Freddi Eberhart & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

JANUARY 2020

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

January 1

- New Year's Day

January 15

- 4th Quarter Estimated Payments Due

January 20

- Martin Luther King Jr. Day

Start tax planning for the new year

- Adjust withholdings
- Organize filing records
- Schedule tax consultation
- Rebalance investment portfolio

Welcome 2020. A new year calls for a fresh look at your financial strategies. Don't forget you still have time to fund your IRA! As part of your 2020 planning, now is the time to review funding your retirement account. We've included information on how to have a comfortable retirement, as well.

Minimize taxable income while saving for retirement. If you're an employee, invest as much as you can afford in any 401(k) or similar deferred-income plan provided by your employer. Dollars put into these plans don't even show as taxable income on your W-2.

If you're self-employed, use a SEP (simplified employee pension), a SIMPLE (Savings Incentive Match Plans for Employees), or a 401(k) plan to shelter income. You can also take advantage of these plans if you're employed, but have outside earnings from a sideline or home business.

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There's Still Time to Fund Your IRA

There is still time to make a contribution to a traditional IRA or Roth IRA for the 2019 tax year. The annual contribution limit is $6,000 or $7,000 if you are age 50 or over.

Prior to making a contribution, if you (or your spouse) are an active participant in an employer's qualified retirement plan (a 401(k), for example), you will need to make sure your modified adjusted gross income (MAGI) does not exceed certain thresholds. There are also income limits to qualify to make Roth IRA contributions.

Maximum 2019 IRA Contribution amounts: $6,000 or $7,000 (with age 50+ catch-up provision)

If you are wanting to look into contributing into an IRA for 2019, please contact your tax professional to discuss your eligibility based on your income limits.

If your income is too high to take advantage of a traditional IRA that can help reduce your taxable income. You can always make a non-deductible contribution to an IRA. While the contributions are not tax-deferred, the earnings are not taxed until they are withdrawn.

How to Have a Comfortable Retirement

Retirement Planning

If you're age 35 or more and haven't made a serious effort to plan for retirement, your dreams of a comfortable and active retirement could turn into the nightmare of being old and poor.

Scare tactics, you say? Consider this: most experts say you need at least 66% of pre-retirement income to live comfortably when you retire. But an active retiree may need 70-80% of pre-retirement income to pay for added travel and health care costs.

Will your company pension and social security replace 60-80% of your salary?

Social security
The portion of your earnings that can be replaced by social security falls dramatically as you climb the income scale. Even if you qualify for the maximum social security benefit, you will probably require additional retirement income from other sources.

Your pension plan
Will your company pension make up the difference? That depends on the plan, your length of service, and your earnings. Many companies are trying to scale back their retirement plans. And if you've changed jobs often, you will have decreased the length of service credited to your pension.

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How to Have a Comfortable Retirement (Cont'd)

What about inflation?
The impact of inflation will also be a factor in whether you can retire comfortably. If inflation outpaces the cost-of-living increases for social security and your company pension, your plans to live comfortably from these sources may need to be changed dramatically. And if you have a short-fall in your retirement income to begin with, the effects of inflation will be magnified. Assuming inflation at a modest 4% annually, prices will double every 20 years.

How much is enough?
If the prospect of living your remaining years on a steadily declining income doesn't fit your plans, take stock of your situation now. Then take action to establish a program that will lead to a comfortable retirement.

First, do an estimate of how much income you will have at retirement and an estimate of how much you will need for the kind of retirement you have in mind. For a quick estimate of whether or not you'll have enough income for retirement, calculate the following:

1.	Yearly income needed at retirement in current dollars (70%-80% of current gross income):	$
2.	Expected social security benefits:	$
3.	Expected retirement benefits (IRA, Keogh, 401(k), company plans, etc., currently in place):	$
4.	Annual investment income needed (line 1 minus lines 2 and 3): If your current savings will provide this amount, you are in good shape. If not, read on.	$

How to come up with more
If you won't have enough, the next step is to see how you can come up with the extra income. Your choices will probably be limited to some combination of the following:

- Save more (reduce current spending).
- Increase the return on the savings you already have.
- Postpone retirement.
- Plan to supplement your retirement income with part-time work.
- Accept a lower standard of living when you retire.

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How to Have a Comfortable Retirement (Cont'd)

The younger you are, the more of your retirement income you can fund through a savings plan. If you're age 30 and start saving 10% of your yearly income today, you'll probably reach retirement with a comfortable nest egg. If you don't get started until age 40, you may need to save 20% of your income.

Maximize your earnings

When deciding on a savings plan, you will want to maximize your earnings. Look first at tax-deferred savings, particularly if your employer offers a 401(k) plan. If you don't have a 401(k) available, you can still get tax-deferred earnings through an IRA, long-term growth stocks, insurance annuities, real estate investments, and Series EE bonds.

To earn more on your savings, consider investing in equity investments (stocks and real estate) rather than fixed-income investments (CDs, bonds, savings accounts). If you're ten years or more from retirement, you may want to put more of your money in equities. As you near retirement, it may be appropriate to switch more of your funds to fixed-income investments.

Start planning now

Regardless of where you decide to invest, the single most important step to a comfortable retirement is to start planning and saving today.

2020 Retirement Plan Limits

As part of your 2020 planning, now is the time to review funding your retirement accounts. By establishing your contribution goals at the beginning of each year, the financial impact of saving for your future should be more manageable. Here are annual contribution limits:

Retirement Plans	2019	2020	Change	Age 50 or older catch up
IRA: Traditional	$6,000	$6,000	none	add: $1,000
IRA: Roth	$6,000	$6,000	none	add: $1,000
IRA: SIMPLE	$13,000	$13,500	+$500	add: $3,000
401(k), 403(b), 457 plans	$19,000	$19,500	+$500	add: $6,500

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2020 Retirement Plan Limits (Cont'd)

Take action

If you have not already done so, please consider:

- Reviewing and adjusting your periodic contributions to your retirement savings accounts to take full advantage of the tax advantaged limits
- Setting up new accounts for a spouse or dependent(s)
- Using this time to review the status of your retirement plan
- Reviewing contributions to other tax-advantaged plans including flexible spending accounts and health savings accounts