GETTING THE MOST OUT OF YOUR RETIREMENT ACCOUNTS

Strategies to maximize your retirement savings efforts

The Internal Revenue Service and corporate America have provided workers significant opportunities to fund their families' financial futures in very efficient ways. Options to do so include, but are not limited to, IRAs, 401(k)s, and 403(b)s. To a large degree, however, it remains the individual's responsibility to take full advantage of these opportunities. Outlined below are some strategies to help you maximize your retirement savings.

Maximize Your Contributions

In 2020, the maximum annual elective deferral an individual can make to a 401(k) or 403(b) account is $19,500, and individuals age 50 or older may contribute an additional $6,500 per year.[1] It is often wise to defer the maximum amount of income possible during your working years. There are several reasons.

1. Most employers make matching contributions into employees' 401(k)s up to a certain limit. Growing your retirement savings in tax-deferred accounts, such as 401(k)s and IRAs, could increase your savings over time.
2. The tax-deferred build-up inside qualified plans such as 401(k)s and IRAs can amount to substantial additional wealth in your later years.
3. Having a sizeable tax-deferred account provides a home for "tax-inefficient" assets (e.g., Real Estate Investment Trusts) that you want in your portfolio but that generate the types of income that would be taxed at your highest marginal rate if held in a taxable account.

Choose the Right Plan

Another basic strategy is to roll over your 401(k) into an IRA as soon as that option is open to you. That is usually upon separation of service from your employer, but, in some cases, in-service distributions may be permitted. The expenses inside a 401(k), which may be hidden, as well as limited investment choices, may make an IRA a better alternative.

Reevaluate Your Beneficiaries

Choosing beneficiaries for your retirement accounts and keeping your choices up to date is often an area of neglect. This can be a very efficient vehicle for long-term, tax-deferred income for your younger beneficiaries. The fact that these accounts allow you to designate beneficiaries directly means that the assets can pass to your heirs without having to go through probate, as these designations supersede your will. So, it is important to schedule a periodic review of your beneficiary designations to make sure they reflect your current intentions, and that the plan recordkeeper or custodian has correctly recorded your choices.

Give Thought to a Roth

Consider establishing or converting some or all of your traditional IRA to a Roth IRA. Roth IRA contributions are made after taxes, but the distributions, including growth, are tax-free. In addition, there are no required minimum distributions from a Roth IRA. This means, individuals can use these accounts as a vehicle for leaving a tax-free "annuity" to their heirs. (However, please note that inherited Roth IRAs have mandatory age-based distribution schedules.)

Understand the Complexities of Inherited Accounts

There are a number of considerations related to inherited retirement accounts. For example, surviving spouses of deceased IRA owners have four options. They can:

1. Liquidate the account over the next one to five years
2. Take mandatory distributions based on the decedent's age at death
3. Take mandatory distributions based on their own age
4. Roll the account over into their own IRA and defer mandatory distributions until they themselves reach age 72

Non-spouse beneficiaries, with appropriate planning, can avail themselves of all but the fourth option. Which choice is best (i.e., results in the best-suited after-tax cash flow) depends on the circumstances of each beneficiary.

It is often wise to leave the executor of your estate maximum flexibility in the distribution of your retirement assets post-death. One approach is to name a trust as the beneficiary of your IRA. The trust can include provisions for your executor and beneficiaries to minimize shrinkage due to estate taxes and still direct the assets to your intended beneficiaries. Using trusts in this way can be quite complex and requires documents drafted by a skilled and experienced trust attorney. Also, the IRA administrator who has custody of your assets must permit such a beneficiary designation and, to do so, must fully understand your intentions.

Evaluate Your Options

Roth IRA conversions, IRA contributions, distributing inherited accounts, and using trusts as beneficiaries are complex undertakings requiring careful analysis. Please contact your wealth advisor for assistance with strategies for maximizing your retirement savings.

[1] "401(k) Contribution Limit Increases," irs.gov. https://bit.ly/38XXRNm

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