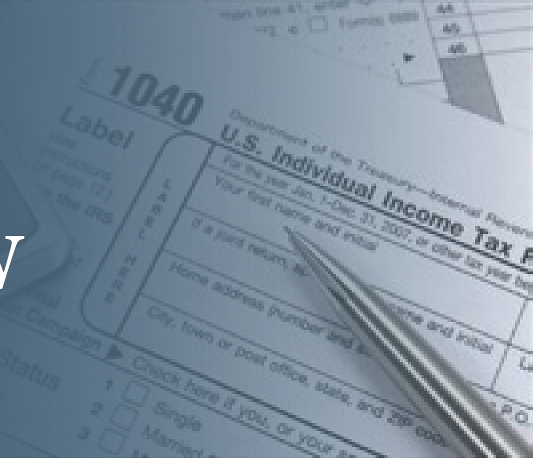
TAXES IN RETIREMENT: WHAT YOU NEED TO KNOW



Life after retirement is full of changes and challenges, not the least of which is trying to understand how taxes will impact your income and deductions in retirement. Many wonder how big their tax bill will be in retirement and how long their retirement will last.

The average American can expect to spend roughly 20 to 30 years in retirement. However, several unsettling facts about retirement savings were revealed in the 2016 Retirement Confidence Survey.[1] In 2014, 30 percent of workers with access to a defined contribution plan, such as a 401(k) plan, did not participate. Of workers with some retirement savings, 54 percent had less than $25,000 and 26 percent had less than $1,000.

The survey also found that less than half of Americans have calculated how much they need to save for retirement. These reports show a considerable gap between workers' expectations and retirees' experience about leaving the workforce. Retiring earlier than planned may be due to unexpected downsizing, health issues, or caregiving choices.

So what can you do? Be sure to start preparing now for retirement, if you haven't already done so. Preparing for retirement can become a great habit. To promote this, the IRS has incentives such as tax credits.[2]

With a 401(k), 403(b) and most government plans, the limits for 2017 stayed the same as the previous two years: $18,000, plus a $6,000 catch-up contribution for those 50 and older. If you're lucky enough to have a generous employer matching your 401(k)-type plan or are self-employed, the maximum that can be contributed annually rose to $54,000 a year from $53,000.

For a traditional IRA, you can deduct contributions if they were not covered by a retirement plan with your employer up to $5,500 and $1,000 for catch-up amounts.

The IRS has income limits[2] for those who contribute to both a traditional IRA and a workplace retirement plan (or those whose spouses have access to a workplace plan), as well as the income limits for those who contribute to Roth IRAs.

If you contributed up to $2,000 in your retirement plan or IRA in 2016 or will in 2017, middle and low income earners could qualify for a Saver's Credit.[3] For 2017, plan ahead for this by including regular amounts automatically deposited into your retirement accounts, depending on your Adjusted Gross Income (AGI).

Take the time to understand your retirement plan tax credits for filing your 2016 income tax return and consider your future goals. Tax time is also a good time to do a financial check-up, including your overall retirement planning. Be sure to talk to your financial professional about your taxes in retirement and how to best plan for a bright financial future.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investments or products may be appropriate for you, consult with your financial professional.

Sources:
[1]The 2016 Retirement Confidence Survey, Employee Benefit Research Institute (EBRI)
[2]Internal Revenue Service (IRS) website, Retirement Topics–Contributions
[3]Internal Revenue Service (IRS) website, Save Twice with the Saver's Credit

Smart Money Advisors
March 2017