawyers and accountant fees, not to mention considerable time to amend the errors.

To help you, earn, save, and accumulate as much as you can, while keeping more of your hard-earned nest egg (and precious time), let's cover a few retirement-account milestones.

Age 0 It's never too early to start saving for retirement. A Roth fund can be established for anyone, at any age; all one needs is to have earned income.

(See here to **fund a Roth IRA for a minor**.)

Age 50
In the calendar year in which an individual reaches age 50, he or she is eligible for a "catch-up" contribution. For those age 50 or older, the catch-up contribution for this year (2018) is $6,000 for a 401(k), 403(b), or governmental 457(b); $2,500 for a SIMPLE IRA; and $1,000 for a traditional or Roth IRA.

(See **here** for 2018 retirement plan and IRA limits.)

Age 55
Employees who separate from service *in the year* they turn age 55 or later can take distributions from their employer's retirement plan (e.g., 401(k)) without being assessed the 10% early-distribution penalty (although they still may be subject to income taxes). The penalty is waived when you separate from service *in the year* you turn age 55 or later. So you could leave your job at age 54 in February, turn 55 in November, while qualifying penalty-free distributions from your 401(k). Withdrawn assets can subsequently be rolled over to an IRA, but any *distribution* from the IRA prior to age 59½ will be subject to the 10% early-distribution penalty. In other words, the age 55 exception does not apply to IRA distributions.

Age 55
The 2018 contribution limit that individuals with single coverage can contribute to a **health savings account** (HSA) is $3,450, whereas the contribution limit is $6,900 for those covered under qualifying family medical plans. For those individuals, 55 or older in 2018, you can contribute an additional $1,000, or total of $4,450 (single coverage) and $7,900 (family coverage).

Age 59½
Upon reaching 59½, investors generally can take distributions from their IRAs at any time, and for any reason, without incurring an early-distribution penalty, although distributions generally are subject to income tax. Note that, unlike with the age-55 exception above, individuals must actually be at least 59½ when taking the distribution in order to avoid early-withdrawal penalties.

Age 59½ also is when you may (while employed) be allowed to take a distribution from your 401(k) or 403(b), referred to as an "in-service" distribution, and, subsequently, roll over the funds into an IRA. Notably, the plan is not required to offer an in-service distribution option. Therefore, check with the Summary Plan Description (SPD) for plan details.

Age 62
This is the earliest age at which you can claim Social Security benefits.

Age 65
There are several times when a retiree can enroll in **Medicare**, and each of those times has certain rules around applying and when your coverage will begin. Understanding when you can enroll and the best time to do so is an integral part of maximizing Medicare benefits

The first time you can sign up for Medicare is called the initial enrollment period (IEP). You may enroll in Medicare parts A, B, C, and D as follows:

- three months *before* your 65th birthday;
- the month of your birthday; or
- three months *after* your birthday.

When you apply for Social Security benefits, you're automatically enrolled in Medicare Part A.

Age 66 and 67
This is the full retirement age (FRA) for claiming **Social Security** benefits, depending on the year you were born.

Age 69½
The year in which you turn 69½ may be retirement investors' most important. It's the last year to:

- Contribute to a traditional IRA. Traditional IRA contributions must cease the year you reach 70½. However, Roth IRAs, unlike traditional IRAs, do not impose an age cap that prevents contributions.
- Convert to a Roth IRA without having to first take a required minimum distribution (RMD). IRA owners 70½ and older are eligible to convert to a Roth; however, they must take their RMDs prior to converting.
- Roll over Roth 401(k) or 403(b) funds to a Roth IRA without having to first take an RMD. This strategy allows Roth assets (now in a Roth IRA) to remain whole. Why? Roth IRAs, unlike Roth 401(k)s, are never subject to lifetime minimum distributions.

Tip: Due to the "still working" exception, this rule does not apply to all 401(k) participants. This exception allows participants who are not greater than 5% owners to defer their RMD till the later of 70½ or retirement.

Age 70
This is when an individual can claim the maximum Social Security benefit.

Age 70½

This is the milestone with which most individuals are all too familiar. It is the age when they must begin taking RMDs from all of their IRAs, except for Roth IRAs. Individuals are required to take their initial RMD *in the year* they reach 70½, although the initial RMD can be deferred until April 1 of the following year. After that, RMDs must be taken by December 31 of each year, so that individuals who deferred their first RMD must take two the next year to be in compliance.

Tip: The rules differ somewhat for beneficiary IRAs (traditional and Roth) that are inherited by a nonspouse. Here, the (nonspouse) beneficiary who wishes to "stretch" out the distributions must take their initial RMD no later than December 31 of the year following the year of the account owner's death. For example, if the IRA account owner dies any time in 2018, beneficiaries who want to take advantage of the "stretch" option must take their initial RMD by December 31, 2019, and distributions annually thereafter.

If you have any questions about this or another retirement topic, please e-mail me at **roadtoretirement@lordabbett.com**.

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Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax-deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

A **Roth IRA** is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax-free if the account has been held at least five years and the individual is at least 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax-free.

A **SIMPLE IRA** plan is an IRA-based plan that gives small-business employers a simplified method to make contributions toward their employees' retirement and their own retirement. Under a SIMPLE IRA plan, employees may choose to make salary reduction contributions and the employer makes matching or nonelective contributions. All contributions are made directly to an individual retirement account (IRA) set up for each employee (a SIMPLE IRA). SIMPLE IRA plans are maintained on a calendar-year basis.

A **simplified employee pension plan (SEP IRA)** is a retirement plan specifically designed for self-employed people and small-business owners. When establishing a SEP-IRA plan for your business, you and any eligible employees establish your own separate SEP-IRA; employer contributions are then made into each eligible employee's SEP IRA.

A **401(k)** is a qualified plan established by employers to which eligible employees may make salary deferral (salary reduction) contributions on an aftertax and/or pretax basis. Employers offering a 401(k) plan may make matching or nonelective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings accrue on a tax-deferred basis.

A **403(b) plan** is a retirement savings plan that allows employees of public schools, nonprofit, and 501(c)(3) tax-exempt organizations to invest on a pretax and or Roth aftertax basis. Contributions to a 403(b) plan are conveniently deducted directly from your paycheck. In addition, your employer may elect to make a contribution on your behalf.
