

Review Vehicles for Retirement

Introduction

There are a number of investment vehicles associated with retirement available. Here we will review some of the more common vehicles and point out some of the main features to consider. Various common retirement options are presented here including:

- [401k's, 357's](#) – Employee sponsored plans
- [IRA's](#) – Self managed plans for individuals.
- [Solo 401k's, SEP's](#) – Self managed plans for individuals and self-employed persons.
- [Roth IRA's](#) – A unique self funded retirement option with special tax treatment.
- [HSA's](#) – Health Savings Accounts, High deductible health insurance plans that can also play a role in retirement planning and assist with health expenses in retirement.
- [Regular Investment Account](#) – Opened and managed by you

Disclaimers

- Financial information is by nature dynamic and ever changing, as a result you should assume any information presented here as dated and in need of update before any decisions should be made.
- Your situation is unique information provided here is general in nature tax many details may not be mentioned that may have impact on your financial situation. Make sure you investigate fully any topic that may be used to make a decision. Additionally, tax laws are complex and many times subject to vary based on the individual's income. Make sure you understand the implications for your situation.

References and additional Resources

- [Social Security Website](#)
- [Kiplingers Tax Glossary: Tax Terms you need to know](#)
- [Podcast, Planet Money: Health Insurance is like an all-you-can-eat buffet \(08/31/2009\)](#)
- [IRS: Retirement Plans Frequently Asked Questions](#)
- [Retirement won't save for itself: Here's how to save what you need \(10/05/2020\)](#)
- [How do you start savings? Your tax refund may be the answer \(11/13/2015\)](#)
- [Election 2020: Joe Biden's Tax Plans \(10/22/2020\)](#)
- [The Best Online Brokers, 2020 \(10/06/2020\)](#) – *Note, my personal experience with Fidelity is they cannot be trusted, I have seen their advisors rip-off a number of older ladies I have helped through the years. I have had great experience with Schwab and been with them for decades. But that's just my experience!*
- Calculators
 - [What will my qualified plan\(s\) be worth at retirement?](#)
 - [What is my current year required minimum distribution?](#)
 - [What is my projected required minimum distributions?](#)

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Vehicle	Pros	Cons	References
<p>Common IRA's, 401k's, SEP, Solo 401k's, 357, etc.</p> <p>NOT Roth IRA's</p>	<ul style="list-style-type: none"> Reduce your adjusted gross income (AGI) dollar-for-dollar. You may qualify for a Retirement Savers tax credit of up to \$1,000 for contributions to an IRA or other retirement tax plan. 	<ul style="list-style-type: none"> Must have earned income to participate. If you withdraw funds before 59.5 years old you are subject to 10% penalty. Very strict requirements of distributions at age 72 based on morbidity tables. All withdraws contribute to your taxable income in the year you withdraw the money. Losses from bad investments cannot be used to offset gains in good investments. 	<ul style="list-style-type: none"> Information on contribution limits to 401k's, IRA's, Roth's for 2021 (11/05/2020) Kiplinger IRA's – Webpage with IRA related articles. US Securities and Exchange Commission: Required Minimum Distribution Calculator IRS: Required Minimum Distribution Worksheets IRS: Exceptions to the Tax on Early Distributions
401k, 357	<ul style="list-style-type: none"> See Common IRA's....etc. Pros section 2020/2021 contribution limit = \$19,500 <ul style="list-style-type: none"> 50+ allowed \$6,500 catch-up Usually available through work. Business may match some contributions; if so contribute at least this amount each year. 	<ul style="list-style-type: none"> See Common IRA's....etc. Cons section 2020/2021 contribution limit = \$19,500 <ul style="list-style-type: none"> 50+ allowed \$6,500 catch-up Rule of 55: Many 401k's will allow withdraw before 59.5 without penalty provided: <ul style="list-style-type: none"> 1. You are retiring from work. 2. 401k fund remains at work. <i>Note: If you convert a 401k to an IRA you cannot use this early withdraw exception.</i> 	<ul style="list-style-type: none"> Can the Rule of 55 help you plan for retirement? Calculators <ul style="list-style-type: none"> What may my 401(k) be worth? What is the impact of increasing my 401(k) contribution? How do I maximize my employer 401(k) match? What is the impact of early withdrawal from my 401(k)? Compare a Roth 401(k) to a Traditional 401(K) How much retirement income may my 401(k) provide?
IRA	<ul style="list-style-type: none"> See Common IRA's....etc. Pros section Can Contribute as late as 04/15 for TY2020 Contribution Limits(2020/2021) of \$6,000 or \$7,000 (50 and older) per person. Even if participating in 401k, can contribute if single and your income is \$65,000 or less (\$104,000 if married filing jointly). Spouses with little or no earned income for 2020 can also make an IRA contribution as long as their spouse has sufficient earned income to cover both contributions. You can convert a regular IRA to a Roth IRA, but the conversion will go towards your taxable income on the year you make the conversion (Partial conversions are allowed). 	<ul style="list-style-type: none"> See Common IRA's....etc. Cons section May not be able to contribute if participating in a 401k If married one of the spouses must have earned income. New rule (Elimination of Stretch IRA), Inherited IRA's must be fully distributed within <u>10 years</u> for non-spouse inheriting an IRA. This could have serious implications to taxable income for person(s) inheriting the IRA. There are exceptions for age and disability. 	<ul style="list-style-type: none"> Fund your IRA, Cut your Taxes (12/18/2020) IRS: Publication 590-B Distributions from individual Retirement Arrangements (IRA) – Rules governing IRA distributions. IRA FAQs – Distributions(Withdraws) – IRS website listing rules on IRA distributions. Calculators <ul style="list-style-type: none"> How much can I contribute to an IRA? How much retirement income may an IRA provide? Should I convert to a Roth IRA? 72(t) early distribution analysis

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Solo 401k's SEP's	<ul style="list-style-type: none"> • Popular Plans for Self-Employed persons: <ul style="list-style-type: none"> ◦ Solo 401k Contribution limits for 2020 as high as \$63,500 for TY2020 ◦ SEP contribution limits for 2020 as high as \$57,000 for TY2020. • Reduce your adjusted gross income (AGI) dollar-for-dollar. • <i>Note 1: There are many similarities between these plans and 401k's and IRA's</i> • <i>Note 2: You can probably convert a these plans directly or indirectly to a Roth IRA, but the conversion will go towards your taxable income on the year you make the conversion (Partial conversions are allowed).</i> 	<p><i>Note: I don't know a lot about these plans since I have never used them, so please verify all information here before implementing.</i></p> <ul style="list-style-type: none"> • 	<ul style="list-style-type: none"> • New Pass-Through Tax Deduction could be a bust for business owners (11/21/2019) • Retirement plans for the entrepreneur (06/11/2019) • Comparing self-employed retirement plans: solo 401k vs. SEP IRA vs. Simple IRA (03/14/2018)
Roth IRAs	<ul style="list-style-type: none"> • Allowed withdraws are TAX FREE (do not contribute to your taxable income). • Contribution Limits(2020/2021) of \$6,000 or \$7,000 (50 and older) per person. • No Required Minimum Distribution (RMD) requirements. • Even if your AGI is over limits to contribute directly to a Roth, there is a "Back door" that most folks can use to make a contribution to a Roth. • Great tool for estate planning, beneficiary's receive tax free. 	<ul style="list-style-type: none"> • Contributions are NOT tax deductible when made. • Contributions allowed based on income, but there is a work-around (Back door). • Can play key role in limiting taxable income (see Roth Discussion below). • Withdraw from any earning before 59.5 are taxable. (5 year limit rule). • 	<ul style="list-style-type: none"> • Why are Roth conversions so trendy right now? The case FOR and AGAINST them (10/23/2020) • 6 Reasons you should NOT do a Roth conversion (10/27/2020) • Your Guide to Roth Conversions – Outline rules and strategies for Roth Conversions (11/24/2020) • Getting around income limits for a Roth IRA (03/22/2014) • How the Backdoor Roth IRA Contribution Works (01/20/2019) • Roth IRA's for children – Dated article, but principle applies, actual amounts may have changed. • Investopedia: Roth IRA Beneficiary Rules • Calculator: Should I convert to a Roth IRA?

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HSA	<ul style="list-style-type: none"> Plans are usually greatly subsidized by employers. HSA is similar to a IRA in many respects in that it is associated with you so if/when you leave a place of employment you keep the account and money accumulated. Triple Tax Advantage: <ul style="list-style-type: none"> Contributions to HSA are pre-tax, so lowers your taxable income. Withdraws for approved health related bills are not taxed. Growth in a HSA from investments is untaxed Most HSA pay interest and have limited investment options once you have a baseline balance determined by the company administrating the HSA. When you reach age 65, there's no longer a penalty (20%) for withdrawing HSA funds to use for non-medical expenses, but you will owe income tax on the withdrawals if not used for a medical expense(similar to an IRA). You use the account to pay for the medical expenses of a spouse or other family members even if they aren't covered by your HDHP. 	<ul style="list-style-type: none"> Pressure to save money in your HSA may lead you not to seek medical care when needed. More responsibility is put on the customer for medical decisions. Expenses up to a limit are paid out-of pocket by you. Budgeting health care expenses is up to you. If you have a lot of medical expenses you may not accumulate funds in your HSA. If you take money out of a HSA for non-medical expenses you will have to pay taxes on it and there will be a 20% penalty (before age 65). 	<ul style="list-style-type: none"> HSA Contribution limits and other requirements (10/29/2020) How does a health savings account (HSA) work? (05/26/2020) FAQs on Health Savings Accounts (01/27/2017) IRS Publication 696: Health Savings Accounts and Other Tax-Favored Health Plans (TY2019) Health savings accounts: Is an HSA right for you? (Mayo Clinic) Health Savings Accounts get even better (07/03/2020) Tapping the power of a Health Savings Account (05/05/2020) 10 Myths about Health Savings Accounts (11/08/2018) Making the most of a Health Savings Account Once you turn age 65 (03/08/2019) High-Deductible Health policies linked to delayed diagnosis and treatment (04/18/2019) Who benefits from Health Savings Accounts (03/14/2017) Health Savings Account change in 2018 could trip up some consumers (04/03/2018) How your HSA can reimburse you for Medicare Premiums Paid (03/27/2019) Tap an IRA Tax-Free with an HSA Rollover (02/08/2019) Calculator: What may my Health Savings Account (HSA) be worth?
Investment Account	<ul style="list-style-type: none"> Anyone can open these, no income requirements or employment requirements. No limits on withdraws No impact on taxes for withdraws. Gains on Stock sales have better treatment for investment held for long-term (over 1 year). Losses from stock sales might be able to be used against gains to help with taxes. Inheritance from investment accounts are valued at date-of-death, and will <u>probably</u> be tax-free without restrictions seen in IRA's. 	<ul style="list-style-type: none"> No tax advantage for placing money in account Gains on stocks are taxed the year the stock is sold. <ul style="list-style-type: none"> Short term Gains (less than one year) investment gains are taxed at your tax rate. Lon Term Gains (Investments held longer than one year) are taxed at a lower rate. 	<ul style="list-style-type: none"> The 2021 Capital Gains Tax Rate Thresholds are out – What rate will you pay? (10/27/2020) What is Capital Gains Tax Rate? (06/11/2020) Will Joe Biden raise YOUR taxes? (11/09/2020) The Best Online Brokers, 2020 (10/06/2020) – <i>Note, my personal experience with Fidelity is they cannot be trusted, I have seen their advisors rip-off a number of older ladies I have helped through the years. I have had great experience with Schwab and been with them for decades. But that's just my experience!</i>

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Roth: Discussion on taxes in retirement

Here we perform an estimate of taxable income on a married couple to show how your taxable income can quickly become quite large. Once retired, there is little you can do to adjust these money flows, so it may be wise to convert some of your 401k/IRA into a Roth and pay taxes at the conversion as opposed to being forced into a very high money bracket in retirement.

Example Scenario (This is just a rough approximation)

- Married with both collecting Social Security
 - Higher income earner (Her) delayed to 70 years old to get maximum benefit
 - Lower income earner (Him) collected at regular retirement age of 67
- Combined IRA (401k) values
 - Higher Earner = \$1,000,000 (1 Million dollars)
 - Lower Earner = \$500,000

Taxable Income Calculation

- Higher Income Earner
 - Social Security = \$41,000
 - IRA Required Minimum Distribution (RDA) = \$39,063
- Lower Income Earner
 - Social Security = \$25,000
 - IRA Required Minimum Distribution (RDA) = \$19,531
- **Yearly Taxable Income = \$124,594**

References:

- [Social Security Benefits Calculators \(Social Security\)](#)
- [Required Minimum Distribution Calculator \(AARP\)](#)
- [IRS: Don't Forget, Social Security benefits may be taxable \(06/25/2020\)](#)
- [Social Security Website](#)
- [Inflation Calculator](#)