Tax$avers

SENIORS

How to keep more of your Retirement Savings

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You have been saving your entire working life for retirement. You may have a pension, personal savings, a retirement plan and are planning on Social Security income. What can you do to ensure you get the maximum benefit with as little tax bite as possible?

To ensure your "Golden Years" are truly golden this Tax$avers brochure discusses some common topics that can save you money;

1. Social Security
2. Retirement Plans
3. Estate Plans
4. Tax Code Benefits for Seniors

Social Security

Started in 1935, Social Security was built to provide a safety net for workers during retirement years.

✓ Today, 16% of Americans currently receive Social Security benefits.

✓ An estimated 90% of Americans rely on Social Security as their sole means of retirement income.

Do I qualify?

✓ *Yes,* if you paid into the fund for forty calendar quarters (equals 40 credits).

✓ *Yes,* if you:

- are 62 or older
- are a survivor of a deceased worker
- have a qualified disability

To receive benefits you must apply by calling 1 (800) 772-1213 or go to the administration web site: www.ssa.gov. The Social Security payments do not commence automatically.

How much do I get?

Your benefit amount will change depending on your age when you apply to receive Social Security benefits, your annual earnings prior to retirement, the amounts you contributed to the account, and whether you receive other income.

Tax$aver Tips:

✓ Periodically check with Social Security to ensure your earnings history is correct. If errors are not corrected timely, you may lose your ability to correct them.

✓ Conduct an analysis to determine when it is best to start receiving benefits for your situation. The longer you can wait after age 62, the greater the monthly payment may be to you.

✓ If you are age 62 to 64 and you are currently receiving Social Security benefits, make sure to track your other income. If your earnings exceed the limit for your age, your social security benefits can be reduced.

✓ Look into direct deposit. The Social Security direct deposit program is a safe, quick alternative to receiving a check in the mail.

✓ Look into withholding tax options. If you owe taxes or need to pay quarterly estimated taxes you may want taxes to be withheld from your social security checks.

Please call if you would like assistance in estimating your benefits.

Retirement Plans

If you have alternative savings resources ready for your retirement years, make sure you review their status to ensure you maximize their benefits.

Pension programs

If your company is providing you with a pension plan, make sure you are receiving an annual review of the plan. It should tell you;

✓ The pay-out value of the pension

✓ The amount you are vested in the program

✓ The funding status of the plan

Tax$aver Tips:

✓ Assess the stability of the plan. With recent business mergers, bankruptcy's and less than full funding of pension plans by some companies, the certainty of payment may not be as certain as you think.

- ✓ Your plan may offer you a one-time "lump sum" pay-out. Make sure you conduct an analysis to determine which option is best for you.

401 (k)s, IRAs, and similar programs

You may have taken advantage of the opportunity to contribute pre-tax earnings to a savings plan like a 401(k) or an IRA. If you have not yet retired, these savings alternatives are often the best tax bet in town. Why?

- ✓ Pre-tax contributions provide more savings available for compound interest growth.
- ✓ Employers often match a percentage of your contribution.
- ✓ Income taxes are deferred for years, until the funds are distributed to you.
- ✓ Investment alternatives are usually vast.

If you are currently in a plan, it is best to review the alternatives available for fund distribution to minimize the potential tax bite. Some items to consider:

- ✓ Withdrawals prior to age 59 $^1/_2$ could be subject to a 10% tax penalty.
- ✓ You must begin withdrawals at age 70 $^1/_2$.
- ✓ Withdrawals are treated as ordinary income in the year they are withdrawn.

Tax$aver Tips:

- ✓ Keep good records of your after tax contributions to any savings plan or IRA. You will need to prove to the IRS that you have already paid income taxes on this income.
- ✓ Congress has also lowered the minimum annual withdrawal requirement to enable your funds to grow tax deferred for a longer period.
- ✓ Review the investment mix of your retirement plan funds annually. The level of risk you were willing to take in your 30s or 40s may not be appropriate for your situation today.

Retirement Plans, Tax Tips continued

✓ Review your deposit amounts annually. You may be eligible for a plan this year that you were not eligible for last year. Program changes may allow you to increase your deposits.

✓ Tax legislation allows increased annual contribution to retirement savings plans for those 50 or over:
- **IRAs:** Add $1,000 in 2008 and beyond.
- **401(k) and 403(b):** Add $5,000 in 2008 and beyond.
- **SIMPLE Plans:** Add $2,500 in 2008.

✓ Gains of up to $500,000 ($250,000 if single) on the sale of your personal residence may be exempt from capital gains tax. Consider moving to a lower cost home to convert your home equity to cash, thereby enhancing your retirement plan.

Roth IRAs: The Roth IRA allows you and your spouse to contribute funds into an account on an after tax basis. If you keep the funds in the account for five years the earnings are tax-free. With a few exceptions, there is a tax and a 10% penalty if the funds are withdrawn prior to age 59 1/2. Unlike Traditional IRAs, with a Roth IRA you may make contributions after age 70 1/2 and there are no mandatory minimum withdrawal requirements.

Estate Plans

One of the biggest potential tax risks to you may be on the assets you wish to leave to your loved ones.

The size of your estate generally determines the complexity of the estate planning you must do:

✓ **Estates worth under $2,000,000**
- Estate taxes are not levied on estates valued below a certain amount which the government sets periodically.
- Each person/spouse should have a simple will.
- Assets should be held jointly.

✓ **Estates over $2,000,000 (approx.)** - can be substantially more complex to minimize estate taxes as high as 45%. You are best served to develop an estate plan that may include any or all of the following:
- A variety of trusts.
- Separate ownership of various assets.
- A gift giving strategy to transfer ownership of some assets.
- Setting up a variety of plans with legal, insurance, financial and tax professionals.

Tax Code Benefits for Senior Taxpayers

The tax code has been written to provide some benefits to you after you reach retirement age. Some of the more important provisions are:

✓ Elderly Tax Credit for those 65 and over.

✓ Additional standard deduction for those over 65.

✓ Deductions for pre-paid non-refundable medical and retirement home care expenses.

✓ Deductible long term care insurance expenses.

✓ Medicare. While not a direct part of the tax code, this program provides subsidized health care that effectively allows for deductibility of these expenses. As an employee you have paid 1.45% of your pay to help fund the hospitalization portion of this coverage. At age 65 you can enroll in the medical portion of the program.

✓ Medicare prescription drug benefit plan.

✓ Special added incentive to participate in IRAs.

✓ Special retirement plan savings credits.

With senior taxpayer status, you have many tax and financial planning topics to review. By planning properly you can ensure that your "Golden Years" can be truly golden.