

## The Retirement Timeline

*(Updated from original 2018 post for new 2019 tax law information)*

*Retirement planning comes with some big financial decisions. Making a decision too soon or too late can be costly. Here's a timeline to simplify and remember key dates.*



**Age 50 - Over 50 Catch-up Contributions.** This is the year in which catch-up contributions to qualified plans (401(K), 403(b), 457(b) or SAR\_SEP) and IRAs can begin. The 2019 catch-up contribution to qualified plans is \$6,000. Your total salary-deferred contribution limit this year is \$25,000 (\$19,000 annual limit, plus the \$6,000 catch-up contribution.) 2019 IRA contributions limits are the lesser of 100% of earned income or \$6,000 or \$7,000 if you are 50 or older.\* You have until the due date of your tax return, no extensions, to make IRA contributions. So, be sure you are maximizing your contributions.

**Age 55 – 55 Separation Exception Rule** – A 10% penalty usually applies to withdrawals from qualified plans and IRAs before age 59 ½. However, if you are age 55 or older in the year you separate from your employer you can access your 401(k) or 403(b) balance without penalty. This exception applies only to employer plans. *This penalty exception does not apply to amounts rolled over to an IRA.* If you need a bridging strategy, a way to access your funds penalty-free before 59 ½, be careful with rollovers so you don't lose this valuable opportunity.

**Age 59 ½ - Penalty Free Withdrawals** – Age 59 ½ is generally when penalty-free withdrawals may begin on tax deferred accounts, including IRAs, 401(K), 403(b), 457(b) or SAR\_SEP. If you are still employed, in-service withdrawals are governed by plan rules. Income taxes still apply.

\*2018 IRA contribution limits are the lesser of 100% of earned income or \$5,500 or \$6,500 if you are 50 or older and can be made by the due date of the return.

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**Age 62 – Social Security** – Age 62 is generally the earliest date which you can begin receiving Social Security benefits at a reduced rate. If your full retirement age is 66, your benefit is 75% of your estimated full benefit. If your retirement age is 67, your benefit is 70% of your estimated full benefit.

**Age 65 – Medicare Enrollment** – If you are already receiving retirement benefits from Social Security or the Railroad Retirement Board you will be automatically enrolled in Medicare Part A and Part B. If you aren't receiving benefits when you turn 65, you will have to sign up for Medicare A and/or Part B during your Initial Enrollment Period (IEP) or face a *permanent penalty*. The seven month enrollment period begins three months before your 65th birthday and ends three months after. If you are still employed and covered by an employer plan you may choose to delay enrollment in Part B. You will have a special enrollment period when your coverage ends or you stop working. Once enrolled you can generally only make changes to your coverage during the Annual Election Period.

**Age 66/67 – Social Security Full Retirement Age (FRA)** - Depending on your date of birth, full retirement age for Social Security is between ages 66 and 67. This is the age when you can receive your full retirement benefit with no reductions.

**Age 70 – Social Security** – Age 70 is the last date for which you can earn a delayed credit for deferring your Social Security benefit past full retirement age. The delayed credit is 8% per year, no compounding. The benefit does not increase past age 70.

**Age 70 ½ - Required Mandatory Distribution (RMD)** Once you turn 70 ½ you must begin taking minimum withdrawals from your tax deferred retirement accounts or face a 50% penalty on the amount not taken by December 31. The first year you may delay your withdrawal until April 1 of the year following 70 ½, but you must then take two required distributions, the one for age 70 ½ and the one for age 71.

*At Baird, our specialty is assisting pre-retirees and retirees prepare for and navigate retirement. Leverage our experience to smoothly transition from the workforce to retirement.*

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