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A WEALTH MANAGEMENT COMPANY

The Prosperity Press

A quarterly publication providing you with invaluable information in financial planning, wealth management, taxes and so much more!

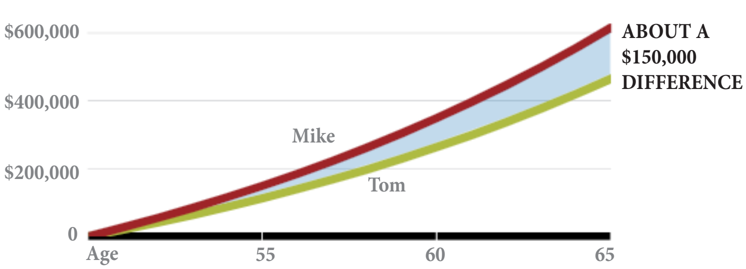
What are Catch-up Contributions and Should You Use Them?

Got off to a slow start saving for retirement? Here's how you catch up!

For those that got off to a slow start in saving for retirement, fortunately, most retirement plans allow you to catch up later. If you will be age 50 or older this year, you can save more in your 401(k) plan—up to $6,000 more in catch-up contributions. That's on top of the $19,000 limit for savers who are under age 50, for a total of $25,000.

Catch-up contributions can help you have more retirement income

Do catch-up contributions make much of a difference? They can. Consider Tom and Mike, both age 50. Tom saves $19,000 a year in the plan. Mike decides to save $6,000 more in catch-up contributions, for a total of $25,000.



By age 65, Mike will have about $150,000 more than Tom, assuming that each earns a 6% average annual return*. That means Mike should have about $6,000 more each year in retirement income, assuming he withdraws 4% of his savings annually.

Catch-up contributions can help you save more for your retirement

When you contribute to your 401(k) plan, you have more in retirement savings and gain a tax advantage. Those benefits get larger with catch-up contributions. However, to obtain the tax benefits of catch-up contributions, you'll need to increase your retirement plan savings rate. For example, Peggy will turn age 50 next year and decides to make catch-up contributions. To calculate her savings rate, she divides $25,000 by her salary of $150,000—the full savings amount allowed for people who are age 50 or older and are eligible to make catch-up contributions. Peggy sees she needs to save 16.67% of her pay starting in January. Currently Peggy contributes 12% of her pay to the plan so she will need to increase her savings rate by 4% at year-end.

*This hypothetical example doesn't represent the return on any particular investment. Your final account balance does not reflect any taxes or penalties you'll pay when you withdraw money in retirement. The rate is not guaranteed.

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Financial Steps to Take When a Loved One Passes Away

These steps can help dealing with finances during a difficult time.

Dealing with finances after a loved one passes only adds an extra layer of stress during an already difficult time. It may seem overwhelming if you aren't aware of their wishes or financial situation. The steps below can help during the process.

Notify Their Financial Institutions

To safeguard the descendant's assets, it's important to notify all companies that they have an account with in order to freeze or close them as quickly as possible.

Notify Government Agencies

Be sure to contact Social Security to stop payments and see if you're eligible for any death benefits. If the descendant had a pension, you'll also want to contact that agency.

Review the Will and Trust

If you are executor of their estate, hopefully you were already aware of their desires, but be sure to review the documents to ensure you understand their wishes. As executor, be sure to keep track of any expenses related to their death, so that you are reimbursed when the estate is distributed.

Get Multiple Copies of Death Certificates

Be sure to get multiple copies of the descendant's death certificate. Financial institutions and insurance companies will require these for verification of disbursements and re-titling of accounts.

Ask for Assistance

If the descendant had a financial advisor, don't be afraid to go to them for help. They should know in-depth the descendant's financial situation and can help make the process a smooth one. The advisor can help distribute assets that had beneficiary designations and re-title accounts. If there were life insurance policies, they can also help with death benefit claims.

Gather Necessary Documents

If the deceased didn't have a financial advisor, then odds are their accounts are scattered. Go to their mail and files to locate such things as bank accounts, investment accounts, retirement accounts, insurance policies, outstanding loans, bills and tax returns. This may take some time to sort through and organize, but each financial institution should be able to help you with what is necessary. You can always ask the assistance of a financial advisor as they are likely familiar with the steps that must be taken, and the forms needed.

File the Descendant's Tax Return

If the descendant had a CPA, you should reach out to them to see what was done in previous years; they should be able to help guide you in what they need for the return. Depending on the size of the estate, an estate tax return may also need to be filed.

Seek Your Own Financial and Legal Guidance

This experience may be eye opening for your own situation. Meet with your financial advisor to ensure that the titling of assets and beneficiaries are in line with your wishes. Make sure that your Wills are updated and that family members know who your financial advisor and CPA are in case something should happen to you.

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