A Lifetime of Financial Milestones

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FINANCIAL NEWS YOU CAN USE

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Like it or not, we are born with a lifetime of financial milestones laid out for us. It may seem overwhelming, but the system is designed to guide us gently, yet prudently, from childhood through retirement. For the sake of clarity (and sanity) it is helpful to think of life as three stages – each stage containing important financial milestones. Here's a timeline which explains these stages, and attempts to make the process of aging, at least in financial terms, feel a little less fraught.

YOUNG ADULTHOOD

Age 18 – The "kiddie tax" is discontinued, which could affect your tax rate, depending on whether or not you're a full-time student. You will be taxed at your personal tax rate instead of your parents'.

Age 18 (19 or 21 in some states) – You reach the "age of majority," i.e., your transition from a minor into legal adulthood. This transition means all funds invested in UTMA/UGMA accounts are now legally yours.

Age 19 and 24 – You're an adult now, so your parents can't claim you as a dependent on their tax return unless you're a full-time student. At age 24, you can't be claimed as a dependent even if you are a full-time student, so make sure you're prepared for the April 15 tax return deadline.

THE AGE OF RETIREMENT

Age 55 – A little-known yet helpful retirement loophole, "rule of 55," kicks in if you retire, quit or are terminated. This rule allows you to take 401(k) distributions from your current employer's 401(k) plan without penalty before the customary 59½ age threshold.

Age 59½ – You are able to withdraw from traditional IRAs, annuities and qualified retirement plans without penalty. You may also choose to leave these funds untouched to continue their tax-deferred growth.

Age 62 – The earliest age you can begin receiving monthly Social Security benefits, but at a reduced rate and with stipulations on income. Choose your start age wisely, as the earlier you begin collecting, the lower the monthly payments you'll receive.

Age 65-67 – Depending on the year you were born, you have reached "full retirement age," which allows you to begin collecting non-reduced Social Security benefits. Collection does not require actual retirement, however, so can continue working without losing benefits.

THE GOLDEN YEARS

Age 70 – There are no additional Social Security benefit increases after age 70. Before delaying benefits, it's prudent to weigh the monthly benefit increase against possible investment opportunities, which you can explore if you take the funds at an earlier age.

Age 70½ – Withdrawals must be taken (and thus, sadly, taxed) from your IRAs, SIMPLE IRAs, SEP IRAs and employee-sponsored retirement plans (excluding Roth IRAs). These mandatory withdrawals are called "required minimum distributions" (RMDs), and are calculated by the IRS based on account value and estimated life expectancy. As with many things IRS-related: it's complicated.

Age 90 – For some annuity plans, the default distribution option may automatically activate. To save yourself time and headache, contact the annuity company before your 90th birthday to select the most suitable distribution option.

We can't control aging, but we can understand how it affects our financial situation. These milestones are signposts which help us prepare for the inevitable. Understanding them allows us to relax and enjoy the present.