Age-based Retirement Income Planning

As you’re nearing or are in your 50s, it is important to be aware of certain milestones that create opportunities for you to maximize your savings opportunities.

- **Age 50 – Catch-up Contributions Allowed for Both 401(k) and IRA**

  At age 50, you may contribute up to the regular 401(k) limit – $18,500 for 2018 – and if you reach that limit, you may also make a catch-up contribution of an additional $6,000. Setting aside an extra $6,000 annually into a tax-deferred retirement account can have a big impact on the eventual balance of the account.

  In addition, individuals at least 50 years old may also make catch-up contributions of $1,000 to their IRAs. This amount is in addition to the regular contribution limits for both traditional and Roth IRAs, currently $5,500.

- **Age 55 – Some 401(k) Distributions Allowed**

  Under normal circumstances, distributions from a 401(k) must wait until you reach the age of 59 ½. However, there is a special provision in 401(k) plans for those that leave their employer after age 55 but before age 59 ½. This rule allows withdrawals from the plan which are exempt from the early withdrawal penalty of 10%.

  *Be aware should someone suggest you roll funds from your 401(k) to an IRA without first explaining the age 55 provision to you. Once funds are moved from your 401(k) to an IRA, the age 55 penalty-free withdrawal provision no longer applies and you’ll have to wait until age 59 ½ to withdrawal, or pay the 10% penalty.*

- **72(t) – SEPP Payments**

  Under IRS code 72(t), penalty-free withdrawals from IRA accounts and other tax-advantaged accounts such as employer-sponsored 401(k)s are permitted. However, to take advantage of 72(t), the owner must take at minimum five
substantially equal periodic payments (SEPPs) without being penalized the 10 percent penalty. The payments must occur over the span of five years or until you reach 59 ½, whichever period of time is longer. It’s important to also understand that the IRS still subjects the withdrawals to your normal income tax rate.

- **Age 59 ½ -- IRA and 401(k) Distributions Allowed**

  Under IRA tax rules, the earliest you can begin withdrawing funds from your IRA without penalty is at age 59 ½. However, that doesn’t mean you must, or even should, withdraw money. Many people wrongly assume that they must start drawing down their IRA once eligible. However, if you are still earning an income at 59 ½, best practice is likely to not touch that money and allow further growth.


- **Between 60-70 – Potential IRA to Roth IRA Conversions**

  It’s important to remember that regardless of when you choose to distribute funds from your traditional IRA, those funds are reported as ordinary income in the year in which they were distributed. For many, there is an opportunity to convert those funds to a Roth IRA to potentially reduce the amount of both RMDs as well as to allow those funds to grow tax-free. Advantages of doing so include, but are not limited to:

  1. **Tax Exempt Earnings** – After the conversion, the funds deposited into the Roth IRA will grow tax exempt rather than tax deferred.
  2. **Decrease Amount of Future RMDs** – By decreasing your traditional IRA balance prior to the age of 70 ½ when distributions are required, you reduce the RMD amount.

- **Age 62 – Social Security Eligibility Begins**

  Social Security benefits are an integral part of retirement planning. Understanding the procedures and details of the filing will prove critical to successfully planning your retirement income stream. How and when to begin taking Social Security benefits can be a difficult decision. Some factors to consider include:

  - Existing Savings
  - Current Income
  - Health
It’s also important to understand that Social Security benefits are not free money. You may owe taxes on some portion of each check. The Social Security Administration offers a wealth of information on this subject: http://www.socialsecurity.gov/retire

### Age 65 – Medicare Enrollment Begins

Medicare is the health payer program of the United States Government that helps provide payment coverage for health and medical care. It was first enacted in 1965 to help those who could not afford health or medical care in their retirement. Today, millions of American citizens aged 65 and older receive Medicare assistance. The Initial Enrollment Period (IEP) is the seven-month period that begins three months before you turn 65, including the month of your 65th birthday, and ending three months later.

If you do not enroll during the IEP when you are initially eligible, you can enroll during the General Enrollment Period, January 1st through March 31st of each year. **Be mindful that you may have to pay a late enrollment penalty for Medicare Part A and/or B if you did not sign up when you were initially eligible.**

### Age 70 ½ – Required Minimum Distributions (RMDs) Begin

While the primary benefit of most IRS sanctioned retirement accounts is their tax-deferred status, this benefit does not last forever. You must begin taking your taxable withdrawals no later than April 1st of the year after you turn 70 ½. Subsequent annual withdrawals are then due by December 31st each year thereafter. If you postpone your initial distribution to the first quarter of the year after you turn 70 ½, then you will have two distributions in that second year.

*Failure to comply with this requirement carries a full 50% penalty of the requirement amount not withdrawn.*