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Keep Adding to Your Savings

If your workplace offers a 401(k)—or a similar plan qualified retirement plan, such as a 403(b) or 457—and you are not already funding yours to the maximum IRS limits, now is a good time to rev up your contributions. Especially if you feel you have under saved. Not only are such plans an easy and automatic way to invest, but you may have the benefit of deferring taxes on that income until you withdraw it in retirement. Because your 50's and early 60's are likely to be your peak earning years, you may also be in a higher marginal tax bracket now than you will be during retirement.... meaning that you will face a smaller tax bill when that time comes. This applies, of course, to traditional workplace Retirement Savings Plans and other tax-advantaged plans. If your employer offers a Roth contribution source and you choose it, you will pay taxes on the income now but be able to make tax-free withdrawals later.

Max Deferral and Catchup

The maximum amount you can contribute to your plan is adjusted each year to reflect inflation. In 2021, the maximum employee deferral is $19,500 for anyone under age 50. But once you are 50 or older you can make an additional catch-up contribution of $6,500 for a grand total of $26,000. If you have more than the maximum to sock away, either a Traditional or Roth IRA or even a Taxable account vehicle could be a good option in those cases.

Consider Adding an IRA

If your spouse does not have a Retirement Savings Plan available through their employer—or if you are already funding yours to the max—another retirement investing option is an individual retirement account or IRA. The maximum you can contribute to an IRA in 2021 is $6,000, plus another $1,000 if you're 50 or older

IRAs come in two varieties: Traditional and Roth. With a traditional IRA, the money you contribute is generally tax-deductible upfront. With a Roth IRA, you get your tax break at the other end in the form of tax-free withdrawals. Each IRA has different rules regarding contribution limits.

If you or a spouse does not have a retirement plan offered by their employer you can deduct your entire contribution to a traditional IRA. If one of you is covered by a retirement plan, your contribution may be at least partially deductible, depending on your income and filing status

As mentioned, Roth contributions aren't tax-deductible, regardless of your income or whether you have a retirement plan at work. However, your income and tax-filing status do come into play in determining whether you are eligible to contribute to a Roth in the first place. Those limits are also detailed in IRS Publication 590-A.

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Still short on savings?

You can also maximize your retirement nest egg by working longer, stretching out the span in which you contribute to your retirement funds. Working longer helps with increasing your savings duration as well as your investment earnings horizon. But it also increases your social security income. If you retire earlier than your FRA (Full Retirement Age), your benefits are lower than they would be at FRA, and they stay at that rate for the duration of your retirement. Ah, but you receive higher benefits if you delay beyond your FRA. Benefits rise approximately 8% for every year after your FRA you don't take them, until age 70. There is no increase possible after that age, so your rate will stay the same forever.

Questions? Contact MCF Advisors.

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