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

MOLDENHAUER & ASSOCIATES

JULYNEWSLETTER

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

Here, in Western New York, these are the best months of the year. The trees are lush and green, the morning air is fresh and clean, and the lakes and rivers are a clean blue and green. Perhaps, this is what I love the most about WNY.

We are here for only a few years. When we are young life appears to be without end and there is more time than we need. Then we age and, as we get older, the days shorten and priorities often change. Young families focus on getting children ready for college and life. Once the kids are on their own, the concern often becomes retirement. Will we have enough and will it last long enough? Concern often turns to fear and, if not addressed properly and in time, the last quarter of life can be the most difficult.

We live in a great country, but mistakes have been made. People spend on immediate wants rather than plan adequately for the certainty of retirement needs. We are taught, wrongly, to assume that things always work out. Without planning, they do not always work out the way we want.

Assisting people to prepare for life's last quarter has always been the primary mission of this firm. In 1971, I started my career in this field with that purpose in mind. Today, it still motivates me. When I am in WNY and spend time at the business, seeing my mission carried forward by Brett, the advisors, and their support team lifts my spirits and I feel great.

Even today, when I meet a new acquaintance, I am often asked what I do (or what did I do)? What I try to say, without a lot of verbiage, is "I help people protect and prepare for a better financial future".

As I reflect on the past and focus on the future for our firm and its clients, I do two things:

- I attempt to assist people to look forward and dream bigger dreams.
- I attempt to show people how to think about retirement differently and consider creating a legacy for those they care for.

Perhaps you can consider assisting us. We will create a career trainee position for 1 or 2 qualified young people in this great career field. To qualify they need a good education, must be motivated to have a meaningful career and have the desire to work hard to become successful.

If you know someone who might be a good candidate, please consider introducing us to each other. They can email me their resume at: richm@moldenhauerassociates.com. I hope you will consider this request. It could be the best thing you could do for the right person.

I look forward to being in WNY at the firm for much of the summer. If you are in the office, I hope to see you.

Richard Moldenhauer

Richard Moldenhauer

72(T) DISTRIBUTIONS

Sometimes you can take penalty-free early withdrawals from retirement accounts.

Do you need to access your retirement money early? Maybe you just want to retire before you turn 60 and plan a lifelong income stream from the money you have saved and invested. You may be surprised to know that the Internal Revenue Service allows you a way to do this, provided you do it carefully.

Usually, anyone who takes money out of an IRA or a retirement plan prior to age 59½ faces a 10% early withdrawal penalty on the distribution. That isn't always the case, however. You may be able to avoid the requisite penalty by taking distributions compliant with Internal Revenue Code Section 72(t)(2).[1]

While any money you take out of the plan will amount to taxable income, you can position yourself to avoid that extra 10% tax hit by breaking that early IRA or retirement plan distribution down into a series of substantially equal periodic payments (SEPPs). These periodic withdrawals must occur at least once a year, and they must continue for at least 5 full years or until you turn 59½, whichever period is longer. (Optionally, you can make SEPP withdrawals every six months or on a quarterly or monthly basis.)[1,2]

How do you figure out the SEPPs? They must be calculated before you can take them, using one of three I.R.S. methods. Some people assume they can just divide the balance of their IRA or 401(k) by five and withdraw that amount per year – but that is not the way to determine them.[2]

You should calculate your potential SEPPs by each of the three methods. When the math is complete, you can schedule your SEPPs in the way that makes the most sense for you.

The Required Minimum Distribution (RMD) method calculates the SEPP amount by dividing your IRA or retirement plan balance at the end of the previous year by the life expectancy factor from the I.R.S. Single Life Expectancy Table, the Joint Life and Last Survivor Expectancy Table, or the Uniform Lifetime Table.[1,2]

The Fixed Amortization method amortizes your retirement account balance into SEPPs based on your life expectancy. A variation on this, the Fixed Annuitization method, calculates SEPPs using your current age and the mortality table in Appendix B of Rev. Ruling 2002-62.[1,2]

If you use the Fixed Amortization or Fixed Annuitization method, you are also required to use a reasonable interest rate in calculating the withdrawals. That interest rate can't exceed more than 120% of the federal midterm rate announced periodically by the I.R.S.[1,3]

A lot to absorb? It certainly is. The financial professional you know can help you figure all this out, and online calculators also come in handy (Bankrate.com has a good one).

There are some common blunders that can wreck a 72(t) distribution. You should be aware of them if you want to schedule SEPPs.

If you are taking SEPPs from a qualified workplace retirement plan instead of an IRA, you must separate from service (that is, quit working for that employer) before you take them. If you are 51 when you quit and start taking SEPPs from your retirement plan, and you change your mind at 53 and decide you want to keep working, you still have this retirement account that you are obligated to draw down through age 56 – not a good scenario.[1]

Once you start taking SEPPs, you are locked into them for five consecutive years or until you reach age 59½. If you break that commitment or deviate from the SEPP schedule or calculation method you have set, a 10% early withdrawal penalty could apply to all the SEPPs you have already made, with interest. (Some individuals can claim exceptions to this penalty under I.R.S. rules.)[3,4]

The I.R.S. does permit you to make a one-time change to your distribution method without penalty: if you start with the Fixed Amortization or Fixed Annuitization method, you can opt to switch to the RMD method. You can't switch out of the RMD method to either the Fixed Amortization or Fixed Annuitization method, however.[2]

If you want or need to take 72(t) distributions, ask for help. A financial professional can help you plan to do it right.

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

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

Citations.

1 - irs.gov/Retirement-Plans/Retirement-Plans-FAQs-regarding-Substantially-Equal-Periodic-Payments [12/19/17]

2 - fool.com/retirement/2017/05/19/use-your-retirement-savings-early-with-substantial.aspx [5/19/17]

3 - thebalance.com/how-to-use-72-t-payments-for-early-ira-withdrawals-2388257 [9/20/17]

4 - military.com/money/retirement/second-retirement/early-retirement-options.html [5/7/18]

RETIREMENT PLANNING WEAK SPOTS

They are all too common.

Many households think they are planning carefully for retirement. In many cases, they are not. Weak spots in their retirement planning and saving may go unnoticed.

Couples should recognize that they may face major medical expenses.

Each year, Fidelity Investments estimates how much a pair of newly retired 65-year-olds will spend on health care throughout the rest of their lives. Fidelity says that on average, retiring men will need $133,000 to fund health care in retirement; retiring women, $147,000. Even baby boomers in outstanding health should accept the possibility that serious health conditions could increase their out-of-pocket hospital, prescription drug, and eldercare costs.[1]

Retirement savers will want to diversify their invested assets.

An analysis from StreetAuthority, a financial research and publishing company, demonstrates how dramatic the shift has been for some investors. A hypothetical portfolio split evenly between equities and fixed-income investments at the end of February 2009 would have been weighted 74/26 in favor of equities exactly nine years later. If a bear market arrives, that lack of diversification could spell trouble. Another weak spot: some investors just fall in love with two or three companies. If they only buy shares in those companies, their retirement prospects will become tied up with the future of those firms, which could lead to problems.[2]

The usefulness of dollar cost averaging.

Recurring, automatic monthly contributions to retirement accounts allow a pre-retiree to save consistently for them. Contrast that with pre-retirees who never arrange monthly salary deferrals into their retirement accounts; they hunt for investment money each month, and it becomes an item on their to-do list. Who knows whether it will be crossed off regularly or not?

Big debts can put a drag on a retirement saving strategy.

Some financial professionals urge their clients to retire debt free or with as little debt as possible; others think carrying a mortgage in retirement can work out. This difference of opinion aside, the less debt a pre-retiree has, the more cash he or she can free up for investment or put into savings.

The biggest weakness is not having a plan at all.

How many households save for retirement with a number in mind – the dollar figure their retirement fund needs to meet? How many approach their retirements with an idea of the income they will require? A conversation with a financial professional may help to clear up any ambiguities – and lead to a strategy that puts new focus into retirement planning.

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Citations.

1 - marketwatch.com/story/youre-probably-going-to-live-longer-what-if-you-cant-afford-it-2018-04-23 [4/23/18]

2 - nasdaq.com/article/how-to-prepare-your-income-portfolio-for-volatility-cm939499 [3/26/18]

UPCOMING EVENTS:

Our September seminars are at:

We will be taking a break from doing our monthly seminars during the months of July and August and resume our seminars in September. Have a safe and enjoyable summer!

Orchard Park Country Club

Tuesday, September 11, 2018 at 6 p.m.
4777 S. Buffalo Street
Orchard Park, NY 14127

Bravo's Café

Thursday, September 13, 2018 at 6 p.m.
5781 Seneca Street
Elma, NY 14059

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.

Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Advisor, Fixed Insurance products and services offered through Moldenhauer and Associates.