6195 W. Quaker St., Orchard Park, NY 14127 // 716.662.4361
www.moldenhauerassociates.com

MOLDENHAUER & ASSOCIATES

APRILNEWSLETTER

Editor: Richard C. Moldenhauer, CLU, CEP, RFC *Chartered Financial Consultant*

As the harsh winter season slips into the rear-view mirror, spring brings new life and optimism to the world. Those readers in WNY know it has been one of the toughest winters of recent memory, with a lot of snow and sub-zero temperatures.

The firm is off to a very good start this year. We recently had some work done at the office to include a new security system, a new phone system and up-graded technology. I know there were a few glitches during installation, but the upgrades should benefit our clients.

We have added personnel to the service staff and the younger advisors are all growing nicely. Brett attended a leadership meeting in February and John and Nick have provided sound mentoring for the younger advisors.

The firm has held several Client Education Seminars and attendance is better than last year, despite the nasty weather. If it has been some time since you've attended one of our educational seminars, consider attending the next one that is held in your area.

I was discussing Long Term Care with a client. Cost seemed to be the real issue. I suggested considering the new lower cost method of dealing with Chronic and Critical Care issues. Many insurance carriers have developed a low-cost rider that is incorporated in certain life insurance products. If this type of protection is of concern, ask your advisor how this great new feature works and if it can help you.

With Easter right around the corner I, personally, hope you have meaningful holiday.

Richard Moldenhauer

Richard Moldenhauer

REDUCING THE RISK OF OUTLIVING YOUR MONEY

What steps might help you sustain and grow your retirement savings?

"What is your greatest retirement fear?"

If you ask any group of retirees and pre-retirees this question, "outliving my money" will likely be one of the top answers. In fact, 61% of investors surveyed for a 2018 AIG retirement study ranked outliving their money as their top anxiety.[1]

Retirees face greater "longevity risk" today.

The Census Bureau says that Americans typically retire around age 63. Social Security projects that today's 63-year-olds will live into their mid-eighties, on average. This is a mean life expectancy, so while some of these seniors may pass away earlier, others may live past 90 or 100.[2,3]

If your retirement lasts 20, 30, or even 40 years, how well do you think your retirement savings will hold up? What financial steps could you take in your retirement to try and prevent those savings from eroding? As you think ahead, consider the following possibilities and realities.

Realize that Social Security benefits might shrink in the future.

In 2000, there were four workers funding Social Security for every retiree receiving benefits. By federal estimates, there will be only 2.2 workers funding Social Security for every retiree in 2035. This may not bode well for the health of the program.[4]

For decades, Social Security typically took in more dollars per year than it paid out. That ongoing surplus – also known as the Social Security Trust Fund – is now projected to dry up by 2034. Congress may act to address this financing issue before then, but the worry is that future retirees could get slightly less back from Social Security than they put in. It may be smart to investigate other potential retirement income sources now.[4]

Understand that you may need to work part time in your sixties and seventies.

The income from part-time work can be an economic lifesaver for retirees. Suppose you walk away from your career with a hypothetical $500,000 in retirement savings. In your first year of retirement, you decide to withdraw $25,000 of that for some of your income. You keep doing that year after year. That money will be gone in 20 years. (Inflation might lead you to draw it down faster.) What if you worked part time and earned $20,000-30,000 a year? If you can do that for five or ten years, you effectively give those retirement savings five or ten more years to last and grow.

Retire with health insurance and prepare adequately for out-of-pocket costs.

Financially speaking, this may be the most frustrating part of retirement. You can enroll in Medicare at age 65, but how do you handle the premiums for private health insurance if you retire before then? Striving to work until you are eligible for Medicare makes economic sense and so does building a personal health care account. According to Fidelity research, a typical 65-year-old couple retiring today will face out-of-pocket health care costs approaching $300,000 over the rest of their lives.[5]

Many people may retire unaware of these financial factors.

With luck and a favorable investing climate, their retirement savings may last a long time. Luck is not a plan, however, and hope is not a strategy. Those who are retiring unaware of these factors may risk outliving their money.

Richard Moldenhauer may be reached at 716-662-4361.
Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

1 - cnbc.com/2018/10/26/retiring-in-a-down-market-can-mean-much-less-for-rest-of-your-life.html [10/26/18]

2 - thebalance.com/average-retirement-age-in-the-united-states-2388864 [1/27/19]

3 - ssa.gov/oact/population/longevity.html [3/6/19]

4 - forbes.com/sites/catherineschnaubelt/2018/05/30/social-security-past-present-and-future [5/30/18]

5 - fidelity.com/viewpoints/retirement/transition-to-medicare [4/24/18]

THE IMPORTANCE OF TOD & JTWROS DESIGNATIONS

A convenient move that could ward off probate on your accounts.

TOD, JTWROS – what do these obscure acronyms signify? They are shorthand for transfer on death and joint tenancy with right of survivorship – two designations that permit automatic transfer of bank or investment accounts from a deceased spouse to a surviving spouse.[1]

This automatic transfer of assets reflects a legal tenet called the right of survivorship – the idea that the surviving partner should be the default beneficiary of the account. In some states, a TOD or JTWROS beneficiary designation is even allowed for real property.[2]

When an account or asset has a TOD or JTWROS designation, the right of survivorship precedes any beneficiary designations made in a will or trust.[3]

There are advantages to having TOD and JTWROS accounts – and disadvantages as well.

TOD & JTWROS accounts usually avoid probate.

As TOD and JTWROS beneficiary designations define a direct route for account transfer, there is rarely any need for such assets to be probated. The involved financial institution has a contractual requirement (per the TOD or JTWROS designation) to pay the balance of the account funds to the surviving partner.[4]

In unusual instances, an exception may apply: if the deceased account owner has outlived the designated TOD beneficiary or beneficiaries, then the account faces probate.[5]

What happens if both owners of a JTWROS account pass away at the same time?

In such cases, a TOD designation applies (for any named contingent beneficiary).[4]

To be technically clear, transfer on death signifies a route of asset transfer, while joint tenancy with right of survivorship signifies a form of asset ownership. In a variation on JTWROS called tenants by entirety, both spouses are legally deemed as equal owners of the asset or account while living, with the asset or account eventually transferring to the longer-living spouse.[4]

Does a TOD or JTWROS designation remove an account from your taxable estate?

No. A TOD or JTWROS designation makes those assets non-probate assets, and that may save your executor a little money and time – but it doesn't take them out of your gross taxable estate.

In fact, 100% of the value of an account with a TOD beneficiary designation will be included in your taxable estate. It varies for accounts titled as JTWROS. If you hold the title to a JTWROS account with your spouse, 50% of its value will be included in your taxable estate. If it is titled as JTWROS with someone besides your spouse, the entire value of the account may go into your taxable estate, unless the other owner has made contributions to the account.[6]

How about capital gains?

JTWROS accounts in common law states typically get a 50% step-up in basis upon the death of one owner. In community property states, the step-up is 100%.[6]

Could gift tax become a concern?

Yes, if the other owner of a JTWROS account is not your spouse. If you change the title on an account to permit JTWROS, you are giving away a percentage of your assets; the non-spouse receives a gift from you. If the amount of the gift exceeds the annual gift tax exclusion, you will need to file a gift tax return for that year. If you retitle the account in the future, so that you are again the sole owner, that constitutes a gift to you on behalf of the former co-owner; they will need to file a gift tax return if the amount of the gift tops the annual exclusion.[6]

TOD & JTWROS designations are designed to make account transfer easy. They simplify an element of estate strategy.

TOD or JTWROS accounts are not cheap substitutes for wills or trusts. If you have multiple children and name one of them as the TOD beneficiary of an account, that child will get the entire account balance, and the other kids will get nothing. The TOD beneficiary can of course divvy up those assets equally among siblings, but in doing so, that TOD beneficiary may run afoul of the yearly gift tax exclusion.[6]

As you create your estate, respect the power of TOD & JTWROS designations. Since they override any beneficiary designations made in wills and trusts, you want to double-check any will and trust(s) you have, to make sure that you aren't sending conflicting messages to your heirs.[6]

That aside, TOD & JTWROS designations can represent a convenient way to arrange the smooth, orderly transfer of account balances when original account owners pass away.

Richard Moldenhauer may be reached at 716-662-4361.

Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

1 - finra.org/industry/terms-and-acronyms [9/26/18]

2 - investopedia.com/terms/j/jtwros.asp [12/20/18]

3 - thebalance.com/why-beneficiary-designations-override-your-will-2388824 [12/19/18]

4 - washingtonpost.com/business/2018/11/12/transfer-death-deed-may-be-good-instrument-leaving-your-home-your-child-beware-flaws/?noredirect=on&utm_term=.3162fd5503c9 [11/12/18]

5 - thebalance.com/what-is-a-transfer-on-death-or-tod-account-3505253 [12/30/18]

6 - investopedia.com/articles/pf/08/joint-tenancy.asp [3/20/18]

UPCOMING EVENTS:

Our April seminars are at:

Ilio DiPaolo's Restaurant
Thursday, April 11, 2019 at 6 p.m.
3785 S. Park Avenue
Blasdell, NY 14219

JP's Pub
Tuesday, April 16, 2019 at 6 p.m.
1986 Lakeview Road
Lake View, NY 14085

Eden Pub
Thursday, April 18, 2019 at 6 p.m.
8557 N. Main Street
Eden, NY 14057

We encourage clients who live in the area to introduce potential clients to our firm by bringing a friend to one of our seminars. These are informational and educational events. We are not there to convince people that we are the only firm to consider. Rather, we believe our firm offers a quality opportunity for people looking for a new advisor. Please attend a seminar in your neighborhood with a friend.

Richard Moldenhauer is a representative with Commonwealth Financial Network. Call him at 716-662-4361.