FPC: All The Numbers You Need To Know For 2020

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THE RIGHT LANE RETIREMENT CLASS

- ***The Westin Austin at the Domain- 11301 Domain Drive, Austin, TX 78758***
- ***February 8th from 9-11am.***

Hopefully you?ve had some time to reflect and grade yourself on your financial progress for 2019 and you?re ready to take 2020 by the horns. The new year brings new numbers to be aware of to ensure you?re taking advantage of all you can. There are many contribution limits, income limits and a vast array of numbers used in financial planning, but here are a few more common ones to make sure you?re staying on track.

Retirement Plans:

For employees: 401(k), 403(b), most 457 plans and the federal governments Thrift Savings Plan employee contributions have increased from $19,000 to $19,500. The maximum amount employees + employers can contribute has also gone up to $57,000. For those of you over 50 the catch up provision has increased from $6,000 to $6,500. Please, please don?t overlook the Roth option if you have it within your plan. ***For Small Business Owners:*** SIMPLE IRA plan contribution limits have been increased from $13,000 to $13,500. There is also a catch up provision of $3,000 for individuals over 50. SEP IRA contribution limits have also increased from $56,000 to $57,000 or 25% of income whichever is lower.

IRA?s

While the maximum contribution limits for IRA?s of $6,000 and a catch up provision of $1,000 for those over 50 remained unchanged. The income limits for deductibility in the case of the Traditional IRA and the ability to contribute to a Roth IRA did change a bit. ***Traditional IRA*** You can always make a contribution to a Traditional IRA with no income limitations, but your contribution may not be deductible for income tax purposes. For those of you who would like to make a tax deductible contribution which I assume is most of you, the numbers have changed slightly. There is such a thing as a ?phase out limit?. This applies if you make over a certain amount of income you can still contribute and deduct, but the amount will be reduced that you can deduct. Then there are those who can?t make tax deductible contributions at all. If you and your spouse are not covered by an employer sponsored plan then regardless of income you can make a deductible contribution. If you are covered by an employer sponsored plan here is what you need to know about those phase out limits. If you?re single or Head of Household the income limit starts at $65,000 and ends at $75,000. Meaning that if you make between $65,000 and $75,000 your deductible contribution will be reduced, but if you make over $75,000 you can?t deduct your contribution for income tax purposes. If you file Married Filing Jointly that number is $104,000 to $124,000. Now if only one of you is covered by an employer sponsored plan the income limit for tax deductible contributions goes up to $196,000-206,000. ***Roth IRA*** Roth IRA?s are a little trickier than their older brethren the Traditional IRA. You can either contribute or you can?t. In the case of the Roth the benefit isn?t a tax deduction, but paying taxes now, funding the Roth with after tax funds and enjoying tax free growth and distributions should you meet a couple of small stipulations.? Roth contributions can be withdrawn at any time without a 10% penalty, but the earnings could be subject to taxes and the 10% early withdrawal penalty if you don?t meet the following:

- *Withdrawals must be taken after 59 ?*
- *Withdrawals must be taken after a five year holding period*

There are also a few qualifying events that may preclude you from having to pay taxes and/or 10% penalty, but we?ll save those for another post. Here are the numbers you need to know to determine if you can or can?t contribute to a Roth IRA. If you?re single or Head of Household and make under $124,000 you can make a full Roth contribution of $6,000 if you?re over 50 you can also make the additional $1,000 catch up contribution. If you make over $124,000, but less than $139,000 then you will be able to make a partial contribution. Over $139,000 you?re out of luck on a Roth IRA. Married Filing Jointly income numbers for eligibility to contribute to a Roth increase a bit as well increasing from $193,000-$203,000 to $196,000- $206,000.

Saving for Health Care

There are two main types of accounts designed to help pay for medical expenses. If you can utilize them both that?s great, most don?t have that choice, but if you have to choose I really like the Health Savings Account. ***Health Savings Accounts (HSA)*** If you have access to a Health Savings Account max it out and if you can pay medical expenses out of pocket don?t use these funds. This is the only account in the world which will give you a triple tax benefit-funds go in pre-tax, grow tax free and come out tax free if used for qualified medical expenses. Fidelity did a study last year that estimated the average 65 year old couple will spend $280,000 in health care expenses. You must be in a high deductible health insurance plan to utilize a HSA, but we are seeing more and more employers offering these types of plans. This year if you are single you can contribute $3,550 and families can contribute $7,100 to an HSA. There is also an additional catch up provision of $1,000 for those 55 and older. ***Flexible Spending Accounts (FSA)*** FSA?s which are typically use it or lose it now have an annual contribution limit of $2,750 up from $2,700 in 2019.

Social Security and Medicare

We spend a lot of time discussing Social Security and Medicare and for good reason. According to our workshop attendance in 2019 there is a thirst for knowledge in these areas. I understand, they both can be confusing and this is an area that contains ?stealth taxes.? ***Social Security*** Social Security had a couple of increases in 2020, for instance the estimated maximum monthly benefit if turning full retirement age (66) in 2020 is now $3,011. OASDI which is an acronym for Old-Age, Survivors, Disability Insurance (Social Security Trust) taxes income up to $137,700 this is an increase from $132,900 in 2019. The current tax is 6.20% on earnings up to the applicable taxable maximum amount of $137,000. The Medicare portion is 1.45% on all earnings. The retirement earnings test exempt amounts have also increased. In layman?s terms, if you take social security prior to full retirement age you will have $1 in benefits withheld for every $2 over $18,240/yr. The year an individual reaches full retirement age that number increases to $48,600/yr, but only applies to earning for months prior to attaining full retirement age. In this instance $1 in benefits will be withheld for every $3 in earning above the limit. ***Medicare*** Medicare Part B premiums have also increased from $135.50 to $144.60. The first threshold for premium increases or surcharges has also increased for single filers to $87,000 to $109,000 and $174,000 up to $218,000 for joint filers. If you?re above those first numbers your monthly premium goes up to $202. 40 and it only goes up incrementally from there. These are some of the more common numbers we watch for to either try to keep more money in your pocket or make sure you?re maximizing all funding sources. Now is a great time to check to ensure you?ve updated any systematic contributions to reflect the new numbers. After all, I know you?re paying yourselves first.