Supersizing Retirement Contributions

Without Changing Your Client's Lifestyle

A KAPLAN COMPANY

Contribution Limits Review 2019

Traditional and Roth IRA Contributions

- Lesser of $6,000 or 100% of earned income
- $1,000 catchup for 50 and older
- Alimony changes pre and post 2019

SEP

- Lesser of $57,000 (2020) or 25% (EEs)/20% of net self-employment income
- Unique advantage: it may be adopted and funded as late as the due date of the sponsoring employer's tax return, including extensions.
- Nondiscriminatory and must include all employees making at least $600/year, are at least 21 and who have worked there for 3 of the last 5 years

Contribution Limits Review 2020

Defined Contribution Plans:

- $57,000 or $63,000 for age 50+ (combined worker and employer contributions)
- 401(k)/403(b)/457 plans allow maximum worker contribution of $19,500 with $6,500 age 50+ catchup

Contribution Limits Review 2020

SIMPLE $13,500 with $3,000 age 50+ catchup

Traditional IRA Contribution Limits Review 2020

If no one is an active participant:

- full deduction of traditional IRA contributions

Active Participant Deduction Limits:

- Single: $65,000-$75,000
- Married Filing Jointly: $104,000-$124,000
- Married Filing Separately: $0-$10,000

Traditional IRA Contribution Limits Review 2020

Married Filing Jointly but not an active participant

- Phaseout Range is $196,000-$206,000

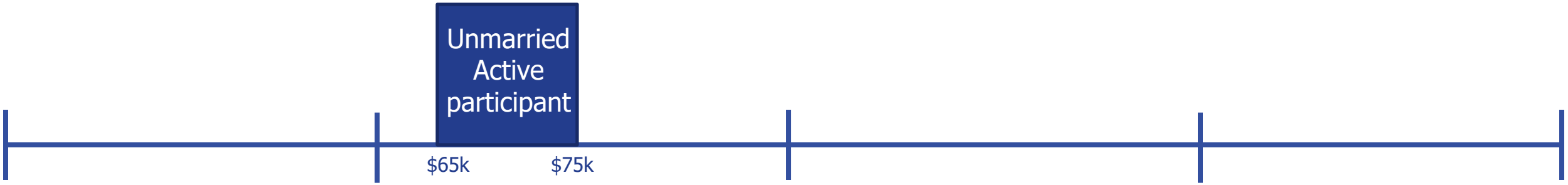
Roth IRA Contribution Limits Review 2020

Phaseout Ranges:

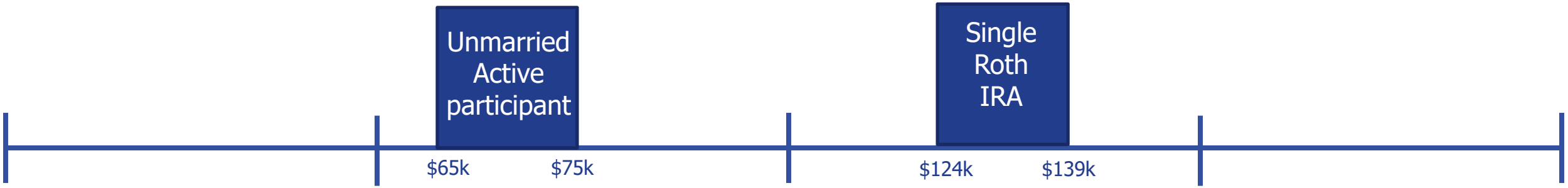
Single: $124,000-$139,000

Married Filing Jointly: $193,000-$206,000

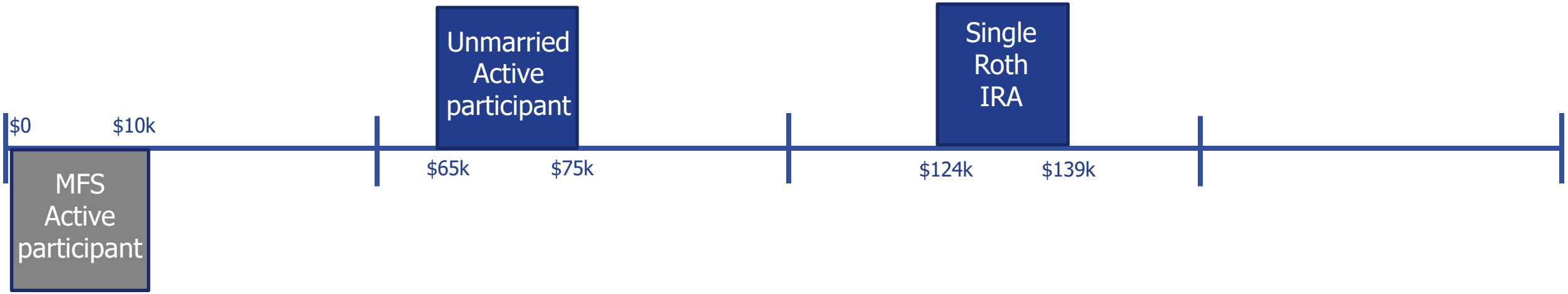
2020 Phaseout Ranges



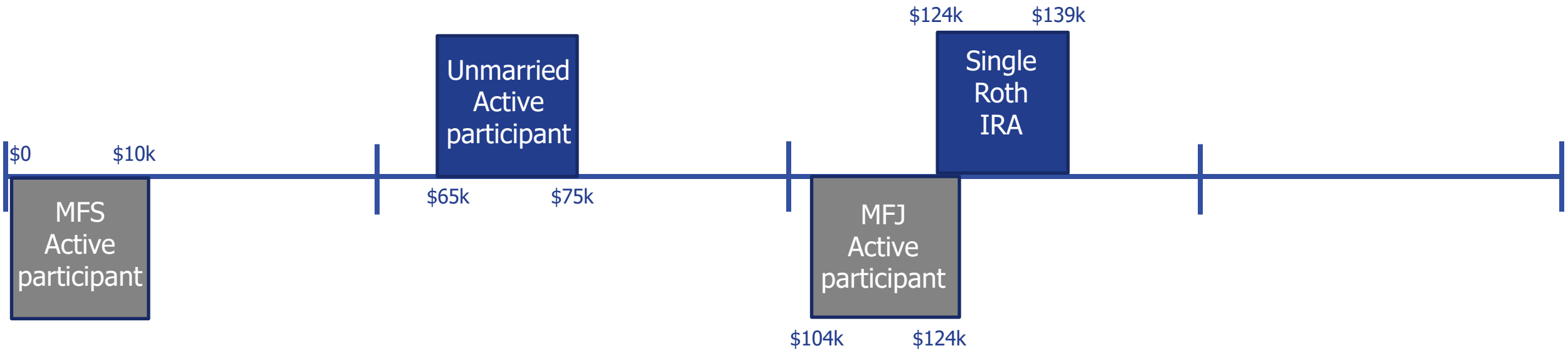
2020 Phaseout Ranges



2019 Phaseout Ranges



2020 Phaseout Ranges



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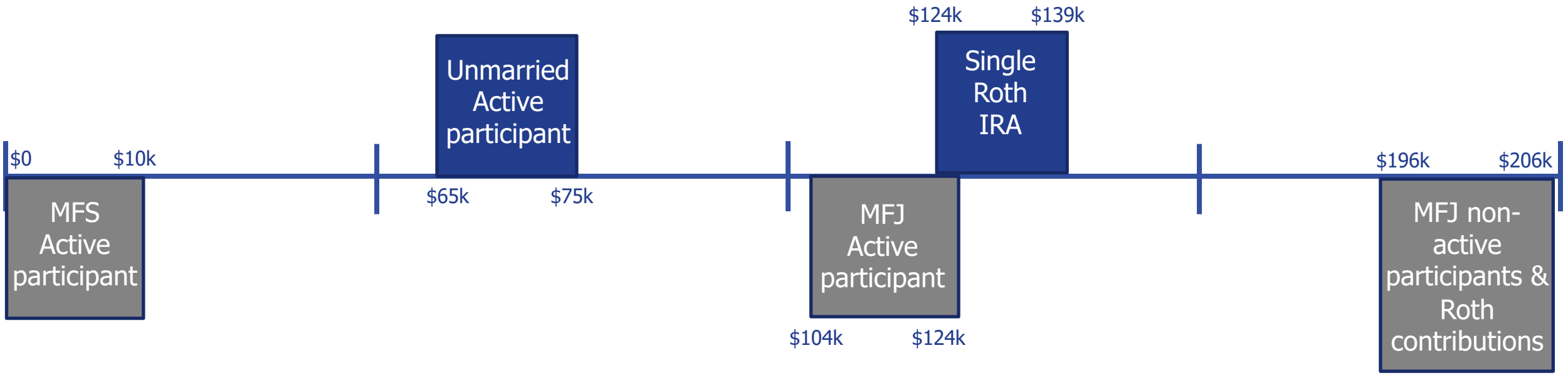

The Opportunity

- Some of your clients have money they could contribute to their retirement plan that they do not see as being available.

Inheritances

Savings accounts

Money market accounts

The Opportunity-How Big is it?

Inheritances:

- We are in the midst of an estimated $30 trillion wave of inheritances as the baby boom generation passes away.

Savings Accounts/CDs:

- As of September 30, 2018, FDIC insured $17.673 trillion https://www.fdic.gov/bank/statistical/stats/2018sep/industry.pdf

Money Market Funds:

- At the end of 2017, 13% of mutual fund assets worth $1.8 trillion was in money market funds (Source: ICI 2018 Factbook).

Solution:
Add 22% to their inheritance or excess savings*

Most non-retirement account inheritances are received better than tax-free. They are received income-tax-free with a stepped-up basis. Savings accounts and money market withdrawals are also tax-free when withdrawn

For deductible IRAs, write a check to fund the deductible IRA and lower income tax withholding.

*Assumes the client is in the 22% marginal tax bracket.

The Big Picture:
Add 22% to their inheritance or excess savings*

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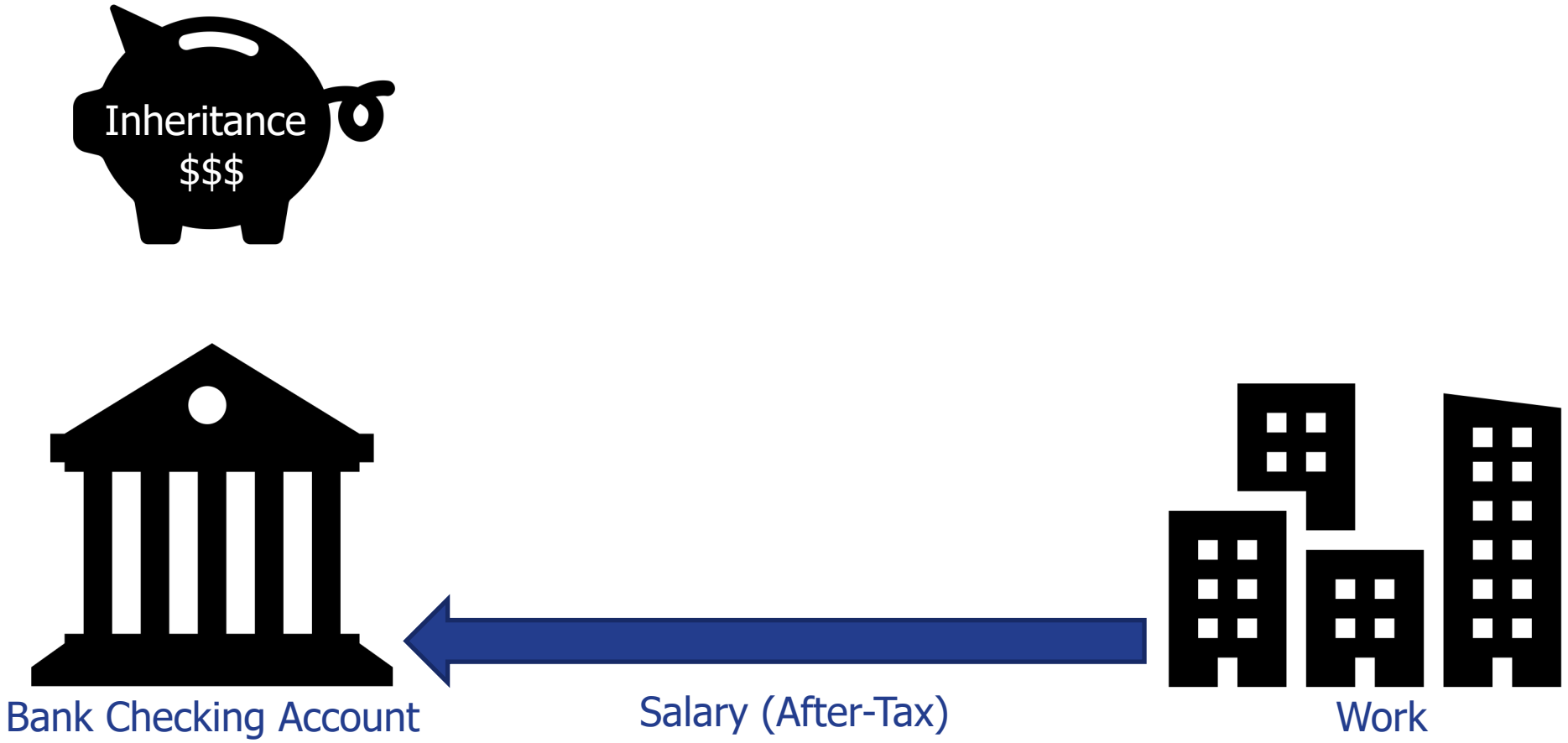

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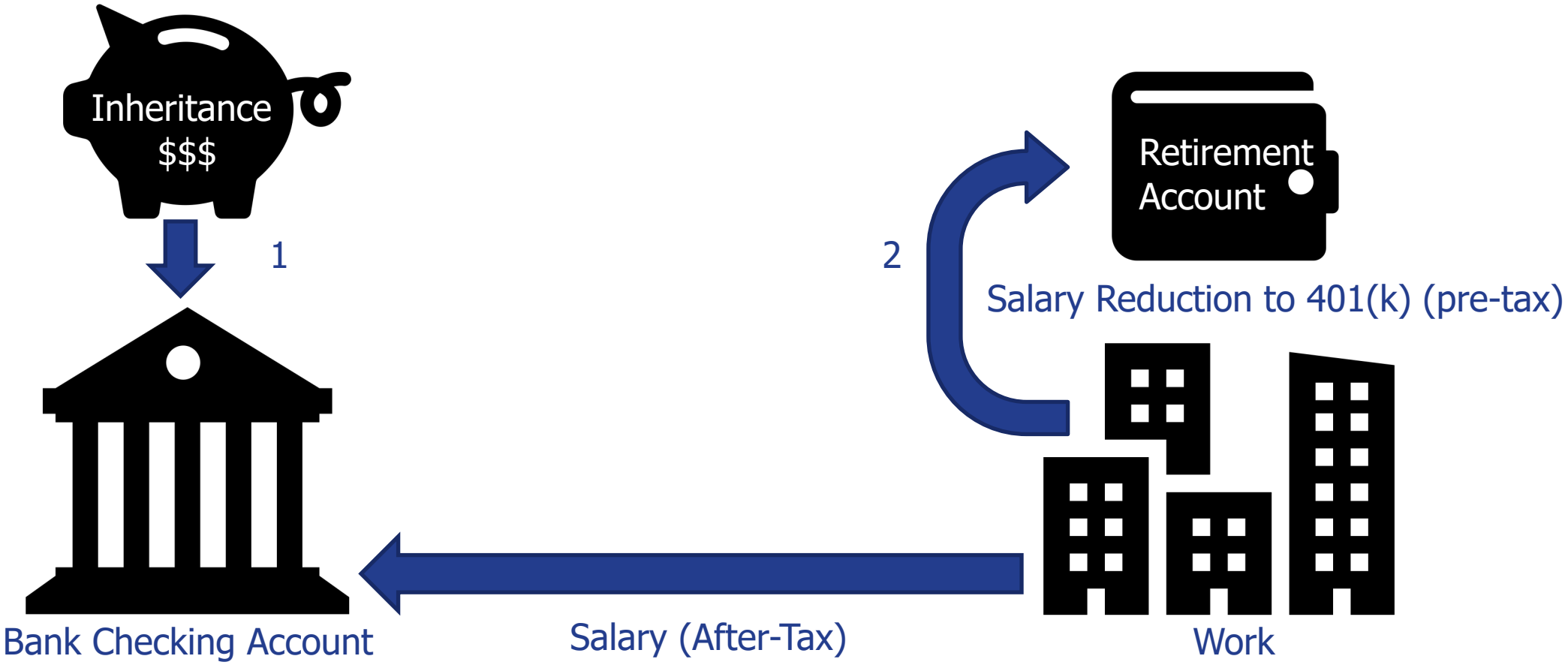

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Solution:
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For employer retirement plans:

Step 1:

- Calculate the maximum allowed increased worker contribution for the rest of the year.

Step 2:

- Sign a salary reduction agreement to increase the contribution. (Income tax withholding needs to be checked for Steps 2-5.)

Step 3:

- Withdraw the increased contribution minus the MTB amount from inherited assets or excess savings to sustain the current lifestyle.

Step 4:

- Adjust amounts at the start of the new year.

Step 5:

- Sign a new salary reduction agreement when all the money is deposited in the retirement accounts.

*Assumes the client is in the 22% marginal tax bracket.

Example: Add 22% to an Inheritance

Situation: The clients, both age 52, received an inheritance of $250,000. They would like $100,000 to go into their retirement accounts at work. They each make $80,000/year and have been contributing 2% to their 401(k)s to get the employer match. They will start your super-funding idea on April 1, 2020.

Example: Add 22% to an Inheritance

Step 1: Calculate the maximum allowed increased worker contribution for the rest of the year.

- The clients have each been contributing $133.33/month for 3 months. Total $400.
- Their maximum contribution is $26,000 each, so they can each contribute up to $2,844.44/month for the remaining 9 months. This is 43% of their income for the rest of the year (each).

Example: Add 22% to an Inheritance

Step 2: Sign a salary reduction agreement for $2,733.33/month starting April 1, 2019.

Step 3: Before the first paycheck in April, begin transferring money from the inheritance account to the checking account.

- The new contribution is $2,600/month more than before and their MTB is 22%, thus the withdrawal is $2,028/month for the rest of 2019. $2,028/month is the same as $2,600/month of taxable income at 22%, so their lifestyle does not change by even a penny.

Example: Add 22% to an Inheritance

Step 4: Adjust amounts at the start of the new year.

- If the 2020 limits are the same as the 2019 limits, they can contribute another $25,000 each to their 401(k)s. So they sign a new salary reduction agreement for $2,083.33/month for 2020. Change the inheritance withdrawal to $1,521. This is 78% of $2,083.33 - $133.33 (they were already doing $133.33/month).

Step 5: In December 2020, sign a new salary reduction plan for their desired 2021 contribution.

- Technically, they have increased the 2019 and 2020 contribution by $23,400 each so they have an additional $3,200 left for their goal of putting $50,000 into their retirement accounts. Thus, they have an additional total contribution between the two of them of $266.66/month to contribute in 2021. This would lower their inheritance fund withdrawal to $208/month.

Why Don’t People See These Opportunities for Themselves?

Most people do not think this way. You are needed to give them the vision and walk them through this process.

People with a new inheritance need your help or the money will be gone without it making a positive impact on their finances over the long term.

People with excess savings accounts/money market accounts have to overcome inertia. They are not sure exactly what to do with the money, so they don’t do anything.

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Questions?

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