# Rightirement

WEALTH PARTNERS

# Understanding the Basics of Retirement Plans & IRA Distribution Rules

BYRKE SESTOK, CFP®

PRESIDENT & FINANCIAL PLANNER

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Most Common Retirement Plans

## Employer Sponsored Plans

**Defined Benefit Plans**

- Classic Pension - How much you receive later is defined by the terms of the plan
- You may or may not contribute into the plan
- Typically your employer paid the lion's share of the contributions and a formula incorporating your years of service to the employer determines the payments at retirement

**Defined Contribution Plans**

- The amount you can contribute during your saving years is defined or limited by plan rules
- Your employer may offer a matching or flat dollar contribution
- 401(k) and 403(b) plans are the most common
- 2018 – Employee contribution limit of $18,000 with a $6,000 catch up (age 50+) contribution



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Most Common Retirement Plans

## Small Business Plans

Simplified Employee Pension – Individual Retirement Arrangement (SEP-IRA)

- Annual contribution limit is <u>the lessor </u>of 25% of total compensation or $55,000

Savings Incentive Match Plan For Employees (SIMPLE IRA)

- Annual contribution limit for 2018 is $12,500 and $3,000 catch up contribution

Rightirement
WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Most Common Retirement Plans

## Individual Plans

Indvidual Retirement Arrangement (IRA)

Roth Individual Retirement Arrangement ( Roth IRA)

- Both plans have a contribution limit in 2018 of $5,500 and $1,000 catch up
- You can contribute to both plans but the combined contributions cannot exceed the above limits



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Why contribute to a retirement plan?

One of the most powerful financial concepts is tax-deferred growth

Money in retirement plans have the potential to grow tax-deferred until it is withdrawn

Traditional Contributions

- Deposits go in pre-tax
  - income not taxable on current year tax return
- Money inside the plan grows tax-deferred
- Withdrawals are taxed as ordinary income

Roth Contributions

- Deposits go in after-tax
  - income is taxable on current year tax return
- Money inside the plan grows tax-deferred
- Qualified Withdrawals are tax-free

Withdrawals from a Roth account may be tax free, as long as they are considered qualified. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years,whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth accounts. Withdrawals from a Traditional account prior to age 59 ½ may result in a 10% IRS penalty tax.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Should I Contribute to Traditional or Roth?

This is not an easy question and you should consult your tax professional

For today's purpose of a high level overview these are some questions to ask yourself:

- Will your taxable income be higher now or in retirement years?
- What other sources of income may begin in retirement such as pension or Social Security?
- Is it likely that you may need access to some of your contributions before age 59 ½?



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# When Can I Take Money Out of My Retirement Plan?

Penalty Free

- After you reach age 59 ½
- Leaving your job after age 55 (plans specific to this employer)
- Substantially Equal Periodic Payments
- Deductible Medical Expenses
- Disability
- Death



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# When Can I Take Money Out of My Retirement Plan?

Penalized Distributions

- Withdrawals before age 59½ are generally subject to a 10% penalty — on top of any regular income taxes owed



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Four Options for Your Employer Plan When Changing Jobs or Retiring

- Lump-sum distribution
- Roll over the assets to a new employer's plan (when changing jobs) if a plan is available and rollovers are permitted
- Roll over the assets to an IRA
- Leave money in former employer's plan (if permitted)

Rightirement
WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Lump-Sum Distribution

Tempted to take a lump-sum payment from your traditional plan?

- Income taxes will be due
- Also, a 10% penalty, if under 59$^{1}$/2
- Compromises retirement saving



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Lump-Sum Distributions Aren't Always What They Appear to Be

| | |
|---|---|
| Amount of distribution: | $25,000 |
| Amount withheld for federal income taxes: | $5,000 |
| 10% penalty: | $2,500 |
| Additional tax obligation (based on 25% tax bracket): | $1,250 |
| Net result: | $16,250 |

Rightirement
WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Rollover

- Defined as moving retirement assets between plans
- Preserves tax advantages of assets



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Two Types of Rollovers

•Direct — check made out to institution

•Indirect — you receive money, have 60 days to reinvest

Note:
A rollover can be made into another employer plan or an IRA.

You can only do ONE indirect rollover in a calendar year. If you do this twice or more the total money rolled over will be income taxable to you and ineligible as IRA money.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Leave Money in Former Employer's Plan

•Direct — check made out to institution

•Indirect — you receive money, have 60 days to reinvest

Note:
A rollover can be made into another employer plan or an IRA.

You can only do ONE indirect rollover in a calendar year. If you do this twice or more the total money rolled over will be income taxable to you and ineligible as IRA money.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Normal IRA/Retirement Plan Distributions

- Money withdrawn from your IRA or Retirement Plan is taxed as if you earned it, as regular income

- This means that if you pay 30% in income tax, for example, that 30% of your IRA or Plan assets will eventually belong to the government

- Tax strategies may exist that can help your money last longer – we will discuss this soon

Rightirement
WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Normal Roth IRA/Roth Retirement Plan Distributions

- Money withdrawn from your Roth IRA or Roth Retirement Plan is income tax free
- The tax-free nature of Roth plans is a valuable planning tool to help assist your tax management in retirement

Withdrawals from a Roth account may be tax free, as long as they are considered qualified. Withdrawals prior to age 59 ½ or prior to the account being opened for 5 years, whichever is later, may result in a 10% IRS penalty tax. Future tax laws can change at any time and may impact the benefits of Roth accounts. Withdrawals from a Traditional account prior to age 59 ½ may result in a 10% IRS penalty tax.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Important Retirement Distribution Considerations

- Required minimum distributions
- Installment payments
- Special tax treatment
- Annuity payouts

Rightirement WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Required Minimum Distributions (RMDs)

- Generally, distributions must occur by April 1 after the year in which you turn age 70 ½
- Some plans may allow delay in RMDs if you continue working
- Distributions must come out of the total aggregate balance of all your IRAs and Retirement Plans
- You must continue to take distributions annually, during the calendar year, from your IRAs and Retirement Plans each year
- Failure to do so has a stiff IRS penalty of 50% of any amount that you were supposed to withdraw but failed to do so



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Installment Payments

- Spread tax bite over time
- Choose an option that meets your needs — life expectancy, annuity, substantially equal payments



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Special Tax Treatments of Lump-Sum Distributions

- Calculate tax liability using income averaging or special capital gains tax treatment
- Could prevent movement to a higher tax bracket



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Annuity Payouts

- Optional form of payment
- May be standard for certain plans unless you waive it



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

Bob and Geri are planning to retire at age 62

They have accumulated the following assets
- $700,000 - Joint brokerage account
- $120,000 - Bob's Roth IRA
- $850,000 - Bob's 401k
- $100,000 - Geri's Roth IRA
- $700,000 – Geri's SEP IRA

Both are eligible for Social Security

Bob has a small pension from the 70s that will pay $18,000 annually at age 62



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

Bob and Geri want help deciding when to begin Social Security

They also want to develop an income plan with well thought out tax strategy

Their annual expenses are $80,000 in today's dollars

Case studies may not be representative of actual client results and are not indicative of future performance or success. This is a hypothetical example and is not representative of any specific situation.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

Table 1. Tax Brackets and Rates, 2018

| Rate | For Unmarried Individuals, Taxable Income Over | For Married Individuals Filing Joint Returns, Taxable Income Over | For Heads of Households, Taxable Income Over |
|---|---|---|---|
| 10% | $0 | $0 | $0 |
| 12% | $9,525 | $19,050 | $13,600 |
| 22% | $38,700 | $77,400 | $51,800 |
| 24% | $82,500 | $165,000 | $82,500 |
| 32% | $157,500 | $315,000 | $157,500 |
| 35% | $200,000 | $400,000 | $200,000 |
| 37% | $500,000 | $600,000 | $500,000 |



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

## Social Security Estimates

- $21,000 for each if started at age 62
- $30,000 for each if started at age 67
- $37,200 for each is started at age 70

Rightirement
WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

Putting some basic thoughts together

- In order to delay the need to collect Social Security Bob and Geri can fund their $80,000 expenses with $12,000 from Bob's pension and their other investment accounts
- Bob's pension will be taxable so let's assume he pays 12% Federal Tax and 5% State to net $9,960
- Bob and Geri must fund their remaining $71,040 annual need from their assets
- Bob and Geri decide that they are comfortable withdrawing $31,040 from their Joint account and will endeavor to use a combination of gains and losses to minimize taxes on this money
- To make up the remaining $40,000 expense need Bob and Geri need to withdraw approximately $48,200 before taxes from a combination of Bob's 401k and Geri's SEP IRA



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

Tax Opportunities Exist

- The couple will have $60,200 of taxable income in 2018
- $77,400 is the top of the 12% tax bracket for 2018
- Based on their specific circumstances, they decide it makes sense to fill up to the top end of the 12% tax bracket
- Bob and Geri work with their CERTIFIED FINANCIAL PLANNER Professional and CERTIFED PUBLIC ACCOUNTANT to withdraw additional money from their retirement plans
- Bob and Geri use this money to take advantage of a Roth IRA conversion

Traditional IRA account owners should consider the tax ramifications, age and income restrictions in regards to executing a conversion from a Traditional IRA to a Roth IRA. The converted amount is generally subject to income taxation.



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

## Annual Retirement Income Planning

- Bob and Geri continue to work with their CFP Professional and CPA as they age through their 60s
- Each year they evaluate their taxable income for Roth IRA conversion opportunities and continue to delay taking Social Security to get a higher payout
- Whether they delay all the way until 70 or decide together just to make it a few more years to age 65 Bob and Geri have increased Social Security income which reduces the amounts they must pull from their retirement plans to live



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

Smart Planning Has Ripple Effects

- Clearing money out of their Retirement and IRA plans early in retirement at a low tax bracket has the potential to impact future outcomes
- Depending on how their retirement accounts perform, converting a portion of their assets to Roth could give them more flexibility with regard to Required Minimum Distributions and managing their future tax bracket.

Rightirement WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Case Study

## Case Study Summary

- When conducting any retirement income plan it is important to consult a tax professional for proper guidance
- Proper planning can potentially save income taxes and help your assets last longer
- Social Security is an important stable base of income that should be analyzed carefully before payments begin to determine the best course of action
- A proper retirement income plan necessitates planning for many years in the future, not just the current year



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Consider a Financial Advisor

- Get recommendations
- Contact professional organizations
- Interview promising candidates



Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Understanding the Basics of Retirement Plans & IRA Distribution Rules

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing.

All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

No strategy assures success or protects against loss.

This information is not intended to be a substitute for specific individualized tax or legal advice. We suggest that you discuss your specific situation with a qualified tax or legal advisor.

Rightirement WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.

# Thank You

QUESTIONS?

Rightirement
WEALTH PARTNERS

Securities offered through LPL Financial. Member FINRA/SIPC. Investment advice offered through Independent Financial Partners, a Registered Investment Adviser. Rightirement Wealth Partners, and Independent Financial Partners are separate entities from LPL Financial.