Morgan Stanley

Your Financial Future

Tips and insights to help you reach your goals

SPRING 2018

Can You Count On Washington In Retirement?

Social Security and Medicare have long been key pieces of retirees' budgets. And at least to date, retired Americans have pretty much got what they were promised from these programs.

However, current workers aren't optimistic that will be the case in their own retirements. That's according to the 2017 Retirement Confidence Survey, published by the Employee Benefit Research Institute (EBRI).

EBRI says just 37% of workers feel "very" or "somewhat" confident that Social Security benefits will continue at today's levels. One in five is "not at all confident." Only 6% are very confident. They're almost exactly as glum about Medicare, the healthcare program for retirees. Only 38% feel very or somewhat confident those programs will deliver as promised; one in six isn't at all confident, and only 5% are very confident.

What's your plan?

Social Security was never meant to replace 100% of anyone's income. It's only meant to replace about 40% of the average worker's previous income, with promised benefits rising a bit each year to keep up with inflation. (Your specific benefit will vary. Check ssa.gov/estimator for a better idea of what you may receive under current rules.)

Best case, you're still on the hook for 60% of your retirement income, and possibly more. And due to inflation, some bills you'll have in retirement – namely, healthcare – have lately risen faster than Social Security's cost-of-living hikes. Forty percent of today's income may not go far with tomorrow's expenses.

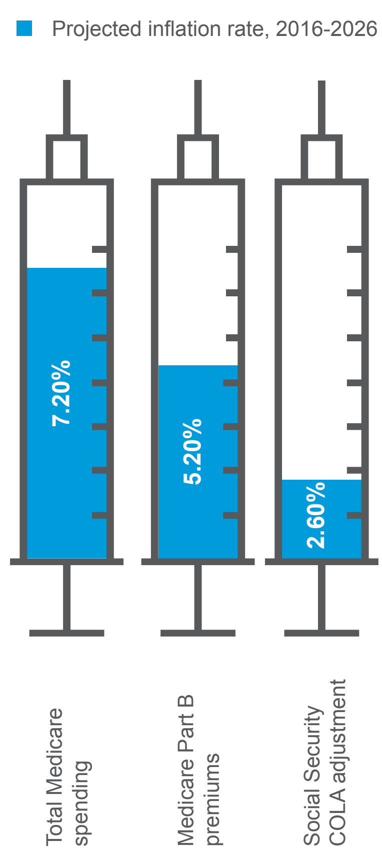
Given the uncertainty of Social Security and Medicare, you may be able to take retirement readiness into your own hands by enrolling in your employer's tax-advantaged retirement plan. Depending on the provisions of the plan, you may be able to choose to defer taxes when you contribute, or actually save taxes when you withdraw. What's more, you can:

- Set up painless payroll deductions
- Take your contributions with you if you change jobs
- Set payroll deductions to increase gradually over time (if available)

It's unlikely that Social Security will go away. But there's no guarantee it won't change, years or decades from now. Take control of your own future by learning more about how your employer can help you, and putting aside as much as you can starting today. ■

What Will Health Care Cost In Retirement?

Not all costs rise together. Over the next ten years, healthcare expenses are forecast to rise faster than other expenses you may have in retirement.



Source: Henry J Kaiser Family Foundation, *The Facts on Medicare Spending and Financing*, 2017, http://bit.ly/cost-inflation

The Saver's Credit – One More Reason To Feel Good About Preparing for Retirement

You may already know that contributing to a qualified retirement plan can help you prepare for retirement, and that it reduces your taxable income. What you may not know is that it can also provide a tax credit for those who qualify. Dubbed "The Saver's Credit" by the IRS, this can be worth up to $1,000 for single filers or $2,000 for those married and filing jointly.

A tax credit is worth more than a deduction, which only decreases your taxable income. The Saver's Credit can reduce any income tax you owe, dollar-for-dollar. (But you have to owe tax – it doesn't add to any refund that you may get.)

Eligibility

To qualify for the Saver's Credit, taxpayers must have met the following requirements during the taxable year:

- Contributed to SIMPLE IRAs, 401(k) plans, and other employer-sponsored retirement plans, and/or to IRAs
- Reached age 18 before the end of the taxable year
- Weren't claimed as a dependent on someone else's return
- Weren't a full-time student
- Had adjusted gross income (AGI) within certain limits (details at bit.ly/AGI-defined)

Income limits

The credit decreases as the AGI increases. Eligibility for 2018 tops out at $63,000 for married employees filing jointly, $47,250 for heads of households, and $31,500 for all others. Lower earners may qualify for a larger credit. Rollover contributions and employer matches don't count toward the qualifications for the Saver's Credit. Also, eligible contributions may be reduced by any recent distributions.

Action step: If you think you might qualify for the Saver's Credit, check with a tax advisor to confirm, or consult the IRS website bit.ly/savers-credit. ■

IRS Retirement Account Changes for 2018

For the first time in three years, the limits on 401(k) and 403(b) deferral contributions have been raised, and IRA eligibility income ranges have been adjusted.

2018 Deferral Contribution Limit – The amount that employees can contribute from their own paychecks into a 401(k), 403(b), or most governmental 457(b) retirement plans has increased by $500 to $18,500. The catch-up contribution limit for participants age 50 or older remains unchanged at $6,000.

401(k)/403(b) Annual Additions Limit – The maximum 2018 contribution to an employee's account in a 401(k) or 403(b) plan has increased by $1,000 to $55,000. This includes all deferrals, employer contributions, and forfeiture allocations.

Eligibility for IRAs – The income ranges for deductibility of contributions to IRAs, Roth IRAs, and for the Saver's Credit (see accompanying article) were also adjusted for 2018. The IRS provides details here: bit.ly/2018-limits. ■

Top Places to Retire Overseas in 2018

International Living magazine has released its 29th annual list of the top 10 places to retire around the world (bit.ly/best-places-retire):

10. Peru
9. Spain
8. Nicaragua
7. Portugal
6. Colombia
5. Malaysia
4. Ecuador
3. Panama
2. Mexico
1. Costa Rica