Retirement Planning in the 21st Century
By Steven Gallo
Wealth Manager – Marzano Capital Group

As recently as a generation ago, planning for retirement was a very different exercise than it is today for millions of Americans. From factory workers to executives to skilled tradesmen, the bulk of retirement income centered around a company or union-supplied defined benefit pension plan, or a money purchase pension plan – paid to an individual either as a lump sum or monthly benefit – from the time he or she retired until their death. Unfortunately, the majority of these pension programs have become a thing of the past. While most companies do offer their employees some type of retirement savings program, planning today largely falls on the individual to make sure they have saved enough to be comfortable when their career ends.

The good news is, there are a variety of retirement planning options in the marketplace to meet your needs. Today, we'll discuss a few of those options in-depth.

- **401(k) Plans:** These plans are established by employers as a benefit to help individuals save for future retirement benefits. Under 401(k) plans, employees allocate a percentage of their salaries each pay period to the plan, with employers allowing the opportunity to provide a matching percentage of those employee contributions. In 2016, the maximum annual contribution is $18,000 if you are under 50, or $24,000 if you are over. Under most 401 (k) plans, employee contributions are made on a pre-tax basis, and employer contributions are often tax-deductible. Individuals can begin withdrawing without incurring a 10 percent penalty at age 59 ½ from these plans.

- **Profit Sharing Plans:** Many employers now offer their employees Profit Sharing Plans as a retirement benefit. Profit-sharing plans give employees a share in the profits of a company each year. All the money contributed to a profit-sharing plan accumulates tax-deferred, but employer contributions are tax deductible only if the plan is defined as an *elective* deferral plan, which means that instead of accepting their profit shares as cash, employees defer the assets into retirement funds.

  Profit sharing is attractive to business owners because of its flexibility. Employers can choose how much to allot to employees each year based on the amount of revenue taken in, and are allowed to contribute up to 25 percent of an employee's salary or $53,000 (whichever is less) in 2016. Employees can begin withdrawing without penalty at age 59 ½.

- **Traditional Individual Retirement Accounts (IRA):** If you do not participate in a company-sponsored retirement plan, a Traditional IRA is a good way to save your retirement income. A traditional IRA is a tax-deferred savings account that has a number of investing options and is typically set up through a financial institution. A Traditional IRA can include stocks, bonds, mutual funds, cash equivalents, real estate and other investment vehicles. However, you must begin taking annual minimum distributions at age 70 ½, or be subject to a 50 percent income tax penalty on the minimum amount you should have withdrawn. Traditional IRA contribution limits are $5,500 for 2016.

- **Roth Individual Retirement Account (Roth IRA)**: Roth IRAs differ from Traditional IRAs in that contributions to Roth IRAs are not tax-deductible. Contribution limits are the same as Traditional IRAs in 2016 ($5,500). However, one potential advantage to a Roth IRA is that retirement distributions are not subject to federal income tax, although they may be subject to state and/or local income tax. Additionally, Roth IRAs withdrawal of contributions (not earnings) can be done at any time and for any reason.

- **403 (b) Plans:** A 403 (b) retirement plan is similar to a 401(k) plan and is often referred to as a tax-sheltered annuity or a tax-deferred annuity. However, only employees of public school systems and 501(c)3 organizations can participate. Employees are allowed to contribute to their account with pre-tax contributions. Employers can also make contributions to employee accounts, with both fixed or discretionary options available. Eligible employees may elect to defer up to 100 percent of their salaries, as long as the amount does not exceed $18,000. Additionally, a special "catch-up" contribution provision enables those who are 50 and older to save an additional $6,000. Total combined employer and employee contributions cannot exceed $53,000 in 2016.

As you can see, there are a number of options available to help plan for retirement: your employer funds some; you fund some. A few things to note: bear in mind that, in most cases, early withdrawals before age 59½ may be subject to a 10% federal income tax penalty. Additionally, the latest date to begin required minimum distributions is usually April 1 of the year after you turn age 70½. In most cases, withdrawals are taxed as ordinary income.

In addition to the options listed above, there are also several plans and programs for owners and employees of small businesses, which we will cover in our next post. And keep in mind that we are always here to help you evaluate all of your retirement options and choose a plan that works best for you. To discuss your options, please feel free to contact us at 336.766.0464, or email us at amcgilvary@marzanocapitalgroup.com.