RETIREMENT PLAN
Update

Wealth Management

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Your Challenge, Our Solutions™

The saver's tax credit—can you benefit?

If you qualify, the Saver's Credit can help reduce your income tax liability for the year.

It's not always easy to keep contributing to your employer-provided retirement plan. Bills and unexpected expenses can eat up most of your salary, leaving little for retirement savings. You might be tempted to forget about it until you start earning more money.

But before you stop or cut back (or never start) contributing to your plan, understand that you could be entitled to a federal tax credit called the Retirement Savings Contributions Credit, or Saver's Credit, if you meet certain income requirements. In effect, the credit repays a percentage of the contributions you make to your 401(k) or other retirement savings plan by reducing your income tax liability for the year. It may be just the thing that enables you to keep participating in your retirement plan or increase your contributions.

What it is

The credit is a percentage—50%, 20%, or 10%—of up to $2,000 in qualified retirement savings contributions for a maximum credit of $1,000 (or twice that amount for a married couple filing jointly who each contribute $2,000). The percentage depends on adjusted gross income (AGI) and filing status. The credit is available for contributions to a 401(k), 403(b), governmental 457(b), SIMPLE IRA, or salary reduction SEP, as well as for traditional and Roth IRA contributions. To claim the credit, you must be at least age 18, not claimed as a dependent on another person's return, and not a full-time student. You will not be able to claim the credit if your AGI exceeds the top of the range for the 10% credit.

2023 tax credit				
	50% of contribution	20% of contribution	10% of contribution	0% of contribution
Tax filing status	Adjusted gross income			
Married filing jointly	$43,500 or less	$43,501–$47,500	$47,501–$73,000	> $73,000
Head of household	$32,625 or less	$32,626–$35,625	$35,626–$54,750	> $54,750
All other filers*	$21,750 or less	$21,751–$23,750	$23,751–$36,500	> $36,500

*Single, married filing separately, or qualifying widow(er)
Source: IRS.gov, "Retirement Savings Contributions Credit (Saver's Credit)"

Is the 4% spending rule still valid?

As you become closer to retirement, you'll want to think about a withdrawal strategy. While a 4% annual withdrawal rate is often used, you may want to consult a financial professional to see if this strategy would work for you.

You may spend the majority of your working years setting money aside in your retirement plan and managing that money through every type of market boom and bust. When you draw close to the finish line, you'll still have a few important decisions to make. Chief among them will be how much to take from your retirement account each year.

You'll want to confirm that you don't withdraw too much from your account in the early years of your retirement and potentially threaten your financial security for your remaining retirement years. Finding an appropriate withdrawal strategy can be difficult, but it is critically important.

Systematic withdrawals

One often-used strategy is to start with a 4% annual withdrawal rate and then adjust the dollar amount annually to keep pace with inflation. The goal of a systematic withdrawal plan is to help prevent depletion of your retirement savings in the early years of retirement. If your portfolio earns at least as much as you withdraw, your principal would remain unchanged or grow over time. Of course, there are likely to be years when the stock and bond markets are down and your portfolio earns less than you withdraw, depleting your principal. Although systematic withdrawals are relatively easy to implement, it's critical to choose your withdrawal rate and investment mix carefully since both factors will impact how long your money will last.

Moving the goalpost

You should be aware that the traditional 4% withdrawal figure has undergone some reevaluation.* Recent research from Morningstar suggests that people retiring now who want to confirm that their savings will last should spend no more than 3.3% of their savings in the first year of a three-decade retirement and adjust for inflation after that.

According to the researchers, the 4% strategy would have enabled investors holding a portfolio composed of 50% stocks and 50% bonds to make their money last over the vast majority of 30-year retirement periods between 1926–2020. They say that this may no longer be a workable strategy as future returns from stocks and bonds are expected to be lower. The researchers simulated future returns over a 30-year period and found that in 25% of the simulations, a half-stock, half-bond portfolio would run out of money if withdrawals stayed at 4%.

There are alternatives to systematic withdrawals. For example, some retirement experts recommend varying your portfolio withdrawals in response to market moves—taking more out of your retirement savings when the markets are up

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and less when they are down. This approach is more complex, but might be one you can discuss with your financial professional.

The big picture

Before you decide on an appropriate withdrawal strategy, you may want to take a step back, look at the larger picture and ask yourself these questions:

What do I really want out of retirement?

Take an honest and realistic look at what you want to do during your retirement. If you are leaning toward an active retirement that includes travel, it's likely that you will need more money than someone who does not wish to travel. Where you plan to live in retirement is another important consideration. Whether you intend to remain in your current home, downsize in your current community or move elsewhere will have an impact on how much money you will need in retirement.

What other retirement expenses might I face?

You will still have a range of basic living and discretionary expenses in retirement. Basic living expenses include housing expenses, such as energy, utilities, maintenance, property taxes, condo fees and mortgage and rent payments. They also include transportation expenses, such as car payments, gasoline and repairs. Groceries, insurance premiums and income taxes are also expenses you will have to consider. In addition to travel, discretionary expenses include recreational activities, gifts and entertainment.

When can I afford to retire?

You can do a rough estimate of whether you will have enough income to cover your projected expenses in retirement. If your numbers fall short, you may have to consider working longer than you'd expected or reducing your planned spending when in retirement.

How you approach a retirement income strategy will depend on your personal situation. You may benefit from consulting with a trusted financial professional to help you determine and implement a strategy that suits your needs.

* "The 4% Retirement Rule Is in Doubt. Will Your Nest Egg Last?," The Wall Street Journal, 11/22/2021.

*Source: Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, September 2022.

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