Age Has its Privileges ... and Penalties

In an era filled with uncertainty, you can count on one thing: time marches on. Here are some important age-related financial and tax milestones to keep in mind for you and your loved ones:

Age 0 to 23. Under the Kiddie Tax rules, part of young person's investment income can be taxed at the parent's federal rate which can be as high as 37% for 2019 (and 2018) rather than at the young person's lower rate (usually only 10% or 12% depending on the type of income).

The Kiddie Tax can bite until the year when the young person turns 24. However, after the year the individual turns 18, it can only bite if he or she is a student with at least five months of full-time school attendance. For 2019 (and 2018), the Kiddie Tax can only hit investment income in excess of the threshold amount of $2,200. Investment income below the threshold is taxed at the young person's lower rate.

Age 18 or 21. Did you set up a custodial account for your minor child to help pay for college or save on taxes? It will come under the child's control when he or she reaches the local age of majority (generally, age 18 or 21 depending on your state of residence).

Age 30. If you set up a Coverdell Education Savings Account (CESA) for a child or grandchild, it must be liquidated within 30 days after he or she turns 30 years old. Earnings included in a distribution that are not used for qualified education expenses are subject to federal income tax, plus a 10% penalty. Alternatively, the Coverdell account balance can be rolled over tax-free into another CESA set up for a younger family member.

Age 50. At this age, you can begin saving more for retirement on a tax-favored basis. If you're age 50 or older as of the end of the year, you can make an additional catch-up contribution to your 401(k) plan, 403(b) plan, Section 457 plan, or SIMPLE plan, assuming the plan permits catch-up contributions. You can also make an additional catch-up contribution to a traditional or Roth IRA.

Age 55. If you permanently leave your job for any reason, you can receive distributions from the former employer's qualified retirement plans without being hit with the 10% premature withdrawal penalty tax. This is an exception to the general rule that a 10% penalty is due on distributions received before age 59 1/2.

Age 59 1/2. For any reason, you can receive distributions at age 59 1/2 from all types of tax-favored retirement plans and accounts without being hit with the 10% premature withdrawal penalty tax. This includes IRAs, 401(k) plans, pensions and tax-deferred annuities.

Age 62. At this age, you can elect to start receiving Social Security benefits. However, your benefits will be lower than if you wait until reaching *full retirement age* (see "Age 66" below). When considering this election, look at your health and your family's history of longevity.

Also, if you continue working after starting to collect benefits but before reaching full retirement age, your Social Security benefits will be further reduced if your income from working exceeds $17,640 in 2019 (up from $17,040 in 2018).

Age 66. After years of paying into the system, you can start receiving full Social Security benefits. However, the age to collect full benefits is creeping upward. For example, if you were born between 1943 and 1954, it's 66. And if you were born in 1960 or later, you will have to wait until age 67 to collect full benefits. If you reach age 66 in 2019, your benefits will be reduced if you are still working and your earnings exceed $46,920 (up from $45,360 in 2018).

Want to keep working? You won't lose any benefits if you work in years after the year you reach full retirement age, regardless of how much money you make.

Age 70. You can choose to postpone receiving Social Security benefits until after you reach age 70. If you make this choice, your benefit payments will be more than if you had started receiving them earlier. They will be increased by a certain percentage (depending on your date of birth).

Important: If you decide to delay retirement, be sure to sign up for Medicare at age 65. In some cases, medical insurance costs more if you delay applying for it.

Age 70 1/2. You generally must begin taking annual minimum required distributions from tax-favored retirement accounts (including traditional IRAs, SEP accounts and 401(k) accounts), and pay the resulting income taxes. However, you need not take any such mandatory distributions from your Roth IRA.

The initial minimum required distribution is for the year you turn 70 1/2, but you can postpone taking that payout until as late as April 1st of the following year. If you chose that option, however, you must take two minimum required distributions in that following year. One must be taken by April 1st, which is the one for the previous year, plus another by December 31st, which is the one for the current year. For each subsequent year, you must take your minimum required distribution by December 31st.

There's one exception: if you're still working after reaching age 70 1/2, and you don't own over 5% of the company, you can postpone taking any minimum required distributions from the employer's plan(s) until after you've retired.

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