Savings Revisited

Hello, this is Kelley Manning, financial advisor at Beyond Wealth Advisors. Welcome to episode #9 of Women Going Beyond Wealth podcast. I am so glad you are here! If you have listened to previous episodes, you know that the purpose of this women-focused podcast is to help women live joyfully by understanding and acknowledging their own wealth while providing ideas to actively increase their monetary wealth.

I'd like to start off the new year talking about saving money, a perfect example of time well spent, our focus for the next few months. Any kind of savings requires effort and planning. Taking the time to create a savings plan is vital to your current and future financial situation, regardless of your age. As women, we wear a multitude of hats that include managing the family finances and budget. Typically, savings is the last budget item to be fulfilled. Yet, as Warren Buffet has been quoted to say, "Do not save what is left after spending, but spend what is left after saving." This is hard to do but the reward is worth it!

As you have heard me reference before, one of my favorite personal finance books is 'Smart Women Finish Rich' by David Bach. What I like most about it is it helps equate your values to your financial goals. So, when your goal has a purpose or a vision, it is easier to make decisions that help you reach your goal. Saving money is not an easy task – it takes intention and discipline. When you assign a purpose to your savings, it makes walking away from temptations, such as a cute sweater at your favorite boutique, a little easier!

Let's start with the importance of an emergency fund. This is a savings account in which the goal is to maintain a balance that is equal to at least three months of your income. This is to assist with 'emergencies', such as unexpected bills, home or car repairs or loss of a job. If you do not have funds to tackle unexpected events, how are you going to pay for them? Borrow from family or friends? Use a credit card with a high interest rate? Neither of those options are better than having a savings account to cover the costs. When you understand and commit to the need for an emergency account, it makes it easier to save for it. Once you reach your goal amount, you simply maintain the balance – using as needed and building back up. How should you invest this money? Conservatively – a savings or money market account is a good option, because you never know when you are going to need it.

Next in importance is saving for your retirement. The amount you need is entirely dependent upon the retirement lifestyle that you want to live – and that is where you give value or purpose to your retirement goal. What does your retirement look like? Do you plan to work

part time? Do you want to travel? Maybe spend time with your grandchildren? Maybe volunteer at a non-profit organization? Move to the beach? Take up a new hobby? It is easier to focus on your savings goal when you have a more detailed retirement picture. Funding retirement takes time and discipline, but a clear vision makes it easier.

There are several ways to participate in retirement savings plans. These are more complicated than a savings account and the following gives you a general idea of the different options.

1. The first is an employer sponsored plan – these are plans that are provided to you through your employer.
2. The second is a self-employed plan – options for those of you who are self-employed or have an extremely small business.
3. The last and open to move are Individual Plans – IRA (Individual Retirement Account) and Roth IRA.

We are going to start with employer sponsored plans - 401k or 403b. For most working Americans, these are the most commonly used retirement plans and often the largest source of retirement assets.

401k and 403b accounts are employer sponsored plans that allow you to make pre-tax contributions. The difference between the 401k and 403b retirement plans is the 401(k) plans are offered by for-profit companies to eligible employees who contribute pre- or post-tax money through payroll deduction. Post-tax contributions occur in a Roth 401k. The 403(b) plans are offered to employees of non-profit organizations and government entities. Regardless of the plan, the employer will typically match your percentage contribution up to a certain limit.

For example, let's say your employer will match 5% in your 401k. This means if you contribute 5% of your salary to your 401k per year, your employer will also contribute 5% of your salary, so your 401k is actually receiving 10% of your salary every year. If you have a 401k with a match, you need to make sure you are at least contributing up to the match. Otherwise, you are walking away from free money.

For a self-employed individual, there are retirement plan options as well including a SEP IRA (Simplified Employer Pension) or individual 401k. Both of these options allow for significant retirement savings.

All of these employer-sponsored plans grow tax deferred – meaning you do not pay taxes on the contributions and you do not pay taxes on the account as it grows – you are 'deferring' taxes until you make a withdrawal from the account after age 59 ½. You are taxed on the amount of the withdrawal and it is considered as ordinary income. If you have a Roth 401k, your contributions are with after tax money but your employer's contribution is with pre-tax

money, therefore your contributions grow tax-free while the contributions from your employer grow tax-deferred.

As working women, keep in mind our working years can be limited. Perhaps you decide to not work outside the home but choose to stay home for a while to care for your children. Or perhaps later in life you need to care for your parents. As a result, our ability to contribute to retirement accounts is more limited. Because of this, consider making higher contributions to your employer-sponsored plan during your working years.

The last options to save for retirement, are a Traditional IRA (which stands for Individual Retirement Account) or a Roth IRA.

These are similar savings vehicles but have significant differences. Let us look at the similarities first. The first similarity is the annual contribution amounts for a Traditional IRA and a Roth IRA are the same - $6,000 a year. If you are over 50 years old, you can contribute an additional $1,000 per year (it is called a catch-up contribution).

The second similarity is that you can invest these retirement funds as you see fit – as aggressive or as conservative in which you are comfortable and suited. The longer you have until retirement, the more aggressive your account can be because you have more time in the market. As you get closer to retirement, your investment should become more conservative.

The third similarity is that your contributions to either an IRA or Roth are dependent upon your household income. For an IRA, the ability to deduct your contributions is dependent upon your household income and whether you are participating in an employer-sponsored retirement plan. You may make contributions, but you may not be able to deduct the entire amount; yet that does not change the tax deferred status of the IRA.

There are more stringent income limitations for a Roth. If you earn more than the limit, you are ineligible to make a contribution. For your specific situation, I suggest you talk to your financial advisor. If you do not have a financial advisor, I am happy to help you.

The final similarity is that you have to have earned income to fund an IRA or Roth. If you are married and are not currently working, you can use the income of your spouse.

This is where the similarities end.

The biggest difference between an IRA and a Roth is the tax treatment for each. An IRA grows tax-deferred, just like the retirement plans we discussed a moment ago. You make annual contributions to your IRA, and you get a tax deduction (as long as you fall under the income limitation). Since this money has never been taxed; it grows 'tax deferred.' You pay taxes on the amount that you withdraw after you reach age 59½ and it is considered ordinary income.

If you take a distribution from an employer-sponsored plan or an IRA before you turn 59½ years old, you could be assessed a 10% penalty in addition to the taxes. There are a few instances

where the penalty is not applied. Again, chat with your accountant or financial advisor for your specific situation.

Additionally, you must take annual distributions from your IRA when you turn 72 years old. This annual required minimum distribution, or RMD for short, is determined by an IRS-created calculation that factors a percentage of your account value and your life expectancy.

On the other hand, a Roth IRA is a retirement account that is funded with after-tax money. You receive no tax deduction for your contributions to a Roth. The funds in the Roth account grow tax-free. When you withdraw your funds from a Roth during retirement, you do not pay any taxes. If you fall under the income limitations for a Roth, this is a great retirement savings option!

Another benefit of the Roth is that you do not have to take the required distribution when you turn 72. So, if you don't need the money, you can leave the funds untouched and let the account grow tax-free (for decades) for your heirs.

Your retirement and emergency accounts are by far the most important savings accounts. If you are behind or think you are behind, be sure to talk to your financial advisor or give me a call to discuss your specific situation.

After you are making adequate contributions to your retirement accounts and your emergency fund is fully funded, the next account to consider is a 529 college savings account for your child/children or grandchildren. This is an account in which you get a state tax deduction for your contributions and the funds grow tax-free if the funds are used for college. Investors should carefully consider the investment objectives, risks, charges, and expenses associated with 529 college savings plans. More information about 529 college savings plans is available in the issuer's official statement, and should be read carefully before investing.

Whew! This is a lot and may seem overwhelming. Where do you start? Establish and maintain your emergency fund. Second, participate in your employer-sponsored plan – at least up to your employer's match.

You can never save too much! Once you determine your 'why' for saving – for your emergency fund or for your retirement account or for your kid's college expenses – it becomes a little easier to sacrifice and make savings a priority in your budget.

Thanks for spending your time with me today. It is my hope that it was time well spent! Please join us on our next podcast as we discuss *meal planning – why it is good for your budget and for your busy lifestyle*. If you have any questions or comments about today's topic, please reach out to me at 816.246.8450. You can also follow me on Facebook and LinkedIn.

Have a blessed day!

Narrator: Thank you for joining us. Have ideas to pass along for a future podcast or feedback to share? Write us at Kelley.manning@beyondwealthadvisors.com. Securities offered through Raymond James Financial Services, Inc. member FINRA/SIPC Investment Advisory Services are offered through Raymond James Financial Services Advisors, Inc. Beyond Wealth Advisors, Inc. is located at 600 SW Jefferson, Suite 208 in Lee's Summit Mo., phone number (816) 246- 8450. Beyond Wealth Advisors, Inc. is not a registered broker/dealer and is independent of Raymond James Financial Services. Any opinions are those of Beyond Wealth Advisors, Inc. and not necessarily those of RJFS or Raymond James. There is no assurance any of the trends mentioned will continue or forecasts will occur. Any information is not a complete summary or statement of all available data necessary for making an investment decision and does not constitute a recommendation. Investing involves risk and you may incur a profit or loss regardless of strategy selected.

Sources:
https://www.investopedia.com/roth-ira-required-minimum-distribution-rmd-4770561