2021 Retirement Planning Comments

Although many traditional retirement planning limits are the same for 2021, there are a few changes to consider.

Maximum 2021 contributions for a 401(k), 403(b), or 457 plan are the lesser of **$19,500 (same as last year) or 100% of pay**. Additionally, participants in one of these retirement plans who are age 50 or older may be eligible for **"catch-up" contributions of an additional $6,500 per year (same as last year)**.

A **SIMPLE IRA or SIMPLE 401(k) is limited to the lesser of $13,500 (same as 2020) or 100% of pay with a $3,000 catch-up** contribution.

In 2021, individuals can put up to **$6,000** into a traditional IRA or a ROTH IRA and those age 50 or more can benefit from an additional **$1,000 "catch-up" contribution** (the same as 2020 limits).

It is **not too late to fund an IRA for tax year 2020**. You have until April 15th to fund it (*don't wait until the last minute*).

There are different limits for a Roth vs. a Traditional IRA. For Roth IRAs, DIRECT contributions are prohibited if your income is above a threshold (see chart below). For traditional IRAs, contributions are always allowed, but if you or your spouse are also covered by an employer-sponsored plan at work, you can only deduct those contributions if your income falls below a certain upper limit.

Filing Status	Roth IRA Phaseout Range	Traditional IRA Phaseout Range if Worker Has Employer-Sponsored Retirement Account	Traditional IRA Phaseout Range if Spouse Has Employer-Sponsored Retirement Account
Single	$125,000 to $140,000	$66,000 to $76,000	N/A
Married filing jointly	$198,000 to $208,000	$105,000 to $125,000	$198,000 to $208,000
Married filing separately	$0 to $10,000	$0 to $10,000	$0 to $10,000

Also, if you have earned income you can also contribute to an IRA for a non-employed spouse. It is important to recognize that you can fully fund a 401(k), 403(b), or 457 plan **AND** an IRA each year.

Furthermore, remember that while contributions to a retirement plan can provide you with a current **income tax deduction**, the earnings from **contributions grow tax deferred** and the assets within a retirement account **offer creditor protection**.

An additional consideration is that **the income limits on an individual's ability to roll a traditional IRA into a ROTH IRA have been eliminated**. Given this, anyone should be considering transferring their traditional IRA into a ROTH or funding a traditional IRA and then converting it into a ROTH. This is a great way to hedge future tax rate increases. As such, you would **make a non-tax- deductible contribution to a Traditional IRA and then immediately convert it to a ROTH IRA**. Even someone with Bill Gates income can take advantage of this "back door" way of funding a ROTH IRA.

Anyone under 72, with earned income, NOT making ROTH IRA contributions/conversions is making a huge mistake!

Do not count on governmental systems such as Social Security to provide for all of your retirement needs. If Social Security is available, it will merely be a supplement to your needs.

It is far better to have more than enough money in retirement than not enough. Retirement will cost more than you think and retirees these days are more active than ever. These activities obviously cost money. Unfortunately, those who do not save enough may not realize their predicament until it is too late to go back to work.

Using other tax-favored accounts in 2020: Health savings accounts are available to those who have high-deductible health insurance who want to set money aside to cover healthcare costs. Contribution amounts of up to $3,600 for those with individual policies or $7,200 for family policies apply in 2021, with minimum annual deductibles of $1,400 or $2,800, respectively, required to qualify for high-deductible health plan status. Catch-up contributions of $1,000 are available if you're 55 or older, but a qualifying plan must have maximum out-of-pocket expenses of $7,000 for individual policies or $14,000 for family coverage.

Delaying required minimum distributions, or RMDs, from tax-deferred retirement accounts: You can wait until age 72 to begin required distributions from your traditional IRA and 401(k).

The law requires withdrawals of a set minimum amount annually, or face a 50% excise tax. (To determine your RMD, divide your traditional IRA and 401(k) balances as of the previous Dec. 31 by your life expectancy in the IRS Uniform Lifetime Table.)

Deadlines under the new rules for the first and second RMDs: Any IRA owner who reached age 70 ½ by December 31, 2019 (born June 30, 1949, or earlier) must begin taking RMDs for the year they reach age 70 ½ and continue every year thereafter (except for 2020- where RMDs are waived).

IRA owners who reach age 70 ½ after December 31, 2019, must begin RMDs for the year they reach age 72. Someone who turns 72 in 2022 must take his or her first RMD by April 1, 2023.

The deadline for all subsequent RMDs is Dec. 31.

New rules for people who inherit IRAs or 401(k)s: Under the old rules, people who inherited Roth and traditional accounts were permitted to stretch required withdrawals over their own lifetimes to maximize growth in these accounts. Those who inherited 401(k)s and IRAs before 2020 can still use this technique, known as the "Stretch IRA."

The new law generally requires inheriting after Dec. 31, 2019, to take the money out and pay the taxes within a decade. Some beneficiaries, including surviving spouses and disabled heirs, can continue to use the Stretch IRA rules.

It will be extremely important to monitor and use up lower tax brackets while you are able as opposed to taking one large (and high tax) amount out at the end of ten years.

401(k), 403(b), and 457 retirement accounts: 403(b) and 457 plans for government workers and the Thrift Savings Plan for federal employees have two extra years in which to comply with the new law's Stretch IRA elimination. If you inherit one of these accounts from someone who dies before Jan. 1, 2022, you can take required distributions—and make the associated tax payments—over your lifetime.

IRA beneficiaries to a trust: Some IRA owners leave assets to trusts to prevent heirs from spending it all. Many trusts restrict annual payouts to the RMD. With the Stretch IRA gone, some will be forced to distribute the money to the beneficiaries within a decade.

Owners can change the terms to allow the trust to retain control of the money for longer. But that leaves the trust on the hook to pay the income tax due when the IRA is liquidated. Trusts are taxed at the highest 37% rate once their annual income exceeds $13,050. In contrast, individuals don't reach the 37% bracket until their income exceeds $523,600.

For people who want a trust, a solution may be to convert a traditional IRA to a tax-free Roth account. The account owner will pay income tax on the converted IRA assets. But once the money is in a Roth, the trust can take tax-free IRA withdrawals and retain control over the money.

Alternatives to leave to heirs: One solution is for the account owner to use the IRA for living expenses or charitable contributions and leave other assets to heirs, such as stocks, bonds, and real estate that receive a step-up in basis at death. (This raises the asset's tax basis to the market value on the date of death, eliminating the capital-gains tax on the appreciation during the deceased person's lifetime.)

The IRA owner can also give the IRA to a spouse, who can stretch distributions over his or her lifespan. A 70-year-old widow could take payouts over a 27-year life expectancy and then leave the account to younger heirs.

As you review each of these items, please don't hesitate to call for our input, rate of return estimates or to schedule an appointment to discuss these matters, or anything else, in further detail.

Sincerely,

Dave	Warren
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