





**EMPLOYER SPONSORED RETIREMENT PLANS** | With the passing of the Tax Reform Act of 1978, Section 401(k) of the Internal Revenue Code was created to provide a way for workers to supplement their companies' traditional defined benefit pension plans and Social Security. Three years later the first 401(k) savings plan was established and over the next 30+ years companies have increasingly eliminated defined benefit pension plans as a cost-cutting measure. As a result, self-directed 401(k) accounts have evolved into the primary, rather than a supplemental, vehicle for accumulating funds for retirement. As the primary responsibility for retirement funding shifted from the employer to the employee, so did the responsibility for prudently investing retirement plan account balances. According to a recent study by Fidelity Investments, the average 401(k) account balance was \$89,300 at the end of 2013, up 15.5% from the prior year. Given plan participants' frequent lack of familiarity with investing concepts and strategies, balances are often invested too aggressively or are left in money market funds, which may not provide sufficient growth to meet future needs. Many times accumulated benefits of a defined benefit/pension plan and 401(k) balances are transferred to an individual retirement account (IRA) when the participant retires or leaves the company for other reasons. Similar to Social Security, answering the question of when to transfer and/or begin to withdraw funds from an employer sponsored retirement plan or IRA depends on individual circumstances. There are some exceptions (charitable gifts, Roth IRA conversions and benefitting from a low Federal tax bracket to name a few), but generally speaking, withdrawals should be minimal and deferred until required at age 70.5 to maximize the tax-deferred benefits of the account.

# Quarterly Newsletter



**PERSONAL SAVINGS** | For simplicity, we'll define this category as any asset other than those held in retirement accounts. Some of the most common examples are personal, joint or trust brokerage accounts, rental real estate and annuity contracts. Generally speaking, personal savings offer tax advantages over Social Security benefits and withdrawals from retirement plans and IRAs. For brokerage accounts, long-term capital gain and dividend tax rates are lower than ordinary income rates, taxable income from rental real estate can be offset by depreciation and annuitized income may include a tax-free return of basis. At the risk of sounding like a broken record, decisions about generating retirement income from personal savings also depend on individual circumstances but, on average, should be considered first when developing a retirement funding strategy.

**RETIREMENT FUNDING PLAN BASICS** | Developing a retirement funding plan can be complicated, so we recommend working with a CPA and trusted financial advisor in order to maximize benefits and minimize taxes by avoiding some common mistakes. Begin by assessing your personal savings for tax-efficient income sources. Next, add Social Security benefits to the equation as needed and finally, take withdrawals from retirement plans and IRAs as a last resort.

Like investing, diversification is an important aspect of a retirement income plan. Developing each of these three component parts during your working years will likely improve the longevity of your plan and reduce stress during retirement. If you are in the accumulation phase, consider maximizing your pre-tax savings to a retirement plan or IRA and then build a diversified personal savings portfolio with any remaining discretionary income. When calculating a goal for the accumulation phase, a general rule of thumb is to obtain assets whose long-term average returns will support retirement income needs without significantly eroding principal over time.

If you're in need of assistance with developing an accumulation or retirement income plan, please don't hesitate to contact us.

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