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PLANNING FOR RETIREMENT – 2018 EDITION

By: JILL COOPER, CPA

Whether we are 40 or 60, thoughts often turn to planning for our retirement. We want to make sure that we can afford to have the best years of our lives in retirement. In 2018, the retirement age spectrum stretches from the 40s to the 70s and even beyond. But how do you go about it?
The short answer is start saving early and save heavily. While you're saving and investing, come up with a comprehensive plan that will carry you to a comfortable retirement, whichever form it takes.

Now that 401(k)s and IRAs have largely replaced traditional private-sector pensions, it's a new era when it comes to retirement. And that takes new thinking. It's no longer automatic to plan to retire at 65, receive Medicare and Social Security benefits, and live on income from investment interest and dividends.

"Retirees have more responsibility now," said IRA expert Ed Slott, founder of IRAhelp.com. "In the past, more people had pensions. Now people have 401(k)s and IRAs, which they must manage to last for a long retirement."

Never before have there been so many tools at your disposal to build a financially independent life, as early as you want. Retirement vehicles include 401(k)s and IRAs — both regular and Roth versions — annuities and separate accounts.

Taxes are the single biggest factor in how much you can spend in retirement. The recently enacted Tax Cuts and Jobs Act of 2017 increased the tax pressure to cross state lines for many retirees.

Previously, taxpayers might have been able to deduct all of their state and local tax (SALT) from their income, on federal tax returns. Now SALT deductions are capped at $10,000 a year. This limit may cause many people, especially retirees who aren't work-bound to high-tax states, to go where they can reduce their SALT outflow.

The new tax law also affected IRAs. The impact will be felt when people convert tax-deferred traditional IRAs to Roth IRAs, which eventually may deliver tax-free cash flow. The low tax rates in the new law can reduce the tax from such conversions.

But Roth IRA conversions can't be undone, as they have in the past. The IRS recently explained that conversions from 2017 can be reversed, completely or partially, until Oct. 15, 2018. A reversal might make sense if the IRA owner doesn't want to pay the full amount of the tax, or if the account has lost value.

From now on, this type of recharacterization won't be allowed. So, Roth IRA conversions might be best implemented in 2018 or after, when they may be calculated to qualify for a relatively low tax rate.

Although there are only a few changes in the new tax law that affect retirement planning, they need to be considered in your overall plan to make the most of your 2018 retirement planning.

If you have questions about retirement planning, please contact your Conner Ash Account Manager or Jill Cooper, CPA, at (314) 205-2510 or via email at jcooper@connerash.com.