FINANCIAL INDEPENDENCE GROUP®

The 23 Years and 10 Birthdays Impacting Your Financial Retirement Income

23 YEARS AND 10 BIRTHDAYS IMPACTING YOUR FINANCIAL RETIREMENT INCOME

There are 23 years—from age 49 to 72—that'll significantly impact your retirement nest egg. Thus, you'll need a financial retirement plan that pays close attention to these age milestones so you don't miss out on financial opportunities or be subject to penalties.

Taboo Topics: Talking about age and money

Historically, talking about age and money are taboo topics that most people feel are private matters and shouldn't be discussed openly. As recent as 2020, a mere 17% of parents with an income above $100,000 felt comfortable discussing their net worth with their children.[1] We understand that it's best not to ask about someone's income status or age. However, during this 23-year span it's time to challenge that thinking.

First, your age plays a significant role in how much money you'll have during your retirement years. And different types of retirement benefits have different eligibility ages. Second, talking about money is quite often an emotional trigger. But having a clear picture of the accumulation and distribution phases of life can be what determines if you reach your retirement goals.

The 10 Birthdays

Compare your financial strategy across these age milestones and determine if you're on track or if adjustments need to be made.

49: Max out retirement accounts

Your first big birthday! If you began saving for retirement early in your career, you're better poised to take advantage of compounding investment returns.

- Benefits of putting money in a qualified retirement contribution plan (401(k)) include: the saver's credit[2] provides a tax break and potential employer matching
- Selecting an IRA as a savings option also includes tax incentives, depending on the type chosen

50: Make catch-up contributions

Once you hit age 50, you have an option to tuck more money than the usual contribution limits into your retirement accounts (401(k) and IRAs).

- Making catch-up contributions may qualify you for a more significant tax deduction in the years leading up to retirement[3]

50: Take advantage of discounts

It's about this time when envelopes hit your mailbox from organizations (like AARP) offering discounts on everything from travel to identity theft protection. It's time to join and start saving.

- If you're watching your pennies, take time to research and consider joining senior discount programs as a simple way to save
- Some programs are also advocacy groups, so research who you're joining up with before signing on the dotted line[4]

55: 401(k) withdrawals and the Rule of 55

This IRS provision allows for the withdrawal from a 401(k) before age 59½ while avoiding the 10% early withdrawal penalty,[5] but it's still considered income and is subject to federal taxes.

- Regardless of why you leave an employer, it must happen in the calendar year your turn 55 or later to be eligible for a penalty-free distribution, and it can't be a withdrawal from a previous employer
- While you may have access to the money, it's still considered income and is subject to federal taxes

59½: IRA and 401(k) penalties end

Happy half-birthday! The 10% early withdrawal penalty placed on IRA and 401(k) withdrawals ends when you turn 59.

- Regardless of why you leave an employer, it must happen in the calendar year your turn 55 or later to be eligible for a penalty-free distribution, and it can't be a withdrawal from a previous employer
- While you may have access to the money, it's still considered income and is subject to federal taxes

Some people who retire in their 60s live well into their 90s. With that 30-year gap, it's important to plan your finances appropriately, so you don't run short.

62: Eligible for Social Security payments

If it's part of your financial retirement plan, you can start collecting your Social Security payments at age 62. However, your monthly payments could be reduced by 30% if you begin payments before your full retirement age.[6]

- That reduction is permanent
- Choosing to work and collect simultaneously could result in reduced payments by $1 for every $2 earned above $19,560

65: Time to consider Medicare coverage

You have seven months to enroll in Medicare,[7] and that window opens three months prior to the month you turn 65.

- This birthday's important because Medicare Part B premiums will increase by 10% for each 12-month period you were eligible for benefits but didn't enroll
- You have eight months to enroll without penalty once you stop working

66-67: Social Security full retirement age

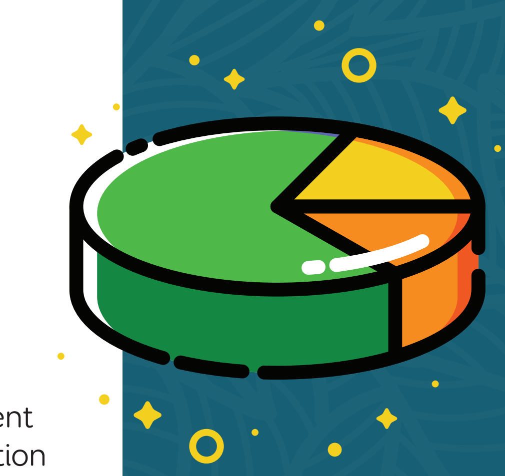
If you're born between 1943 and 1954, you qualify for retirement at age 66. If your birthday is after 1959, you'll have to wait one more year—until age 67. And no matter which age applies, there's a built-in benefit if you wait on those payments: check out age 70!

- Once you hit full retirement age, you can work while receiving Social Security benefits without having any payments withheld
- Baby Boomers that choose to wait until age 68 will receive 16% more and younger generations will see an increase of about 8% just for waiting a year

70: Boost your monthly Social Security payments

Social Security payments increase by 8% for each year you wait to start your payments between your full retirement age and age 70. If you're still working, it's important to note that additional income could push you into a higher tax bracket, so talk to your tax or financial professional before deciding what to do.

- Baby Boomers can increase their Social Security benefit by 32% by waiting until age 70 to sign up,
- Anyone born after 1959 will get 24% more by claiming payments beginning at age 70
- After age 70, there's no additional benefit to waiting



72: 401(k) and IRA required minimum distributions

It's your last big birthday! If you have money in a retirement plan such as a 401(k) or traditional IRA, your first distribution must be taken by April 1 of the year after you turn 72 (70½ if you reached 70½ before January 1, 2020).[8]

- The penalty for missing a required minimum distribution is a stiff 50% of the amount that should've been taken.
- It might be worth mentioning that more than the minimum can be taken, but the entire withdrawal is considered taxable income.
- If you continue to work after age 72, you can delay 401(k) withdrawals from the retirement account at that job until you retire.
- A qualified charitable distribution from an IRA directly to a qualifying charity can also satisfy the minimum distribution requirement.
- Remember that Roth IRAs don't have withdrawal requirements in retirement[9]

Whether you're heading into this 23-year span or are already in the thick of it, it's important to factor these milestone ages into your financial retirement plan. Topics of age and money are no longer taboo, but rather an opportunity to make the most out of your financial strategy and your retirement.

Talk to your financial professional today to ensure you're prepared for each birthday!

References:

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[3] *https://money.usnews.com/money/retirement/401ks/articles/how-to-take-advantage-of-401-k-catch-up-contributions#*

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[5] *https://smartasset.com/retirement/401k-55-rule*

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[9] *https://money.usnews.com/money/retirement/aging/articles/10-important-ages-for-retirement-planning*

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