



## A Guide for Retirement Planning

Following these practices can help liberate you from uncertainty and position you to accomplish more than you thought possible

According to a study by AARP, almost half of Americans do not feel prepared for retirement.<sup>i</sup> Based on our experience, this may even underestimate the issue, as just about everyone with whom we first meet – even those with considerable wealth – express concerns about not having enough assets to retire the way they would like.

To help you or anyone you know alleviate this mental burden and instead focus on maximizing what you can accomplish in retirement, here are some best practices that we help guide clients through:

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## 01 Focus on what you can control

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It is important to recognize that both controllable and noncontrollable variables impact financial outcomes in retirement, and act accordingly.

Unfortunately, in our experience, people tend to disproportionately allocate their time to factors they can't control, when they should instead focus predominantly on the first – and to some degree, second – type of variables below:

### Full ability to control

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Current lifestyle spending

Savings

Identifying retirement goals, including lifestyle spending, and estimating their costs

Asset allocation and location – investing optimally both in terms of assets (e.g., stocks, bonds, alternative investments) as well as the type of account in which they are held (i.e., taxable versus tax-deferred retirement accounts)

### Some ability to control

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Duration of employment and earnings

Longevity – lifestyle choices

Surplus spending – expenses outside of lifestyle spending

### Unable to control

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Market returns and inflation

Tax policy and other laws

Health care costs

## 02 Maximize retirement savings beyond your 401(k)

Saving beyond 401(k)/403(b) plans is essential for most pre-retirees. In addition to maximizing your contributions to your workplace retirement account you should:

- Maximize your after-tax assets by:
  - Maximizing contributions to after-tax accounts
  - Considering backdoor Roth IRA contributions (if allowable)
  - Considering a Roth IRA conversion
- Establish a spousal IRA, if relevant
- If self-employed, contribute to a Solo 401(k), SEP-IRA or Defined Benefit Plan

### RETIREMENT CONTRIBUTION LIMITS

#### Retirement Benefit Limits

	2024
Contribution Limits for 401(k)/403(b) Plans	\$23,000
Age 50+ Catch-Up	\$7,500
Contribution Limits for SIMPLE IRA Plans	\$16,000
Age 50+ Catch-Up	\$3,500
Contribution Limits for IRAs	\$7,000
Age 50+ Catch-Up	\$1,000
Contribution Limits for Defined Benefit Plans	\$275,000
Contribution Limits for SEP IRA and Solo 401(k) Plan	\$69,000

#### Modified Adjusted Gross Income (MAGI) Limitations for IRA Contributions

	2024
<b>Traditional IRA</b>	
Single, Head of Household	\$77,000 - \$87,000
Married Filing Jointly	\$123,000 - \$143,000
<b>Roth IRA</b>	
Single, Head of Household	\$146,000 - \$161,000
Married Filing Jointly	\$230,000 - \$240,000
Married Filing Separately	0 - \$10,000
<b>Roth Conversions</b>	None

Source: <https://www.irs.gov/newsroom/401k-limit-increases-to-23000-for-2024-ira-limit-rises-to-7000>

## 03 Plan for a long retirement

The average life expectancy for a 65-year-old is 83 years of age.<sup>ii</sup> But that is just an average; there is a 49% chance that at least one member of an age-65 couple will live to age 90, which goes up to 72% if both are non-smokers in excellent health.<sup>iii</sup>

This means you may need to plan for a 30-plus-year retirement, especially if warranted by family history, during which, as a general rule of thumb, you will likely need to replace about 75%-80% of your pre-retirement annual income. And this does not factor in certain discretionary purchases you may wish to make – for example, second homes or support for your children as they begin their adult lives (e.g., weddings, first car and home purchases, etc.).

## 04 Identify the right retirement vehicle for your contributions

Evaluate your financial goals and marginal income tax bracket to decide whether to contribute to a traditional or Roth retirement account, or a combination of both.

The main reason you might decide to contribute to a Roth account instead of a traditional account is if you expect your taxable income to be higher in retirement than it is now. If that is the case, taking the tax hit now (rather than when you make withdrawals in retirement) while at a lower tax rate could make sense.

Another reason you may prefer a Roth account is if you expect to transfer your retirement assets to your heirs rather than spend them. In most cases, beneficiaries of Roth IRAs can make tax-free withdrawals during a 10-year period.

### TRADITIONAL VS. ROTH – SIDE-BY-SIDE COMPARISON

	Traditional IRA	Traditional 401(k)/403(b)	Roth IRA	Roth 401(k)/403(b)
Tax Benefits	Tax deferred growth		Tax-free growth and tax-free qualified withdrawals	
Tax Deduction	Contributions may be tax-deductible depending on AGI	Yes, for current year contributions	No, funded with after-tax contributions	
Taxation of Withdrawals	Taxed as ordinary income		Qualified withdrawals are tax-free	
Early Withdrawal Penalties	With limited exceptions, withdrawals prior to age 59 1/2 result in a 10% penalty (and are treated as ordinary income)		Contributions can be withdrawn penalty-free prior to age 59 1/2; earnings are taxable and may be subject to 10% penalty	Earnings portion of a non-qualified distribution prior to age 59 1/2 is taxable and may be subject to a 10% penalty
Income Limits for Contributions	None, but deductibility is subject to income limits	None	Yes	None
Age Limits for Contributions	After 73	None	As of 2024, none	None
Eligibility to Contribute	Must have earned income	Actively employed	Must have earned income	Actively employed
Deadline to Contribute	April 15 of the following tax year	December 31	April 15 of the following tax year	December 31

Source: <https://smartasset.com/retirement/ira-contribution-deadline>

There may be other reasons for establishing or converting to a Roth IRA, including if you expect income taxes more generally to rise in future years. In any case, your financial advisor and accountant can help you determine if you are a good candidate.

## 05 Consider other Roth strategies

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Roth accounts can be especially attractive to high earners. Investment growth and future withdrawals are tax-free after age 59 1/2, and minimum distributions aren't required at age 73 like they are with traditional retirement accounts.

However, current tax laws prohibit taxpayers with modified adjusted gross income (in 2024) of at least \$161,000 (\$240,000 if married, filing jointly) from contributing to a Roth IRA. But the following strategies can help those with income above those thresholds still take advantage of these vehicles:

### BACKDOOR ROTH CONTRIBUTIONS

If your income is higher than the threshold for contributing to a Roth IRA, you can fund a traditional IRA with a non-deductible contribution. You may, in turn, convert this contribution into a Roth IRA tax-free, provided you do not have any other holdings in a traditional IRA. If you have an outstanding traditional, SEP or SIMPLE IRA balance, the IRS will treat a portion of the conversion as taxable income.

#### *example*

Sarah is a single taxpayer, **age 55**, with a **modified adjusted gross income of \$450,000**, which prevents her from directly contributing to a Roth IRA.



Sarah currently has a 401(k) plan but **no traditional IRA**.



Sarah makes a **\$8,000 non-deductible contribution** to a traditional IRA and **leaves the entire contribution in cash**.



Sarah **waits 30+ days** and then **converts the non-deductible contribution to a Roth IRA**.



**Since Sarah had no traditional IRA holdings and only converted a non-deductible contribution (which had no earnings over the 30-day period), the conversion is not taxable.**

## ROTH CONVERSIONS

Unlike income limits for Roth IRA contributions, there are no such income limitations for completing a Roth conversion. However, you should recognize that converting a traditional IRA to a Roth IRA typically produces taxable income, so you need to evaluate your income tax picture to compare how your current tax bracket might compare to a future tax bracket. Also, you may want to consider a partial conversion, so income attributable to the conversion does not move you into a higher tax bracket.

Also, if you expect to have a taxable estate, a Roth conversion may be beneficial as it reduces the size of your taxable estate by the amount of taxes paid on the conversion while eventually leaving a favorable asset to your heirs (i.e., inheriting a Roth IRA is generally preferable to inheriting a traditional IRA).

	Maintain Pre-Tax IRA Balance/No Roth Conversion		Convert Pre-Tax IRA to Roth IRA	
Income Tax on Roth Conversion	Not applicable	+	The amount of the conversion creates taxable income, but you could potentially offset it with charitable gifts	?
Additional Contributions	If above AGI limits, deductible contributions to pre-tax balance disallowed; however, non-deductible contributions are allowed	-	If the entire pre-tax IRA balance is converted, creates opportunity for backdoor Roth IRA contributions without additional tax impacts	+
Required Minimum Distributions	In retirement, RMDs must be taken from the account, reducing the overall balance and adding tax liability	-	After Roth conversion, RMDs from the Roth IRA will not be required for the original account owner	+
Income Tax	Distributions are subject to income tax at ordinary income rates	-	Roth IRA distributions are not subject to income tax	+
Estate Tax	Account balance at death subject to estate tax	-	Account balance at death subject to estate tax	-
Post-Death Beneficiary Income Tax	RMDs to beneficiaries subject to income tax	-	RMDs to beneficiaries not subject to income tax	+

Source: Fiduciant Advisors, "2023 Financial Planning Guide: Assessing Your Financial Wellness."

## MEGA BACKDOOR CONVERSIONS

You can also check if your 401(k)/403(b) plan allows for "in-plan Roth conversions." Known as a "mega backdoor Roth," this strategy involves making after-tax contributions and subsequently converting those to a Roth account. However, note that time may be of the essence: This planning strategy has been targeted by lawmakers and could be addressed in future tax legislation.

## 06 Relocate wisely

If you're considering relocating to a different state during retirement, make sure you assess the all-in cost of living in the new location, qualitative factors that are important to you, and residency requirements – especially if you will split time between multiple residences. Below are some variables to consider:

- **Lifestyle:** Do you like the culture and climate? Can friends and family visit you affordably and with relative ease?
- **Access to health care:** Will you have day-to-day access to top-tier health care professionals and facilities in your new primary location?
- **Weather:** Understand the risk of natural disasters and the cost of insurance in your prospective new state.
- **All-in tax impact:** The reality is that no state is "tax free." Especially if your move is at least partly tax-motivated, be sure to evaluate the full spectrum of state taxes, including estate, property and sales tax. Also, understand how other unique sources of income, such as deferred compensation, stock option income and trust income, will be taxed at the state level. The rules vary, but it's possible that your current state – rather than destination state – will tax this income.

## 07 Delay collecting Social Security if possible

With the very real possibility that you could collect Social Security for more than 30 years, it is important to make an informed decision about when to begin collecting it, even if you don't plan on using it as a major source of retirement income.

While you can begin receiving Social Security as early as age 62, full retirement age (FRA) varies from age 65 to 67 depending on your birth year. If you begin to collect before FRA, your monthly benefits will be permanently reduced. Conversely, if you start after FRA, your monthly benefits will be increased. Therefore, you may want to consider waiting until as long as age 70 to begin collecting in order to maximize your monthly benefit.

### SOCIAL SECURITY EARNINGS LIMIT

*as of 2024*

Prior to FRA, you can earn income of up to **\$22,320** before benefits are reduced.

In the year of FRA, you can earn up to **\$59,520** before benefits are reduced.

After FRA, **you are not subject to any** earnings limit.

#### CONSIDER TAKING BENEFITS **EARLIER** IF...

You are no longer working and find it difficult to cover annual expenses.

You are in poor health and do not expect the surviving member of the household to make it to average life expectancy.

You are the lower-earning spouse, and your higher-earning spouse can wait to file for a higher benefit.

#### CONSIDER TAKING BENEFITS **LATER** IF...

You are still working and make enough to impact the taxability of your benefits.

You are in good health and expect to exceed average life expectancy.

You are the higher-earning spouse and want to be sure your surviving spouse receives the highest possible benefit.

## 08 Prepare for Medicare and additional health care expenses

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Well before you reach age 65, the age of eligibility to enroll in Medicare, you should begin to educate yourself on your options so that you can more accurately factor health care cost estimates into your retirement plan. This includes:

Understanding the different parts of Medicare. See below for a high-level summary:

### A

#### Part A (Hospital Insurance)

- Free for people age 65 and older who paid payroll tax for 40+ quarters (about 10 years)
- Helps cover in-patient hospital care, skilled nursing facility care, hospice care and home health care

### B

#### Part B (Medical Insurance)

- Anyone eligible for Part A is eligible to enroll in Part B and pay a monthly premium
- Helps cover physician services, outpatient care, home health care, therapy services, ambulance services, preventive services and durable medical equipment

### C

#### Part C (Medicare Advantage)

- The private health insurance alternative to “Original Medicare” (i.e., Parts A and B), which might also include Part D coverage
- If enrolling in Medicare Advantage, must still enroll in Parts A and B and pay the Part B premium; also need to sign up and pay for the chosen Medicare Advantage plan

### D

#### Part D (Prescription Drug Coverage)

- Run by private insurance companies that follow rules set by Medicare
- Helps cover the cost of prescription drugs
- Once total drug costs (between what you and the plan have spent) reach \$4,660 (2023 limit), you pay no more than 25% of the drug price (this is often referred to as the “donut hole” of Part D coverage)





## KNOW WHEN YOU NEED TO SIGN UP FOR MEDICARE

DATE	NOTES
Initial Enrollment Period	Seven-month period; initial enrollment period begins three months prior to the month turning age 65 and ends three months after the month turning age 65 Individuals who do not sign up during the IEP may be subject to a late enrollment penalty
General Enrollment Period	January 1 - March 31 Those missing the Initial Enrollment Period can sign up during this period; coverage will subsequently start July 1
Medicare Advantage Open Enrollment	January 1 - March 31 (only for individuals who already have a MA plan) If enrolled in a Medicare Advantage plan, enrollee can: <ul style="list-style-type: none"> <li>■ Switch to a different Medicare Advantage plan</li> <li>■ Drop Medicare Advantage plan and return to Original Medicare</li> <li>■ Sign up for Medicare Part D (if returning to Original Medicare)</li> </ul>
Annual Open Enrollment Period	October 15 - December 7 Individuals can join, switch or drop a plan for coverage beginning January 1
Special Enrollment Period	Individuals with certain qualifying life events (losing health coverage, moving, getting married, having a baby or adopting a child) may be eligible to sign up during a Special Enrollment Period
January 1	New coverage begins; monthly premium adjustments go into effect

Source: Fiducient Advisors, "2023 Financial Planning Guide: Assessing Your Financial Wellness."

### Factoring in out-of-pocket expenses

Part of knowing if you have saved enough for retirement is being able to estimate your health care expenses, which are inherently uncertain. However, here are variables to consider based on research from T. Rowe Price that can help you and your advisor arrive at appropriate estimates:<sup>iv</sup>

1. The median annual costs for individuals paying for Medicare range from about \$3,600 to \$6,400 depending on your elections (e.g., traditional Medicare vs. Medicare Advantage, etc.). More conservatively, these costs at the 90th percentile range from about \$8,700 to \$10,900.
2. The probability of experiencing a \$2,000-\$5,000 health care shock (an increase in out-of-pocket expenses during a two-year period) is about 11%; the probability of a shock of \$25,000 or more is about 2%.
3. Health care shocks increase with age, with the probability of an expense of \$25,000 or more at age 90 or older increasing to more than 9%.
4. The average health care shock is about \$8,000 over 2 years.
5. Total out-of-pocket health care expenses during the last two years of life increase with age, ranging for those ages 65 through 69 from \$3,800 to \$116,400 at the 50th percentile, and for those age 90 or older from \$5,200 at the 50th percentile to \$169,800 at the 95th percentile.
6. Nursing home and long-term care drive high total out-of-pocket expenses; consider long-term care insurance.



### Taking advantage of triple-tax HSA savings

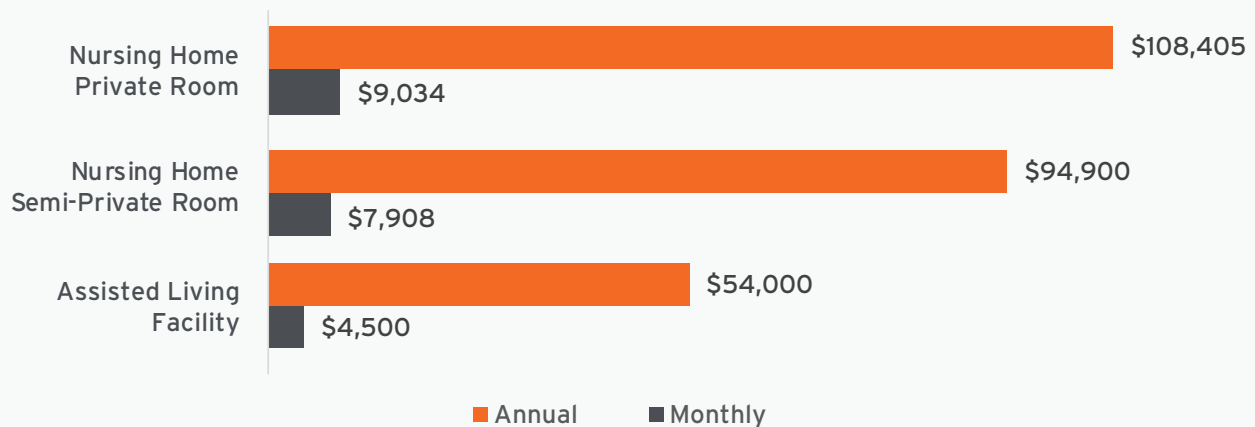
You can use a health savings account (HSA) not only to cover healthcare costs while you work but also as a tax-efficient savings vehicle to cover costs during your retirement. HSAs offer triple-tax savings: You contribute pre-tax dollars, pay no taxes on earnings and pay no taxes when you make withdrawals for qualified medical expenses.

Unlike flexible spending accounts (FSAs), you can keep money you don't use in your HSA account from year-to-year. You can also invest it, and after age 65, use the money to pay for nonmedical expenses without incurring penalties. However, if not used for qualified medical expenses, withdrawals are taxed at ordinary income rates, just as they would be from traditional IRAs or 401(k)s.

## LONG-TERM CARE INSURANCE COSTS

With 10,000 baby boomers turning age 65 every day, costs of care are increasing to keep up with demand.

### NATIONAL MEDIAN VALUES



Source: Fiducient Advisors, "2023 Financial Planning Guide: Assessing Your Financial Wellness," retrieved by Fiducient Advisors from Genworth's 2021 Cost of Care Survey (February 2022).

## 09 Review your plan with your advisor at least once a year

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As you encounter both expected and unexpected life changes, your retirement plan doesn't necessarily update automatically to reflect those changes. For this reason, meeting with your financial advisor at least once annually, not only for a regular update on your investments but also to perform a more holistic review of your financial plan, can help you avoid planning mistakes and uncover new opportunities to accomplish more with your savings.

## 10 Evaluate wealth transfer and asset protection strategies

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Depending on the size and complexity of your assets – and what you'd like to accomplish with them – you may want to consider advanced estate and tax planning strategies well in advance of your retirement. This is particularly the case now, given the impending expiration of provisions from the Tax Cuts and Jobs Act (TCJA) of 2017, including the roughly doubling of estate tax exemptions.

Examples of strategies to consider with your advisors include:

- Grantor retained annuity trusts
- Charitable remainder trusts and/or donor-advised funds
- Irrevocable life insurance trusts
- Qualified personal residence trusts
- Intrafamily loans
- And more; talk to your advisor

### HERE IS A CHECKLIST OF COMMON ITEMS THAT NEED REGULAR REVIEW:

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- Tax law changes
- Retirement goals
- Health condition and longevity expectations
- Current level of savings in light of retirement goals
- Portfolio asset allocation and asset location
- Estate planning documents
- If nearing retirement, your claiming age strategy for Social Security benefits
- Medicare options
- Beneficiary designations
- Medical directives
- Financial power of attorney
- Account titling

## LEA N O N U S

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No two retirement plans should look the same. Our assets, life journeys and goals are simply too unique to fit into a boilerplate framework. That is why working with a financial advisor who knows and appreciates you – while also benefiting from the experience of helping hundreds of other individuals and families – can pay dividends in retirement and beyond.

We look forward to hearing from you soon and helping you with one of the most rewarding experiences we have as advisors: empowering fulfilling retirements.



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<sup>i</sup> Ortolani, Alex, "Most Americans Value Retirement Planning, Fewer Than Half Appear to Do It," Plan Sponsor, November 28, 2022, <https://www.plansponsor.com/americans-value-retirement-planning-fewer-half-appear/>. Accessed April 18, 2023.

<sup>ii</sup> Centers for Disease Control and Prevention, Mortality in the United States, 2021, NCHS Data Brief No. 456, December 2022, [https://www.cdc.gov/nchs/products/databriefs/db456.htm#section\\_1](https://www.cdc.gov/nchs/products/databriefs/db456.htm#section_1). Accessed April 13, 2023.

<sup>iii</sup> American Academy of Actuaries and Society of Actuaries, Actuaries Longevity Illustrator, <http://www.longevityillustrator.org/>. Accessed April 13, 2023.

<sup>iv</sup> Banerjee, Sudipto, "A Guide to Healthcare Costs in Retirement," T. Rowe Price, July 22, 2022.

Medicare costs are T. Rowe Price estimates based on 2023 Medicare premiums and data from the Health and Retirement Study (2020). Healthcare shocks and out-of-pocket expense data is based on T. Rowe Price estimates from Health and Retirement Study (HRS), 2012-2018; Expenses measured in 2022 dollars.

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