

RMDs Get a Small Reprieve

2022 brings new life expectancy tables. For the first time in nearly 20 years, the IRS has released updated actuarial or life expectancy tables. Those who take required minimum withdrawals (RMD) from retirement accounts may already know we use these tables to calculate your RMD. Using these new tables is relatively simple, but here are some considerations to keep in mind.

What's my RMD? We determine the required amount you must withdraw annually by dividing the previous year-end balance of your qualifying accounts by what the IRS calls a "life expectancy factor." The newest tables assume we'll live longer, which may impact the amount you need to withdraw.

What about inherited accounts? There are some exceptions, but you must generally withdraw all assets within ten years, regardless of your life expectancy. The Secure Act eliminated the ability to "stretch" your withdrawals across your lifetime if the original account owner passed away in 2020 or later.

While most RMD calculations are straightforward, the process can get more complicated if you have multiple accounts or other sources of retirement income.

2022 Contribution Limits

Is it time to contribute more?

Preparing for retirement just got a little more financial wiggle room. The Internal Revenue Service (IRS) announced new contribution limits for 2022.

Staying put for 2022 are traditional Individual Retirement Accounts (IRAs), with the limit remaining at \$6,000. The catch-up contribution for traditional IRAs remains \$1,000 as well.¹

For workplace retirement accounts (i.e. 401(k), 403(b), amongst others), the contribution limit rises \$1,000 to \$20,500. Catch-up contributions remain at \$6,500.¹

Eligibility for Roth IRA contributions has increased, as well. These have bumped up to \$129,000 to \$144,000 for single filers and heads of households, and \$204,000 to \$214,000 for those filing jointly as married couples.¹

Another increase was for SIMPLE IRA Plans (SIMPLE is an acronym for Savings Incentive Match Plan for Employees), which increases from \$13,500 to \$14,000.¹

Once you reach age 72, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA) or Savings Incentive Match

Plan for Employees IRA in most circumstances. Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

Once you reach age 72, you must begin taking required minimum distributions from your 401(k), 403(b), or other defined-contribution plans in most circumstances. Withdrawals from your 401(k) or other defined-contribution plans are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawal can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Citations

1. CNBC.com,
November 5, 2021





Retirement Preparation Mistakes

one in seven living 95 years or longer. The prospect of a 20- or 30-year retirement is not unreasonable, yet there is still a lingering cultural assumption that our retirements might duplicate the relatively brief ones of our parents.²

4) **Withdrawing strategies:** You may have heard of the “4% rule,” a guideline stating that you should take out only about 4% of your retirement savings annually. Some retirees try to abide by it.

So, why do others withdraw 7% or 8% a year? In the first phase of retirement, people tend to live it up; more free time naturally promotes new ventures and adventures and an inclination to live a bit more lavishly.

5) **Talking About Taxes:** It can be a good idea to have both taxable and tax-advantaged accounts in retirement. Assuming your retirement will be long, you may want to assign this or that investment to its “preferred domain.” What does that mean? It means the taxable or tax-advantaged account that may be most appropriate for it as you pursue a better after-tax return for the whole portfolio.

6) **Retiring with debts:** Some find it harder to preserve (or accumulate) wealth when you are handing portions of it to creditors.

7) **Putting college costs before retirement costs:** There is no “financial aid” program for retirement. There are no “retirement loans.” Your children have their whole financial lives ahead of them.

8) **Retiring with no investment strategy:** Expect that retirement will have a few surprises; the absence of a strategy can leave people without guidance when those surprises happen.

These are some of the classic retirement mistakes. Why not attempt to avoid them? Take a little time to review and refine your retirement strategy.

We are here to help you with any questions or concerns you may have about your retirement strategy.

Citations

1. Forbes.com, December 9, 2021
2. SSA.gov, January 24, 2022

Why are they made again and again?

Much is out there about the classic financial mistakes that plague start-ups, family businesses, corporations, and charities. Aside from these blunders, some classic financial missteps plague retirees.

Calling them “mistakes” may be a bit harsh, as not all of them represent errors in judgment. Yet whether they result from ignorance or fate, we need to be aware of them as we prepare for and enter retirement.

1) **Timing Social Security:** As Social Security benefits rise about 8% for every year you delay receiving them, waiting a few years to apply for benefits can position you for higher retirement income. Filing for your monthly benefits before you reach Social Security’s Full Retirement Age (FRA) can mean comparatively smaller monthly payments.¹

2) **Managing medical bills:** Medicare will not pay for everything. Unless there’s a change in how the program works, you may have a number of out-of-pocket costs, including dental, and vision.

3) **Underestimating longevity:** Actuaries at the Social Security Administration project that around a third of today’s 65-year-olds will live to age 90, with about



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