

# MOLDENHAUER ASSOCIATES

## MARCH NEWSLETTER

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Each month, I look forward to writing an article to share with you but, sometimes, it is hard to get started. As I was beginning my thoughtful search related to this newsletter, I considered the changes we are living through during this critical time. While we are very fortunate to be Americans, these are troubling times. We should be talking up Patriotism. I wrote this on President's Day 2024.

As a boy, I grew up in a lower-middleclass neighborhood in Niagara Falls. Most of my friend's fathers, like mine, worked long hard weeks in the local factories. They were the people we now look back on as "The Greatest Generation". Many had just returned from World War II. Some, like my parents, started small businesses and, despite the fact, they did not have the college educations that most people seem to have today. They were happy, worked hard and raised families. Us kids were proud to be living in the U.S.A. Most of us thought we were lucky to live in our little blue-collar city. My friends were white and black, and we all got along. We liked each other. My how times have changed.

As a boy, we had a 12-inch black and white television with two stations, and we trusted the news and looked forward to family time in front of "the tube". Today, the older news media, both print and television, are in a state of ever-increasing decline. As a person who remembers the Courier Express in the morning and the Buffalo Evening News in the evening, times have changed. The Courier is long-gone, and the Buffalo News is a shadow of its former self. Today, many of us are getting most of our news from independent newsfeeds.

Many people are getting closer to their spirituality. In our home our Faith is more important than ever. I hope the country is returning to the religious roots of our ancestors.

When my generation of young men went to war, a large percentage died or became disabled. When it was over, we were proud to have served, but we felt the war had no purpose. The following wars have been more of the same and no one seems to care. Are we better today because of the price that has been paid? I believe it is time to stop America's involvement in the rest of the world's wars. It is time to fix our broken country and heal its people.

It is important to consider those less fortunate. I find myself getting a bit emotional when I see the plight of the disabled veterans and first responders. Few days go by when we don't hear of police being shot while they are simply doing the job we asked them to perform. When I hear of underfunded children's hospitals, old age homes, and poverty, I ask myself how a government can send billions to fight endless wars and subsidize undocumented immigrants and not punish crime and take care of our people? Just this week they are talking about paying off some people's college loans at the expense of the rest of the population.

We need adequate safety nets for needy Americans. We don't deserve a government that picks winners and losers.

Whether you lean left or right politically, I suspect you care about the saving of the country. I encourage you to get involved. Take the time to write your Congress people and tell them how you feel. We should want this country to survive and thrive for the sake of our children and the generations to come.

I know this was a different type of article; these thoughts come from my heart.

*Richard Moldenhauer*

Richard Moldenhauer

## FIVE MONEY TIPS: MANAGING YOUR CREDIT CARDS

Credit cards can help you build credit history and, if managed properly, help improve your credit score.

### Tip #1: Pay on time.

By paying on time, you not only avoid late fees but may also avoid an automatic increase in interest rates going forward. In addition, paying on time can maintain or improve your credit score, which can qualify you for lower rates.

One easy way to ensure prompt payment is to schedule an automatic transfer from your checking account, preferably seven days before the bill's due date—or even earlier. Paying earlier has its benefits.

If you carry a balance, paying early can reduce your monthly finance charge and the balance reported to the credit reporting agencies.

### Tip #2: Keep your balance at no more than 10 percent of your credit limit.

Make a habit of keeping your credit card balances at less than 10 percent of the card's credit limit. Although a balance within the range of 25 percent to 30 percent of your limit is an acceptable "utilization rate," maintaining a lower percentage can improve your credit score. Remember, even if you pay off your balance monthly, you can still have a high utilization rate. If you are trying to improve your credit score, consider using cash for new purchases to give yourself time to add points to your score.

### Tip #3: Avoid unnecessary costs.

Some credit cards provide overdraft protection if you go over the credit limit, but consider the consequences. Not only will you pay interest on the overage, but you will also be charged an overdraft fee, typically around \$30. If the overdraft feature is important to you, avoid the fees by paying the balance in full before the due date.

It is also beneficial to increase your normal monthly payment to help wipe out cash advances you may have taken. Credit card issuers may charge different interest rates for different types of balances carried on the same card. Typically, cash advances incur the highest interest rate, while balances transferred to the card are charged lower promotional rates. When you make a payment above the minimum amount required, the card company applies the minimum to the portion of your balance that incurs the lowest interest (i.e., transferred balances). Then, any amount paid in excess of the minimum is first applied to the debt with the highest interest rate (i.e., cash advances).

### Tip #4: Read your mail.

The flyers that come with your bill often give you notice of pending changes. You probably understand that variable rates can change anytime. But did you know that the issuer can also increase your rate because of a change in your credit rating? In both cases, you must be notified, and your credit card company must review your account every six months to determine whether you qualify for a decrease in rates.

Even fixed rate cards can hold surprises. The card issuer has the right to increase fixed rates if the required minimum payment is not received within 60 days of the due date.

### Tip #5: Pay more than the minimum.

Paying only the minimum monthly payment is a costly mistake. At 1 percent to 4 percent of your balance, the minimum payment barely covers your interest charges, leaving little, if any, of your payment to reduce your balance. At that rate, it could take decades to pay off your balance! But you can take control.

Credit card statements now disclose how long it would take to retire the debt if you make only minimum payments and how much you will pay in total interest over that time. They also show you how much you would have to pay each month to retire the debt in three years. Make it your goal to at least pay the three-year payoff estimate. And make it automatic. Through online banking, you can arrange to have your checking account transfer a set amount to your credit card monthly.

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## INHERITING AN IRA FROM YOUR SPOUSE

### *What are your options?*

Losing a spouse is one of the most difficult things anyone can experience. It is important for you to know what your options are and which one is best for you. As a spouse inheriting IRA assets, you can move the assets either to your own traditional or Roth IRA or to a spousal-inherited IRA opened in your name.

### Always Consult with a Professional

Each option comes with different considerations and rules to follow. Will your decision require you to take mandatory distributions? Will you be able to make additional contributions? Are there penalties you need to be aware of when you eventually distribute the assets? The answers to these considerations are discussed below. But before you make your decision, be sure to consult with your financial advisor or tax professional to determine which option is best based on your unique set of circumstances.

#### Option 1: Transfer the funds to a spousal-inherited traditional or Roth IRA in your name.

Distributions you take from your spousal-inherited traditional or Roth IRA aren't subject to withdrawal penalties; however, you are not permitted to make additional contributions to the account after the initial funding. In addition, you must take the required minimum distributions (RMDs) from the account. The start date for your RMDs will depend on how old your spouse was upon death.

#### Option 2: Transfer the funds to your own traditional or Roth IRA.

This strategy is commonly referred to as "treating the assets as your own." With this option, you would transfer the assets directly into your own traditional or Roth IRA. The standard traditional and Roth IRA rules will apply to contributions, distributions, and RMDs.

#### RMD rules.

When and if an RMD is required will depend on the type of account to which you choose to transfer the funds and how old your spouse was when they passed away. RMDs from traditional IRAs must begin at age 73\*, while Roth IRAs do not have RMDs. For spousal-inherited IRAs, RMDs must begin the year your spouse would have reached their own RMD age. IRS guidelines require you to take larger RMD amounts from a spousal-inherited IRA than if you opened a traditional IRA. Generally, the option with the lowest RMDs that allows you to delay them as long as possible is best. This would lessen the tax liability on your RMDs and enable you to stretch your retirement assets over a longer period of time.

## Key Considerations

### How old are you?

Distributions from a spousal-inherited IRA are always penalty free regardless of your age. The same is not true for traditional and Roth IRAs, however. Distributions taken from these accounts by an account owner who is younger than 59½ may be subject to a 10 percent early withdrawal penalty. Consequently, if you are younger than 59½, the spousal-inherited IRA option may be the best choice because you would have access to the funds if needed without having to worry about paying an early withdrawal penalty. For example:

*Elizabeth is 48 years old and inherits her deceased husband's IRA. She transfers the assets to a spousal-inherited IRA. When she needs that money to pay for living expenses, she can take distributions from the account without owing penalties. The fact that she is younger than 59½ doesn't matter.*

If you move the assets to your own traditional IRA instead of a spousal-inherited IRA in your name, normal IRA distribution rules would apply. Any distributions you might take would most likely be subject to a 10 percent penalty because you are younger than 59½. Returning to our example:

*If Elizabeth puts the inherited assets into her own IRA rather than a spousal-inherited IRA, she would be penalized on the distributions she takes to pay for living expenses, as the normal IRA rules would apply. Specifically, because she is younger than 59½, Elizabeth would be subject to the 10 percent early withdrawal penalty on distributions from the account.*

### How old was your spouse?

When treating the assets as your own, when your RMDs begin is determined by your age. As mentioned earlier, if you choose a spousal-inherited IRA, your RMDs begin the year your spouse would have reached their own RMD age.

If the intention is to delay RMDs as long as possible, whether your spouse is older or younger than you will determine the best option. If your spouse is younger, a spousal-inherited IRA might be a better fit because you can delay RMDs until after you reach your RMD age. If your spouse is older, treating the assets as your own might be better because you will not reach RMD age until after your deceased spouse would have, had they lived. For example:

*Cathy passes away at age 63. Her husband, John, is 68 years old. If John chooses to treat the assets as his own, his RMDs will begin in five years when he turns 73. If he chooses the spousal-inherited option, he can wait 10 years to start RMDs, the year Cathy would have turned 73 had she lived.*

Assuming the same information, except that John passes away, not Cathy. Cathy will want to treat the assets as her own so she can delay her RMDs until she turns 73 rather than starting RMDs sooner when John would have turned 73 had he not passed away.

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## The Ability to Change Course

If you choose to move your spouse’s assets into a spousal-inherited IRA in your name, you can always decide at a later date to treat the assets as your own and move them to your own IRA. The reverse scenario, however, is not true. Once you treat the assets as your own, the assets must remain in your own IRA; they cannot be transferred to a spousal-inherited IRA after the fact. For example:

*Matthew is 55 years old and inherits his deceased wife’s IRA. He immediately puts the assets into his own IRA. Six months later, he needs to withdraw some funds to pay for childcare. Because the assets are in his own IRA and he is not 59½, the withdrawn funds will be subject to the 10 percent early withdrawal penalty. He does not have the option to move the funds to a spousal-inherited IRA to avoid the penalty.*

A common strategy for spouses younger than 59½ is to move some or all of the funds to a spousal-inherited IRA so that penalty-free distributions are available if needed. If you follow this course, once you reach age 59½, you can move the assets to your own IRA once you reach age 59½. Distributions would continue to be penalty free and RMDs would not be required until you turn age 73\*—or not at all if the decedent had a Roth IRA and the spouse transfers the assets to their own Roth IRA.

**Please note:** Spousal-inherited RMDs are larger, so if you take this option, it is usually beneficial to treat the assets as your own before the year your spouse would have reached RMD age to ensure that you are taking the smallest possible RMD amounts.

The chart below summarizes the two options:

Option	Pros	Cons
Spousal-Inherited IRA	<ul style="list-style-type: none"> <li>• Penalty-free distributions</li> <li>• Ability to transfer to own IRA</li> <li>• Ability to delay RMDs until deceased spouse would have reached age 73*</li> </ul>	<ul style="list-style-type: none"> <li>• If deceased spouse already reached age 73*, RMDs must begin in year following date of death</li> <li>• Larger RMDs</li> <li>• RMDs required from inherited Roth IRA</li> </ul>
Treat Assets as Your Own	<ul style="list-style-type: none"> <li>• Smaller RMDs</li> <li>• RMDs not required until age 73*</li> <li>• RMDs not required from Roth IRAs</li> </ul>	<ul style="list-style-type: none"> <li>• Distributions penalized if younger than 59½</li> <li>• Cannot transfer to spousal-inherited IRA</li> </ul>

\* Age 70½ if you turned 70½ prior to January 1, 2020. Age 72 if you turned 72 prior to January 1, 2023.



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## UPCOMING EVENTS:

Our upcoming seminars are at:

### GDI Countryside Inn

Tuesday, April 9, 2024 at 6 p.m.  
2049 Sandridge Road  
Alden, NY 14004

### Bravo Café

Thursday, April 11, 2024 at 6 p.m.  
5781 Seneca Street  
Elma, NY 14059

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