UBS

Are you saving enough?

Retirement plans

UBS Financial Services Inc.

Why is saving for retirement important?

- For the majority of the population, Social Security alone will not be enough to fund retirement, as it typically only replaces 27% – 40% of an individual's earned income.[1]
- It is now your responsibility to save for your retirement. Many defined benefit pensions are disappearing. In fact, the number of defined benefit pension plans in the US has decreased from 103,346 in 1975 to 46,577 in 2020.[2]
- People are living longer and healthcare costs are increasing twice as fast as other costs in retirement.[3] Once you have retired, you will likely be responsible for paying these healthcare costs.

What do I need to know?

You can choose from different retirement solutions available to you. Make sure you are optimizing them.

401(k)—for the working individual

- A 401(k) is a retirement savings plan that is sponsored by your employer.
- Although it is sponsored by your employer, you control how your money is invested. Typically, plans will offer a selection of mutual funds or target-date funds that become more conservative as you approach retirement.
- Today many 401(k) plans give employees three different options to defer their income. Besides the traditional pre-tax opportunity, many plans offer a Roth and an after-tax option.
  - A traditional 401(k) allows you to make pre-tax contributions to your account via payroll deferrals.
  - A Roth 401(k) allows for after-tax contributions through payroll deferrals.
  - Many employers provide a match on your contributions, so consider contributing at least the amount that your employer will match.
  - You can defer up to $22,500 of your salary into your plan. A $7,500 additional "catch-up" contribution is available for those age 50 or older.
  - It may be beneficial to contribute additional after-tax dollars above and beyond the $22,500 deferral limit.

Individual Retirement Account (IRA)—for any individual with earned income

- IRAs are the simplest retirement accounts because you are not dependent on your employer to establish the account.
- Similar to 401(k)s, IRAs can be pre-tax, Roth, or non-deductible.
- You can take advantage of a traditional IRA as long as you have earned income.
  - Your savings in a traditional IRA benefit from tax-deferred growth until withdrawn.
- Contributions to a Roth IRA are not subject to age restrictions as long as you have earned income.
  - Contributions are made with after-tax dollars and can always be withdrawn tax free.
- In some cases, it may make sense to convert existing IRA assets into a Roth IRA by doing a Roth conversion. In a Roth conversion, you pay the taxes today as opposed to when you withdraw the assets in the future.
- In 2023, the traditional IRA/Roth IRA contribution limit is $6,500. A $1,000 catch-up contribution is available for individuals age 50 or older.

Health Savings Account (HSA)—to pay for your health expenses

- Health Savings Accounts are quickly becoming one of the most popular ways to save for retirement and are offered through your employer.
- HSAs offer triple tax advantages with pre-tax contributions, tax deferred growth and tax free distributions for medical expenses.
- HSAs are meant to help people with high deductible health insurance plans cover their out-of-pocket costs.
- However, if you can hold off using your HSA assets and instead pay current medical expenses out of pocket, your HSA will enjoy the benefits of longer tax-deferred compounding.
- You can continue to use HSAs in retirement. They can be used for any medical expenses, medications and even Medicare.
- In 2023, the contribution limit is $3,850 for a single individual and $7,750 for a family. A $1,000 catch-up contribution is available for individuals 55 or older.

What should my next steps be?

- [ ] Define your anticipated retirement age.
- [ ] Determine your goals for retirement.
- [ ] Identify what your sources of income will be in retirement.
- [ ] Provide your financial advisor with your company's summary plan description and retirement plan statement and review to make sure you are optimizing your benefits.
- [ ] Have a conversation with your financial advisor to ensure all of the above information is included in your financial plan.

[1] Social Security Administration website *ssa.gov*.
[2] United States Department of Labor Private Pension Plan Bulletin Historical Tables and Graphs 1975 – 2020.
[3] Source: UBS Modern Retirement Monthly "Healthcare in Retirement" April 2020.

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