

MOLDENHAUER & ASSOCIATES

MARCH NEWSLETTER

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With 2020 well underway, we are all busy and, hopefully, staying on top of our financial planning. It is a time of year when we should all be focusing on our futures. Among the key points that concern me and many of you are:

1. Retirement Planning – either accumulation or distribution. Maximize all opportunities and understand the way the tax laws can help or can hurt you. People will ask whether deductible plans or non-deductible plans are best. The answer is always yes. Use both if you can and can afford to save.
2. College Savings - Costs for college keep increasing faster than the speed of inflation. This trend is not changing.
3. Business Succession- Often ignored and, eventually, becomes a catastrophe in many businesses. If a business owner does not deal with succession properly, the biggest investment becomes the worst investment.
4. Estate Planning—The Federal Estate Tax is not an issue for most people with estates under \$10,000,000. Most Estate Planners would not be surprised if the federal exemption was reduced.

However, if you live in most states, the state inheritance tax can be substantial for even modest estates. New York State is one of the worst.

Please take the time to review your Wills, Trusts and Proxy documents. Just like all financial advisors are not created equal, neither are all legal and tax advisors.

As we go from year to year, our personal and family situations change for many reasons. Rethinking beneficiary arrangements, Will distribution plans, and other planning structures are very important.

I have been told the Seminar Presentation has been updated for 2020. If you are a client and have not attended a session in the past couple years, make an effort to attend this year.

You must prepare for the future; the future is preparing for you!

Richard Moldenhauer

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SYSTEMATIC WITHDRAWAL STRATEGIES

Should you arrange automatic distributions from your retirement or investment accounts?

Some retirees wish they could simplify money management.

Estimating investment income, annual retirement plan distributions, and quarterly taxes can be a chore.

This is why some retirees choose to make systematic withdrawals.

Just as they contributed a set amount per month to their retirement accounts while working, they now withdraw a set amount from their accounts each month, quarter, or year.

The simplicity of this may appeal to you. The potential drawback is that a systematic withdrawal strategy can risk oversimplifying the complex matter of retirement income distribution.

How do these strategies work?

A specific monthly, quarterly, or annual withdrawal amount is established, and then assets are sold or liquidated to generate the cash. As people commonly have multiple retirement or investment accounts, a comprehensive systematic withdrawal strategy arranges proportionate withdrawals from most or all of them. Sometimes, federal or state taxes can be withheld from the withdrawals.¹

Remember, investments will fluctuate in value and when sold, they may be worth more or less than their original cost. This article is not intended as tax or legal advice, and may not be used for the purpose of avoiding any state or federal tax penalties. Please consult a professional with legal or tax experience regarding your situation.

These withdrawals often take time to arrange.

Most investment custodians will permit them, but paperwork is necessary. In some cases, they are only allowed when the account balance is above a certain level.²

In the big picture, tax issues must also be considered. Withdrawals from retirement accounts may be characterized as taxable income.²

There are times when systematic withdrawal strategies may not work well.

For example, say some of your investments have lost value, but your withdrawal amount stays the same. This means that a greater percentage of your investments may have to be sold to generate that income you have set up.

So during this period, you are selling a greater percentage of your invested assets – assets that have the potential to grow in the future.¹

Also, note that required minimum distributions (RMDs) may apply to certain accounts after you reach age 70½. That implies an end to systematic withdrawals, as your RMDs will almost certainly vary per year.²

There are pros and cons to adopting a systematic withdrawal strategy.

A financial or tax professional may help you make an informed decision.

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

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

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Citations.

1 - [thebalance.com/what-is-a-systematic-withdrawal-plan-2388788](https://www.thebalance.com/what-is-a-systematic-withdrawal-plan-2388788) [6/29/18]

2 - [investopedia.com/terms/s/systematicwithdrawalplan.asp](https://www.investopedia.com/terms/s/systematicwithdrawalplan.asp) [4/19/19]



TAX CONSIDERATIONS FOR RETIREES

Are you aware of these potential tax breaks and tax-saving opportunities?

The federal government offers some major tax breaks for older Americans.

Some of these perks deserve more publicity than they receive.

At age 65, the Internal Revenue Service gives you a larger standard deduction.

For 2020, standard deductions look like this for taxpayers 65 and older: single filer or married filing separately, \$14,050; head of household, \$20,300; married filing jointly or qualifying widow(er), \$26,100 (when one spouse is 65 or older) or \$27,400 (when both spouses are 65 or older). The standard deductions for younger taxpayers range from \$1,650-\$2,600 less.¹

There are two situations where your standard deduction may be limited at age 65 or older, or disappear entirely. One is when another taxpayer claims you as a dependent. The other is when you are married and filing separately, and your spouse itemizes deductions.¹

You may be able to write off some medical costs.

The I.R.S. will let you deduct qualifying medical expenses once they exceed 7.5% of your adjusted gross income (AGI). The list of eligible expenses is long. Beyond out-of-pocket costs paid to doctors and other health care professionals, it also includes things like insurance premiums for extended care coverage, travel costs linked to medical appointments, and payments for durable medical equipment, such as dentures and hearing aids.²

Are you thinking about selling your home?

Many retirees consider this. If you have lived in your current residence for at least two of the five years preceding a sale, you can exclude as much as \$250,000 in gains from federal taxation (a married couple can shield up to \$500,000). These limits, established in 1997, have never been indexed to inflation. This exclusion is only allowed once every two years.³

Low-income seniors may qualify for the Credit for the Elderly or Disabled.

This incentive, intended for people 65 and older, can be as large as \$7,500 based on your filing status. You must have very low AGI and nontaxable income to claim it, though. It is basically designed for those living wholly or mostly on Social Security benefits.⁴

Affluent IRA owners may want to make a charitable IRA gift.

Generally, once you reach age 72, you must begin taking required minimum distributions (RMDs) from a traditional IRA. You may not be looking forward to these annual withdrawals, especially if you are well off. You have another option: you can make a Qualified Charitable Distribution (QCD) using those traditional IRA assets.⁵

You can donate up to \$100,000 of traditional IRA assets to a qualified charity in a single year this way, and the amount donated counts toward your required withdrawal. The amount of the QCD is excluded from your gross income for the year of the donation. Eligibility to make a QCD still begins at 70½, even though the Setting Every Community Up for Retirement Enhancement (SECURE) Act raised the starting age for annual traditional IRA distributions from 70½ to 72.⁵

It must be mentioned that withdrawals from traditional IRAs are taxed as ordinary income (and, if taken before age 59½, may be subject to a 10% federal income tax penalty).

Of course, some states also give seniors tax breaks.

For example, the following 11 states do not tax federal, state, or local pension income: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, New York, and Pennsylvania. Twenty-eight states (and the District of Columbia) refrain from taxing Social Security income.⁶

Unfortunately, your Social Security benefits could be partly or fully taxable.

They could be taxed at both the federal and state level, depending on how much you earn and where you happen to live. Whether you feel this is reasonable or not, you may have the potential to claim some of the tax breaks mentioned above as you pursue the goal of tax efficiency.⁷

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Citations.

1 - efile.com/tax-deduction/federal-standard-deduction/ [1/20/20]

2 - thebalance.com/deducting-medical-expenses-retirement-2894613 [11/4/19]

3 - investopedia.com/ask/answers/06/capitalgainhomesale.asp [2/16/20]

4 - thebalance.com/tax-breaks-for-seniors-and-retirees-4148392 [1/14/20]

5 - giving.princeton.edu/giftplanning/current-ira-gifts [2/18/20]

6 - thebalance.com/state-income-taxes-in-retirement-3193297 [7/15/19]

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UPCOMING EVENTS:

Our March seminars are at:

Orchard Park Country Club

Thursday, March 12th at 6 p.m.
4777 S. Buffalo Street
Orchard Park, NY 14127

Ellden's Grill & Banquet

Thursday March 19th at 6 p.m.
201 Whitehaven Road
Grand Island, NY 14072

Eagle House Restaurant

Tuesday, March 24th at 6 p.m.
5578 Main Street
Williamsville, NY 14221

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.

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