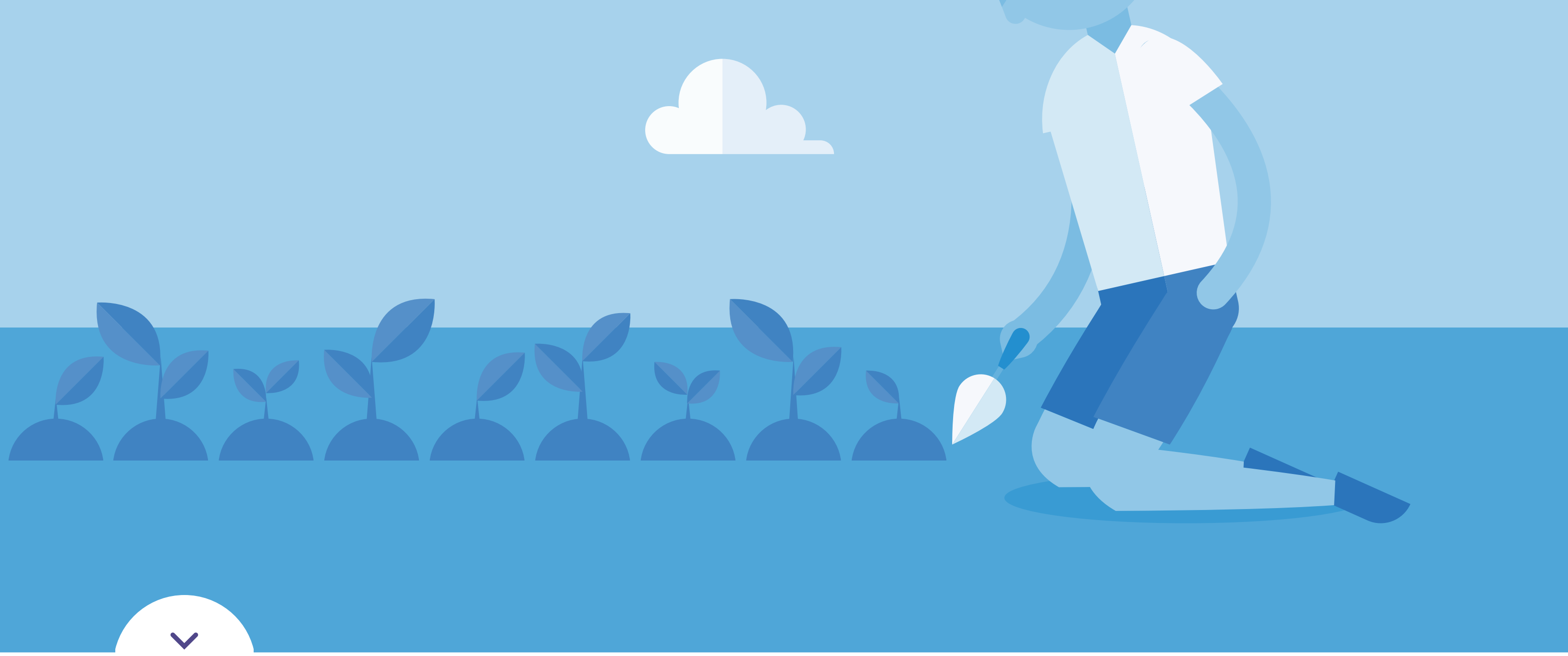
Retirement Matters

Maximize your savings, plan for health care costs and tackle debt

Third Quarter 2017



What does your to-do list look like? If "get finances in line for retirement" is on that list, we can help.

This issue of *Retirement Matters* outlines tips for:

Making the most of your savings

Preparing for health care costs

Dealing with debt

Make the most of your savings

Retirement might not be far away (woohoo!). If you're a little behind on saving, now's the time to give it an extra boost.

Max out your contributions

For 2017, the IRS lets you save up to $24,000 in a 401(k) or 403(b) plan (the $18,000 annual limit plus an extra $6,000 "catch-up" contribution allowed to people age 50 and older).

If you're not eligible for a 401(k) account and you've earned income during the year, you can contribute up to $6,500 each year in a traditional or Roth IRA. This includes the standard annual limit of $5,500 and the catch-up contribution amount of $1,000 (for those over age 50).

Do you and/or your spouse have both a workplace retirement plan and an IRA?

Check with your tax advisor to make sure you don't contribute more than the IRS allows.[1]

Save on taxes today while you save for tomorrow

One of the great things about most retirement-specific accounts is that they help you save for retirement and save on taxes.

Let's say Maria's income tax bracket is 25 percent (so she pays 25% of her income in taxes). She contributes $6,000 of her income this year to the retirement plan. This reduces her income tax this year by $1,500 ($6,000 x 25%).[2]

Why? Because there are no income taxes on contributions to retirement accounts like 401(k)s, 403(b)s or traditional IRAs (as long as the contributions are within IRS limits listed above). However, one thing to consider is that you will need to pay taxes on these funds when you take distributions in retirement.

Thinking about saving more?

Chat with your financial professional about whether now is a good time to increase your contributions. If you don't have a financial professional, we'll help you find one.

Give us a call at 800.547.7754.

[1] IRA contributions are subject to limits on tax deductibility, depending on your income and other factors; please work with your tax advisor if you have questions about your specific circumstances.

[2] Example provided for illustrative purposes and not an investment recommendation.

Prepare for health care costs

Making the most of your retirement years begins with staying healthy. And part of staying healthy is managing health care costs — which can really add up over time.

Don't panic. With some planning, covering health care costs is entirely doable. **Let's start with Medicare.**

The ABC(D)s of Medicare

Medicare is a medical insurance program offered by the federal government to people age 65 or older (or disabled). It's made up of four different parts, plus an extra coverage option:

a. **Medicare Part A** (hospital insurance) is provided by the U.S. government and helps cover the cost of inpatient hospital care.

b. **Medicare Part B** (medical insurance) covers doctor visits and outpatient hospital care. It's also provided by the government.

c. **Medicare Part C** (Medicare Advantage plans) is offered by a private insurance company that contracts with Medicare to provide you with all your Part A and Part B benefits. The amount and cost of coverage varies.

d. **Medicare Part D** (prescription drug coverage) Like Medicare Advantage, Medicare Part D is provided by private insurance companies approved by Medicare; the coverage and costs vary.

› **Medigap** helps cover copayments and deductibles for Parts A and B (it can't be used with Medicare Advantage). It's also provided by private insurance companies and varies from plan to plan.

The bottom line

In general, Medicare Parts A and B provide the lowest upfront costs, but may create coverage gaps. Medicare Parts A, B, D and Medigap together have the highest upfront costs, but provide the fullest coverage with fewer gaps.

What about non-covered costs?

Even the fullest Medicare coverage won't cover everything — like copays, coinsurance and deductibles. Here are a few ways to tackle those:

If you're still working and aren't yet age 65:

- Save as much as you can now for those future costs (read this article for some tips).
- See if your employer offers an early retiree insurance program.
- Consider extending your employer's health plan coverage using COBRA coverage. (It may cost extra, and there's usually a time limit.)
- Buy individual insurance. Explore and compare different options at healthcare.gov.

If you're already retired:

If your spouse is still working	See if you can join his or her health care plan.
If you're a veteran	See if you qualify for coverage through the Veterans Benefits Administration.
If you aren't 65 yet	Consider purchasing individual insurance. Explore and compare different options at healthcare.gov.
If you need dental insurance	Principal® offers a great option. Read more about it, or visit NewDentalChoice.com.

Here's some extra help.

- Watch our Medicare webinar.
- Visit medicare.gov.
- Ask your financial professional to help you create a budget that covers your health care and other retirement expenses.

Should you pay off debt now?

It's a smart question, but the answer isn't as clear-cut as you might think. After all, not all debt is bad. A mortgage, for example, helps build long-term equity and usually offers tax advantages. That said, there's a cost involved with all debt.

Should you pay it all off before you retire? Read on.

Should you pay off your mortgage?

Always dreamed of having a mortgage-burning party when you retire? Before you do that, consider:

Do you have a relatively low interest rate on your mortgage?	If so, you may be able to earn more from your investments than you'd save on mortgage interest.
Would you have to pull money from your retirement savings to pay off the loan?	If you do, you might end up paying additional taxes and fees for early withdrawal if you haven't reached normal retirement age (generally 66 or 67, depending on what year you were born).

Should you pay off credit card debt?

Credit card debt can get (very) pricey — especially if you only pay the minimum amount each month. For example, if you pay the minimum on a credit card balance of $2,500, it will take you 22 years to pay it off in full. And you'll end up paying almost $4,000 extra in interest charges.[1]

Have balances on more than one credit card? One strategy to consider is to start with the card with the highest interest rate. Pay as much as you can on that card while paying the minimums on the others.

Once you have the highest-rate card paid off, use what you were paying on that card to pay off the card with the next highest rate. Continue paying down debt in that order — and before you know it, you'll be free of credit card debt.

Looking for more guidance?

- View our debt reduction webinar.
- Talk with your financial professional about ways to pay off your debt and get rolling on your other financial goals. (If you don't have a financial professional, call us at 800.547.7754. We'll help you find one.)

[1] bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx. Calculated using a 16% credit card interest rate (current national average per creditcards.com/) and a 2% minimum payment.

principal.com

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