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RETIREMENT PLANNING –
WHAT IT IS AND WHY IT IS SO IMPORTANT!

When you are young and just starting your career the last thing you may think about is your retirement. Even as you begin your family life, you may not be thinking of your retirement. Retirement planning should be considered early on in one's work life in order to take advantage of saving over a longer period of time.

The retirement process is actually very simple and is based on these financial factors. What will be *somewhat in your control, in your total control and not in your control*.

- *Somewhat in your control* will be your employment earnings and longevity with your employer(s).
- *In your total control* will be your ability to save versus spend. Saving early and often and investing what you save are some of the keys to successful retirement thanks to the power of compounding returns over the long term. Sheltering investment growth in tax-deferred accounts, such as 401(k)s or Traditional IRAs, over the long term may result in more wealth for retirement.
- *Not in your control* will be market returns and policies regarding taxation, savings and benefits.

How to begin? An important consideration is to start paying yourself first by contributing a percentage of your salary to your employer's 401(k) plan. Your employer may also contribute a percentage of your salary or match based on your contribution. For 2019 the IRS increased the contribution limit to $19,000 for employees who participate in a 401(k), 403(b), as well as most 457 plans and the federal government's Thrift Savings Plan. If you are over the age of 50 there is also a catch up contribution limit of $6,000 for employees for 2019.

People tend to change jobs more now than they did in the past, leaving many individuals with multiple 401(k) accounts held by their former employers. If this happens it can be difficult to manage 401(k) plans when they are left behind and you can easily lose track of your investments. It is best that you roll over your 401(k) plan into a new 401(k) plan when you change employers or roll your previous 401(k) into an IRA. An IRA will give you more control over your asset allocation and, equally as important, the fees charged for managing your assets.

Other retirement vehicles are a ROTH IRA which you fund with post-tax income, and a Traditional IRA, which you fund with pre-tax income. All growth and future withdrawals from the ROTH IRA will be tax free. With a Traditional IRA, withdrawals will be taxed as income when they occur. Traditional IRAs also have mandatory withdrawals, the Required Minimum Distribution or RMD, which must begin by April 1st of the calendar year following the year in which you reach 70 ½ years of age. Each year thereafter you will be required to take an RMD. With ROTH IRAs, there are no RMDs. Whether you select a ROTH IRA, a Traditional IRA or both, early withdrawals before age 59 ½ are generally subject to a 10% IRS penalty, unless certain exceptions apply. You can make annual contributions of up to $6,000 to a ROTH IRA or a Traditional IRA at age 49 and below, or $7,000 at age 50 and above. These are shared limits, so if you contribute to one then the limit for the other is thereby reduced. There are also income limits related to contributions which must be taken into consideration. ROTH IRAs appeal to anyone who wants to minimize their taxes during retirement years. In addition, those not needing the assets can leave the ROTH to their heirs tax-free.

The challenge is and will continue to be that spending is easy and saving is difficult. People are living longer and that trend is expected to continue. This is another reason to start saving as early as possible since funds will be needed for a longer period of time than ever before. Having a well-diversified portfolio with limited withdrawals will also help you achieve your nest egg for retirement and possibly the next generation of wealth if properly planned.

Another important factor is to seek advice from a professional financial advisor. ***Ledyard Financial Advisors*** is a sole discretionary asset management firm with a skilled and experienced team. We welcome the opportunity to sit down with you and review your needs, goals and objectives in order to help you achieve the end result – having enough assets for your retirement!

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