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Countdown To Retirement: Seven Steps To Get Ready

Are you among the millions of Baby Boomers counting down the days to retirement? Before you move into the next stage of life, it's important to get all of your financial ducks in line. To prepare yourself, consider these seven practical suggestions.

1. Rebuild the budget. You've probably been living on a monthly budget that takes into account your usual expenditures and income. But that's about to change in a big way. For example, once you stop working, your expenses for a business wardrobe and commuting will also end, but so will the regular paychecks you've been living on.

Come up with a new plan. Identify what you expect to have coming in and going out. Remember that you won't be able to rely on 401(k) deferrals to reduce your taxable income after retirement, but you should still keep saving.

2. Zone in on a homestead. You could be planning to pull up stakes and move to a smaller home, perhaps downsizing from the place where your kids grew up and you might hope to end up in a warmer climate or in a less expensive area (or both). Or perhaps you're contemplating a move to a retirement community. But this kind of upheaval isn't for everyone, and you just might decide to stay put. In any event, your choice will affect numerous other aspects of retirement.

Also, don't assume that you and your spouse share the same vision. If you haven't talked about it yet, bring up the subject before you call it quits.

3. Review your investments. As you head into the home stretch before retirement, compile a list all of the investment assets you own, including amounts parked in taxable accounts, bank savings or checking accounts, and tax-favored retirement accounts such as 401(k)s and IRAs. Consider whether you will want to keep retirement plan assets where they are when you retire or consolidate them into other accounts. Similarly, consider the best use of life insurance policies.

One thing to think about is whether to convert your traditional IRAs to a Roth IRA. Although the conversion is taxable, your future withdrawals from the account will normally be tax-free. Check with a professional to crunch the numbers.

4. Settle on Social Security. If you retire before full retirement age (FRA)—age 66 for most Baby Boomers—you'll receive less in monthly Social Security benefits. You can apply for benefits as early as age 62. Waiting until after you reach FRA, on the other hand, can result in bigger monthly benefits. The longer you wait, until you turn 70, the larger your benefit checks will be.

But if you and your spouse will both receive Social Security payments, there

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Why Aren't More Millennials Moving On Up And Out?

Is your Millennial child still living under you roof? You're not alone. According to a new U.S. Census Bureau report, about one-third of Millennials—people born in the 1980 and '90s—live with their parents. Those who choose this option seem to prefer it to living on their own in substandard quarters or bunking with a partner or friend.

Why are children staying longer at home? Some curmudgeonly parents will claim it results from lack of ambition, being coddled, or having a feeling of self-entitlement. In most cases, though, it's more complicated than that.

Among the reasons cited by Millennials are:

1. They're paying off student loans. It's hard to afford your own place when you still owe money for college. For many Millennials, that debt remains in the tens of thousands of dollars.

2. They can't find a good job. Although the unemployment rate continues to decline, there may be stiff competition for work in fields many young people have trained for.

3. The rent is too high. Particularly in popular urban areas, the cost of a decent apartment can be prohibitive.

4. Parents are struggling, too. The older generation isn't immune to financial woes, and contributing money to help Mom and Dad may mean living with them, too.

Whatever the reasons, taking steps to improve your family's finances is likely to benefit everyone—parents *and* children.

What Are The 3 R's Of Roth IRAs?

It's not reading, 'riting, and 'rithmatic, but when it comes to Roth IRAs, it pays to know the three R's: Roth conversions, rechacterizations, and reconversions. Understanding the rules for all of these could save you thousands of tax dollars.

Unlike with traditional IRAs, for which some of your contributions could be tax-deductible, money that goes into to a Roth IRA never is. However, after five years, the money coming out of a Roth is tax free. To qualify for that benefit, withdrawals must be made after age 59½, because of death or disability, or to buy a first home (up to a lifetime limit of $10,000).

But you just can't change a traditional IRA into a Roth IRA, or vice versa, by waving a magic wand. Here's a quick primer on Roth conversions, recharacterizations, and reconversions.

1. Roth IRA conversions. If you move funds from a traditional IRA into a Roth IRA, you'll be taxed on the amount you transfer in the year of the conversion. Essentially, the transfer is treated as a taxable distribution. For instance, if you convert $100,000 from a traditional IRA to a Roth, that's considered $100,000 of ordinary income that will be taxed at rates reaching as high as 39.6%.

To ease the pain of the conversion, you might do it in stages. That not only spreads out the tax hit but also may reduce it by keeping you in lower tax brackets.

2. Recharacterizations. Suppose that after a conversion the value of the assets in your account drops dramatically. Because you were taxed on the assets' value when it was higher, you might want to "undo" the conversion. If you meet the deadline, you can do this through a recharacterization.

When a rechacterization is completed, it's as if the conversion never occurred. The deadline is the due date for your tax return for the year of the conversion plus any allowable extension. For example, for a conversion you made in 2017, you have until October 15, 2018—April 15 plus a six-month extension—to recharacterize the Roth.

3. Reconversions. Finally, what happens if you change your mind again and want to go back to a Roth? It can be done through a reconversion.

However, the rules for reconversions are a little trickier. The earliest date you can reconvert is one of the following, whichever comes later:

- The beginning of the tax year following the tax year of the conversion;
- The end of the 30-day period beginning on the day of the recharacterization.

Beyond that date, moving money to a Roth from a traditional IRA is treated like a first-time conversion. ●

Four Tax Strategies In Retirement

If you're like most people, you've invested in a crazy quilt of assets ranging from stocks and bonds to real estate to precious metals. Amid this dizzying variety, the prevailing tax rules can provide further complications, especially after you've retired.

One overarching rule is that you must begin taking "required minimum distributions" from retirement plans such as 401(k)s and traditional IRAs after age 70½. Because these distributions are generally taxed at ordinary income rates, you could be facing a higher tax bill at just the wrong time.

But there are ways to ease the pain. Consider these four strategies for reducing the tax bite in years when you have to take RMDs.

1. Harvest capital gains. When you sell securities and other capital assets, your profits are taxed under special rules for capital gains. The maximum tax rate on long-term gains (on sales of assets you've held longer than a year) is 15%, or 20% if you're in the top tax bracket for ordinary income.

That lower rate is a benefit in itself. But another aspect of the law could help even more. Capital gains—including short-term gains, which are taxed as ordinary income—are offset by capital losses, and if you've taken any losses earlier in the year, you might take profits now on short-term holdings, knowing they'll be absorbed by the losses. It's usually better to use losses to offset short-term rather than long-term gains because of the higher tax rate for short-term gains.

2. Harvest capital losses. With a capital loss, you can offset capital gains plus up to $3,000 of ordinary income. If that still doesn't use all of your losses, you can carry over the excess to the following year. Typically, investors look to harvest

New Year's Resolution: Review Your Estate Plan

Before you ring in another New Year, you may want to take time out of your busy schedule to observe another annual ritual: a review of your estate plan. If you're like most people, you probably stuck your will and other documents in a drawer or a safe deposit box as soon as you had them drawn up—and have rarely thought about them since. But changes in your personal circumstances or other events could mean it's time for an update.

It normally makes sense to review an estate plan at least once a year, just to make sure it's still meeting your main objectives.

Events That Could Spur Changes

What sort of changes might necessitate a change in your plan? Here are events that require alterations in your will or other estate documents.

- The birth or adoption of a child, grandchild, or great-grandchild;
- The death of a spouse or another family member;
- Marriage, divorce, or re-marriage;
- Illness or disability affecting you or another family member;
- A child or grandchild reaching the age of majority;
- A child or grandchild in need of education funding;
- The death of a guardian, executor, or trustee;
- Taking on or paying off a sizeable debt;
- Significant changes in the value of your assets;
- The sale of your residence or a second home;
- A significant promotion at work or a change in jobs;
- Retirement of you or your spouse;
- A large gift or inheritance;
- Sale of a business interest;
- Revisions in federal or state income tax or estate tax laws.

What You May Need To Do

If one or more of these events happens to you, there are several legal documents you may need to revisit.

Your will: As the centerpiece of your estate plan, your will dictates who gets which assets, and it also specifies a guardian for any minor children. Changes in your life since you had the will drafted could require significant alterations. (Note: If a will is kept in a bank safe, it may be sealed upon death. It's better to keep it in another safe.)

Often that will include revisions in the bequests for some of your heirs. For instance, you might expand the list of beneficiaries to include a newborn in the family or reduce it if you've had a falling-out with a relative. A divorce could necessitate a complete overhaul. Also, you might decide to switch executors. Finally, your will may need to be updated to reflect changes in state or federal laws.

Revocable living trusts: Similar to a will, a revocable living trust provides for the distribution of assets transferred to the trust. Unlike a will, however, these assets don't have to pass through probate upon your death. This can save both time and money, and you might decide to use a living trust to supplement your will.

Because the trust is "revocable," you retain the right to change beneficiaries and reallocate assets designated for certain beneficiaries. The same sort of additions and subtractions used for a will might apply to the trust. In addition, depending on your situation, you could amend other terms, such as changing the guardian of minor children, a trustee, or successor trustees.

Durable power of attorney: A power of attorney is a legal document authorizing someone (the "attorney-in-fact") to act on your behalf in financial affairs. A "durable" power of attorney stays in force if you become incapacitated. This can be a vital component of your estate plan.

Are you planning to buy or sell assets or undergo life-threatening surgery? A durable power of attorney may be especially beneficial in these situations. Include this document in your estate plan if you haven't already done so.

Living will: Finally, a living will can provide guidance to your loved ones should they face difficult end-of-life scenarios. This can be combined with a health care power of attorney to ensure that your physicians and the hospital comply with your wishes.

Living wills are often associated with elderly people, but issues can arise at any stage of life. In your review of your estate plan, look again at this document to see whether it still accurately reflects how you feel. And if you don't have these documents yet, consider adding them to your plan.

Once you've completed the year-end review of your estate plan, circle back to your professional advisors for assistance in implementing any changes that are needed. When you're done, you can look forward to a happy New Year! ●

losses at year-end when they've already realized capital gains in prior months.

3. Smooth out income. Although you often can't control when taxable income comes in, you may be able to time some items to your tax benefit. When possible, consider taking just enough income—some of which may come from selling investments—to "fill up" income to the top of your current tax bracket, trying to stay below the thresholds of a higher bracket.

4. Rely on tax deferral. Tax-deferral strategies may help you to reduce your income, and your taxes, for a year or more. For example, if you sell real estate on the installment basis, only part of your gain will be realized in the year of the sale. Or you might simply wait until after the first of the year to sell securities at a gain. ●

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Countdown To Retirement

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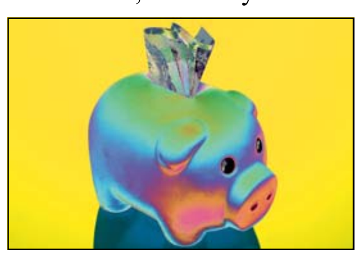
will be other factors to consider. For instance, a higher-earning spouse might wait longer to claim benefits to provide greater protection for a surviving spouse if the higher-earning spouse dies first.

5. Learn all about Medicare. Usually, retirees opt to be covered by Medicare once they become eligible at age 65. But you will have a number of options to consider, so it's best to familiarize yourself with the key elements of Medicare before then. Estimating your future out-of-pocket costs, including premiums, deductibles, and prescription drug costs will help you decide which Medicare benefits to opt for and whether you'll need to supplement Medicare with coverage from a private insurance plan. Try to investigate all of the possibilities before the time comes to make your decisions.

6. Develop a draw-down strategy. Control the distribution of funds in your retirement by deciding which accounts you want to tap first. Although everyone's circumstances are different, often the best plan is to withdraw funds from your taxable accounts first (because you'll owe only capital gains taxes, which are usually much lower than taxes on distributions from 401(k)s and traditional IRAs), then from those other tax-deferred accounts, and finally from your Roth IRAs. This sequence enables you to benefit from tax-free compounding of investment income within a Roth for as long as possible.



But taxes aren't the only consideration. You may have other reasons for withdrawing funds from some accounts and holding onto others.

7. Meet with your financial advisor. As you can see, you'll be facing some difficult decisions during your countdown to retirement, and the financial consequences can be significant. But you don't have to do it all by yourself.

Schedule a meeting with your advisor to assess and review your situation well before your expected retirement. The countdown to retirement won't be as nerve-wracking if you're well prepared. ●