

Annual Best Practices to Keep Retirement Planning on Track

Regularly reviewing your retirement strategy can help ensure success

Successful retirement plans are a work in progress. Success or failure can be the result of any number of factors including market forces, savings levels and even changes in one's personal life. To increase the likelihood of successfully achieving a retirement goal, these annual best practices will help retirement savers keep their plans on track.

CHECK YOUR CONTRIBUTION LIMITS

401(k), IRA and other retirement plan annual contribution limits are adjusted each year for inflation. Also, in the year you turn age 50, you become eligible to make catch-up contributions to your retirement accounts, and the maximum catch-up contribution is also adjusted annually. You can find the most current contributions [here](#) on the Internal Revenue Service's website.

For 2018, the following maximum deferrals or contributions apply. Be aware that if you are contributing a flat dollar amount via payroll deduction, you might miss out on contributing the maximum amount. For IRAs, you can contribute up until April 15th for the previous calendar year.

Type of Retirement Plan or Account	2019 Deferral/Contribution Limit	2018 Deferral/Contribution Limit
401(k), 403 (b), 457 Plan	\$19,000	\$18,500
Catch-up Contributions starting in the year you turn 50	\$6,000	\$6,000
IRA and Roth IRA	\$6,000	\$5,500
Catch-up Contributions starting in the year you turn 50	\$1,000	\$1,000

CHECK YOUR DEDUCTION LIMITS

Like contribution limits, the eligibility for a deduction changes from year to year as well. It's recommended that you check to see if you are still eligible or have become eligible for an IRA deduction. If you no longer can deduct your IRA contribution, then perhaps a Roth IRA contribution becomes more attractive, although those eligibility rules are modified annually as well.

Account Type	2019 AGI Phaseout	2018 AGI Phaseout
IRA for someone covered by a retirement plan	Married filing jointly: \$103,000 to \$123,000 Single/Head of Household: \$64,000 and \$74,000	Married filing jointly: \$101,000 to \$121,000 Single/Head of Household: \$63,000 and \$73,000
IRA for someone whose spouse is covered by a retirement plan	Married filing jointly: \$193,000 to \$203,000	Married filing jointly: \$189,000 to \$199,000
Roth IRA	Married filing jointly: \$193,000 to \$203,000 Single/Head of Household: \$122,000 and \$137,000	Married filing jointly: \$189,000 to \$199,000 Single/Head of Household: \$120,000 and \$135,000

DETERMINE IF A ROTH IRA OPTION IS YOUR BEST CHOICE

The hierarchy of retirement savings options for many is to first make a deductible Traditional IRA contribution; if that's not available then a Roth IRA contribution; finally a non-deductible Traditional IRA is the last option for those above the income thresholds noted above. Whether the immediate tax benefit of the deductible Traditional IRA outweighs the longer-term benefit of the tax-free growth in a Roth IRA is hard to discern. As a rule of thumb, it depends on how soon you will need the money – the longer you can wait to access the funds, the better the Roth IRA becomes. This becomes especially true after age 70½, when investors in a Roth IRA are not subject to the Required Minimum Distribution rules. If you can draw on other sources of income and not tap a Roth, the Roth may become the better choice – it often is the most powerful over the long-term if you aren't going to use it.

In addition, the Roth IRA is a better option for those whose tax bracket will remain high after retirement. For those whose income and tax bracket will drop significantly after retirement, the deductible Traditional IRA may make more sense. In that case, you take a deduction from income when your tax rate is higher and begin drawing on the money and paying the taxes when your rate is lower.

If you decide to convert a Traditional IRA to a Roth IRA and later decide keeping the Traditional IRA makes more sense, you have until October 15th of the year after the conversion to undo the transaction. The primary reason for recharacterizing a Roth conversion is if the account value has fallen significantly from the time of the conversion. Presumably, the recharacterization may be driven by a desire to not pay taxes on a now much lower amount. Some also may find that their income/tax bracket went up and the cost of the conversion will end up being more than they expected.

CHECK YOUR BENEFICIARY DESIGNATIONS

Many savers will name a beneficiary when they open a retirement account and then never revisit that decision. Significant life events including death, divorce, birth or marriage may require changes to beneficiaries. Others may want to change their beneficiary to name a trust instead of an individual for estate planning purposes.

UPDATE YOUR FINANCIAL PLAN IF NEEDED

Take a look at your original financial plan to see if anything has changed. Significant changes to your income and material life changes (death, divorce, birth, marriage) should trigger a re-evaluation. Major moves in the market also might impact your plan. For example, a major downturn as occurred in 2008-'09 might require that you adjust your savings level to 'catch up.'

REBALANCE YOUR INVESTMENTS

During the initial retirement planning process, you likely selected an asset allocation to best meet your investment goals at that time. It's recommended that you check annually to see that your allocations to stocks, bonds, international investments and other asset classes still are in line with the asset allocation you selected. Keep in mind that rebalancing investments outside of a retirement account may trigger tax consequences.

LOOK INTO NEW INVESTMENT OPTIONS OFFERED BY AN EMPLOYER-SPONSORED RETIREMENT PLAN

Each year, your plan sponsor will provide an update on your plan, and may add or remove investment options. Take a close look at any new options to determine whether you should reallocate all or a portion of your contributions. If a fund you were using has been replaced, take a close look at the new fund to see if it still makes sense for you.

DOUBLE CHECK SOCIAL SECURITY BENEFITS

Create a personal login in at www.SocialSecurity.gov to ensure the Social Security Administration has properly credited your earnings and to receive an estimate of your future benefit. Also, if you are approaching age 65 and still working, begin looking at your health insurance options under Medicare.

SCHEDULE A MEETING WITH YOUR ADVISOR IF YOU ARE FIVE YEARS OR LESS AWAY FROM RETIREMENT

As you get closer to retirement, it is important to fine tune your plan to make sure everything is in order. This may be the time to make adjustments to your savings plans or retirement date to ensure you do not outlive your retirement savings.

OTHER CONSIDERATIONS

Tax season is a good time to perform an annual retirement plan check-up. And while you are at it, take a few minutes to make sure the other parts of your financial house are in order. For example, executives who have stock options should check option expiration dates and vesting schedules to ensure that they don't miss a deadline. If your situation has changed, look into parking or childcare reimbursement benefits at work, as you may need to add or remove the benefit. Consider life insurance premiums and eliminate any income replacement policies that you may have purchased to support a family if your children now are grown. Take a look at all of your estate planning documents to make sure they are up-to-date. Lastly, look at health savings accounts to determine whether your current contribution matches any change in the annual contribution limit.

Baird does not offer tax or legal advice. Please consult your tax professional or attorney to discuss your individual situation.