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Working in Retirement: What You Need to Know



Planning on working during retirement? If so, you're not alone. Recent studies have consistently shown that a majority of retirees plan to work at least some period of time during their retirement years. Here are some points to consider.

Why work during retirement?

Obviously, if you work during retirement, you'll be earning money and relying less on your retirement savings, leaving more to grow for the future. You may also have access to affordable health care, as more and more employers offer this important benefit to part-time employees. But there are also non-economic reasons for working during retirement. Many retirees work for personal fulfillment, to stay mentally and physically active, to enjoy the social benefits of working, and to try their hand at something new.

What about my Social Security benefit?

Working may enable you to postpone claiming Social Security until a later date. In general, the later you begin receiving benefit payments, the greater your benefit will be. Whether delaying the start of Social Security benefits is the right decision for you depends on your personal circumstances.

One factor to consider is whether you want to continue working after you start receiving Social Security retirement benefits, because your earnings may affect the amount of your benefit payment.

If you've reached full retirement age (66 to 67, depending on when you were born), you don't need to worry about this — you can earn as much as you want without affecting your Social Security benefit. But if you haven't yet reached full retirement age, \$1 in benefits will be withheld for every \$2 you earn over the annual earnings limit (\$16,920 in 2017). A higher earnings limit applies in the year you reach full retirement age. If you earn more than this higher limit (\$44,880 in 2017), \$1 in benefits will be withheld for every \$3 you earn over that amount, until the month you reach full retirement age — then you'll get your full benefit

no matter how much you earn. Yet another special rule applies in your first year of Social Security retirement — you'll get your full benefit for any month you earn less than one-twelfth of the annual earnings limit (\$1,410 in 2017) and you don't perform substantial services in self-employment.

Not all income reduces your Social Security benefit. In general, Social Security only takes into account wages you've earned as an employee, net earnings from self-employment, and other types of work-related income such as bonuses, commissions, and fees. Pensions, annuities, IRA payments, and investment income won't reduce your benefit.

Even if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit starting at your full retirement age, because the Social Security Administration (SSA) will recalculate your benefit and give you credit for amounts that were withheld. If you continue to work, any new earnings may also increase your monthly benefit. The SSA reviews your earnings record every year to see if you had additional earnings that would increase your benefit.

One last important point to consider. In general, your Social Security benefit won't be subject to federal income tax if that's the only income you receive during the year. But if you work during retirement (or you receive any other taxable income or tax-exempt interest), a portion of your benefit may become taxable. IRS Publication 915 has a worksheet that can help you determine whether any part of your Social Security benefit is subject to income tax.

How will working affect my pension?

Some employers have adopted "phased retirement" programs that allow you to ease into retirement by working fewer hours, while also allowing you to receive all or part of your pension benefit. However, other employers require that you fully retire before you can receive your pension. And some plans even require that your pension benefit be suspended if you retire and then return to work for the same employer, even part-time. Check with your plan administrator.

August 2017

Setting Up a SIMPLE IRA Plan: It's Simple!

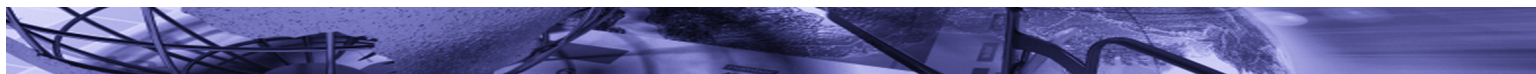
Converting Retirement Savings to Retirement Income

What is a rollover IRA, and do I need one?

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Setting Up a SIMPLE IRA Plan: It's Simple!



You can also set up a 401(k) plan as a SIMPLE plan. However, there's little advantage in doing so, because you'll have the same lower contribution limits as a SIMPLE IRA plan while giving up the ease of administration that makes SIMPLE plans attractive in the first place.

** The 3% of pay match may be reduced to as little as 1% in any two of five years.*

Looking for a retirement plan for your employees that's easy and inexpensive to administer? Well, there may be a simple answer: the Savings Incentive Match Plan for Employees of Small Employers, better known as the SIMPLE IRA plan. A SIMPLE IRA plan lets your employees defer up to \$12,500 in 2017 (\$15,500 if age 50 or older). You promise to match employee contributions dollar for dollar up to 3% of pay,* or to make a "nonelective" contribution for all eligible employees, whether or not they contribute, equal to 2% of pay. (No more than \$270,000 of pay can be taken into account in 2017.)

Your employees are eligible if they've earned at least \$5,000 during any two preceding years (whether consecutive or not) and are expected to earn at least \$5,000 in the current year. Eligibility does not depend on the employee's age or how many hours the employee works for you.

You can adopt a SIMPLE IRA plan for 2017 only if you had 100 or fewer employees in 2016 (excluding employees who earned less than \$5,000) and you don't contribute to any other retirement plan. If your business qualifies, follow these three simple steps to set up your SIMPLE IRA plan. (You have until October 1 to set up a new SIMPLE IRA plan for 2017.)

Step 1: Adopt a written plan document

You can set up a SIMPLE IRA plan by completing either a pre-approved document provided by a financial institution (for example, a mutual fund company, insurance company, or bank) or an IRS model document (either Form 5305-SIMPLE or Form 5304-SIMPLE).

Form 5305-SIMPLE lets you specify the "designated financial institution" that will both act as your plan's trustee/custodian and initially receive all plan contributions. Form 5304-SIMPLE, on the other hand, lets each eligible employee select the financial institution that will serve as trustee/custodian and receive all plan contributions.

Step 2: Provide information

You must provide your eligible employees with the following information before the beginning of each election period:

- An explanation of the employees' ability to make or change salary reduction elections
- Whether you'll make matching contributions or nonelective contributions for the coming year
- A summary description of the plan
- A notice that employees can transfer their account balances to an IRA provider of their

choice without cost or penalty, if you use a designated financial institution

The election period is generally the 60-day period prior to the start of each calendar year (November 2 to December 31). However, the election period will be different if you set up a SIMPLE plan mid-year, or if an employee first becomes eligible after the 60-day period ends. Forms 5304 and 5305 contain most of the forms you'll need to comply with these notice requirements.

Step 3: Set up employee accounts

A SIMPLE IRA account must be set up by or for each eligible employee, and all contributions to the plan must go into these accounts. Employees must make important decisions about investing their SIMPLE IRA retirement dollars based on the investment options available at the financial institution that holds their funds.

Key differences between a SIMPLE IRA plan and a traditional 401(k) plan

	SIMPLE IRA	401(k) Plan
Employee deferral limits	\$12,500, \$15,500 if 50 or older	\$18,000, \$24,000 if 50 or older
Roth contributions?	No	Yes
Complex ERISA/tax compliance?	No	Generally yes
Employer contributions required?	Yes	Generally no
Additional employer contributions allowed?	No	Yes, total contribution (including deferrals) up to \$54,000 or more possible
Loans?	No	Yes
Creditor protection?	Yes in bankruptcy; unclear outside bankruptcy	Generally yes, inside and outside bankruptcy
Withdrawals	Unrestricted	Generally restricted
Early withdrawal penalty	25% first two years of participation, then 10%	10%



Converting Retirement Savings to Retirement Income



Regardless of which path you choose with your retirement accounts, keep in mind that generally, you'll be required to begin taking minimum distributions from employer-sponsored plans and traditional IRAs in the year you reach age 70½; you can delay your first distribution as late as April 1 of the following year.

Taxable distributions from traditional employer-sponsored plans and IRAs prior to age 59½ may be subject to a 10% penalty tax, unless an exception applies.

Different rules apply to Roth accounts. For information on how Roth accounts may fit into your retirement income picture, talk to a financial professional.

You've been saving diligently for years, and now it's time to think about how to convert the money in your traditional 401(k)s (or similar workplace savings plans) into retirement income. But hold on, not so fast. You may need to take a few steps first.

Evaluate your needs

If you haven't done so, estimate how much income you'll need to meet your desired lifestyle in retirement. Conventional wisdom says to plan on needing 70% to 100% of your annual pre-retirement income to meet your needs in retirement; however, your specific amount will depend on your unique circumstances. First identify your non-negotiable fixed needs — such as housing, food, and medical care — to get clarity on how much it will cost to make basic ends meet. Then identify your variable wants — including travel, leisure, and entertainment. Segregating your expenses into needs and wants will help you develop an income strategy to fund both.

Assess all sources of predictable income

Next, determine how much you might expect from sources of predictable income, such as Social Security and traditional pension plans.

Social Security: At your full retirement age (which varies from 66 to 67, depending on your year of birth), you'll be entitled to receive your full benefit. Although you can begin receiving reduced benefits as early as age 62, the longer you wait to begin (up to age 70), the more you'll receive each month. You can estimate your retirement benefit by using the calculators on the SSA website, ssa.gov. You can also sign up for a my Social Security account to view your Social Security Statement online.

Traditional pensions: If you stand to receive a traditional pension from your current or a previous employer, be sure to familiarize yourself with its features. For example, will your benefit remain steady throughout retirement or increase with inflation? Your pension will most likely be offered as either a single life or joint-and-survivor annuity. A single-life annuity provides benefits until the worker's death, while a joint-and-survivor annuity generally provides reduced benefits until the survivor's death.¹

If it looks as though your Social Security and pension income will be enough to cover your fixed needs, you may be well positioned to use your other assets to fund those extra wants. On the other hand, if your predictable sources are not sufficient to cover your fixed needs, you'll need to think carefully about how to tap your

retirement savings plan assets, as they will be a necessary component of your income.

Understand your savings plan options

A key in determining how to tap your retirement plan assets is to understand the options available to you. According to the Government Accountability Office (GAO), only about one-third of 401(k) plans offer withdrawal options, such as installment payments, systematic withdrawals, and managed payout funds.² And only about a quarter offer annuities, which are insurance contracts that provide guaranteed income for a stated amount of time (typically over a set number of years or for the life expectancy of the participant or the participant and spouse).³

Plans may allow you to leave the money alone or require you to take a lump-sum distribution. You may also choose to roll over the assets to an IRA, which might offer a variety of income and investment opportunities, including the purchase of annuity contracts. If you choose to work part-time in retirement, you may be allowed to roll your assets into the new employer's plan.

Determining the right way to tap your assets can be challenging and should take into account a number of factors. These include your tax situation, whether you have other assets you'll use for income, and your desire to leave assets to heirs. A financial professional can help you understand your options.

¹Current law requires married couples to choose a joint-and-survivor annuity unless the spouse waives those rights.

²"401(k) Plans: DOL Could Take Steps to Improve Retirement Income Options for Plan Participants," GAO Report to Congressional Requesters, August 2016

³Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company. It is important to understand that purchasing an annuity in an IRA or an employer-sponsored retirement plan provides no additional tax benefits other than those available through the tax-deferred retirement plan.

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What is a rollover IRA, and do I need one?

Generally, the term "rollover IRA" refers to an IRA that you establish to receive funds from an employer retirement plan like a 401(k). A rollover IRA is also sometimes referred to as a "conduit IRA."

When you roll funds over from an employer plan to an IRA, your financial institution may suggest that you use a rollover IRA to receive the funds. Of course, you can transfer those dollars to any other IRA you own at some future date, because there's no legal requirement that you keep your plan distribution in a separate IRA. But even though separate IRAs are not legally required, there are at least two reasons to consider keeping your employer plan rollover separate from your contributory IRAs.

The first reason to maintain a separate rollover IRA deals with federal bankruptcy law. Your IRAs are protected from your creditors under federal law if you declare bankruptcy, but this protection is currently limited to \$1.28 million for all your IRAs.¹ The \$1.28 million limit doesn't apply, though, to amounts you roll over to an IRA from an employer plan, or any earnings on that rollover. These dollars are protected in full if you declare bankruptcy, just as they would

have been in your employer's plan. Obviously, it's easier to track the amount rolled over, and any future earnings, if you keep those dollars separate from your contributory IRAs. So a rollover IRA may make sense if creditor protection is important to you.

The second reason to maintain a rollover IRA is that you might decide in the future that you want to roll your distribution back into a new employer's plan. In the distant past, employer plans could accept rollovers only from rollover (conduit) IRAs — rollovers from contributory IRAs weren't permitted. Now, however, employer plans can accept rollovers from both contributory IRAs and rollover IRAs.² Despite this, employer plans aren't *required* to accept rollovers, and they can limit the types of contributions they'll accept. And while it's becoming less common, some still accept rollovers only from rollover IRAs. So keep this in mind if you are contemplating a rollover back to an employer plan in the future.

¹ SEP and SIMPLE IRAs have unlimited protection under federal bankruptcy law.

² Nontaxable traditional IRA dollars can't be rolled back into an employer plan.



Can I roll my traditional 401(k) account balance over to a Roth IRA?

Yes, you can make a direct or 60-day rollover from a 401(k) plan [or other qualified plan, 403(b) plan, or governmental 457(b) plan] to a Roth IRA, as long as you meet certain requirements.*

First, you must be entitled to a distribution from your plan. While you can always access your account when you terminate employment, in some cases you may be able to withdraw your own or your employer's contributions while you're still working (for example, at age 59½).

[Note: Your plan may also permit the "in plan" conversion of all or part of your account balance to a Roth account, regardless of whether you're eligible for a distribution from the plan. Check with your plan administrator.]

Second, your distribution must be an "eligible rollover distribution." Distributions that cannot be rolled over include hardship withdrawals, certain periodic payments, and required minimum distributions (RMDs).

Third, you must include the taxable portion of the distribution in your gross income in the year you make the rollover ("conversion"). But that's

the price you have to pay to potentially receive tax-free qualified distributions from your Roth IRA in the future.

Fourth, if your distribution includes both after-tax and pre-tax dollars, you can generally direct that only the after-tax dollars be rolled over to the Roth IRA (resulting in a tax-free conversion), while making a tax-deferred rollover of the pre-tax dollars to a traditional IRA.

When evaluating whether to initiate a rollover from an employer plan to an IRA, be sure to: (1) ask about possible surrender charges that your employer plan or IRA may impose, (2) compare investment fees and expenses charged by your IRA with those charged by your employer plan (if any), and (3) understand any accumulated rights or guarantees that you may be giving up by transferring funds out of your employer plan. Also consider all of your distribution options, including leaving the money in your employer's plan, transferring the funds to a new employer's plan, or taking a cash withdrawal.

* If you make a 60-day rollover, your plan will withhold 20% of the taxable portion of your distribution for federal income tax purposes.