

MOLDENHAUER & ASSOCIATES

MAY NEWSLETTER

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For the past several months, I have been working hard to create meaningful content. As a matter of fact, I only completed the April content a few days ago. With that mailed in, I am thinking about May and beyond. If you're working with our firm, you've noticed that our advisors are bright vigorous people. They are current and up to date on their technical skills and are genuinely helpful folks.

I share this with you because it is important to know that the people who are here to help you have the time and interest in being of on-going value to you and your planning needs.

By the time you see this, I will have been in WNY for a while. Much of the year I live in a suburb of Charleston, and I really enjoy that part of my life. I moved my primary residence here after undergoing a double lung transplant almost 10 years ago. The WNY harsh winters that I'd grown to love were too tough on my body. With two sons and their families in Charleston, living there was a logical and agreeable decision.

However, I've always spent several months each year in WNY. Between the rest of the family, the business, and friends, it too, just made sense. I've missed work, many of the people in WNY, and who could have guessed I'd be alive and fit after my medical procedure.

I've been thinking about my life and what might make my senior years happier, healthier, and more fulfilling. I recently read an article by a 100-year-old practicing physician. He made suggestions that make sense for any of us who are trying to live longer better-quality lives. For beginners, he made basic health declarations to include things to do and things to not do. He made suggestions about staying involved and active. He still practices medicine, and he believes this gives him a reason for living. He believes that meaningful work contributes to better mental health. He suggests not only the things we all know about, but he includes several added things that make his life more complete, and he believes, healthier. He suggests not smoking, drinking only small amounts of alcohol, and

maintaining a high level of cardiovascular exercise. All of these are logical, and we should all be aware of these important habits.

For people who cannot continue meaningful work, he suggests finding an avocation where you can commit a significant portion of your time. He believes the effect of a commitment to something that is meaningful to you and of value to others has the equivalent effect that work provides.

Here are a few things I'd add to his list:

1. Have a good doctor and dentist who you trust.
2. Monitor your health and maintain a healthy diet.
3. Follow the medical people's advice, keep an eye on your vitals like blood work, blood pressure, and weight.
4. Stay close to family and friends. That is as important to their health as it is yours.
5. Find new ways to enjoy life. As we age, we can't do some things we did as younger people, but we can do other things better. I believe with age does come some very valuable wisdom.
6. If you've burned bridges in the past, perhaps some of those decisions can be revisited now that you are older and wiser.

I've got more on this subject, but that is a good start. In future months, I'll expand this topic. If you are a client looking to retire or in early retirement, these topics are a natural companion to the important financial things we talk about at our review sessions.

Richard Moldenhauer

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ORCHESTRATING YOUR RETIREMENT ACCOUNTS

An orchestra is merely a collection of instruments, each creating a unique sound. It is only when a conductor leads them that they produce the beautiful music imagined by the composer. The same can be said about your retirement strategy.

The typical retirement strategy is built on the pillars of your 401(k) plan, your Traditional IRA, and taxable savings. Getting the instruments of your retirement to work in concert has the potential to help you realize the retirement you imagine.¹

Hierarchy of Savings

Maximizing the effectiveness of your retirement strategy begins with understanding the hierarchy of savings.

If you're like most Americans, the amount you can save for retirement is not unlimited. Consequently, you may want to make sure that your savings are directed to the highest priority retirement funding options first. For many, that hierarchy begins with the 401(k), is followed by a Traditional IRA and, after that, put toward taxable savings.

You will then want to consider how to invest each of these savings pools. One strategy is to simply mirror your desired asset allocation in all retirement accounts.²

Another approach is to put the income-generating portion of the allocation, such as bonds, into tax-deferred accounts, while using taxable accounts to invest in assets whose gains come from capital appreciation, like stocks.³

Withdrawal Strategy

When it comes to living off your savings, you'll want to coordinate your withdrawals. One school of thought recommends that you tap your taxable accounts first so that your tax-deferred savings will be afforded more time for potential growth.

Another school of thought suggests taking distributions first from your poorer performing retirement accounts, since this money is not working as hard for you.

Finally, because many individuals have both traditional and Roth IRA accounts, your expectations about future tax rates may affect what account you withdraw from first. (If you think tax rates are going higher, then you might want to withdraw from the traditional before the Roth). If you're uncertain, you may want to consider withdrawing from the traditional up to the lowest tax bracket, then withdrawing from the Roth after that.⁴

In any case, each person's circumstances are unique and any strategy ought to reflect your particular risk tolerance, time horizon, and goals.

1 "Under the SECURE Act, in most circumstances, you must begin taking required minimum distributions from your 401(k), Traditional IRA, or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k), Traditional IRA or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. 401(k) plans and IRAs have exceptions to avoid the 10% withdrawal penalty, including death and disability. Contributions to a traditional IRA may be fully or partially deductible, depending on your individual circumstances.

2 Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss.

3 The market value of a bond will fluctuate with changes in interest rates. As rates rise, the value of existing bonds typically falls. If an investor sells a bond before maturity, it may be worth more or less than the initial purchase price. By holding a bond to maturity an investor will receive the interest payments due plus his or her original principal, barring default by the issuer. Investments seeking to achieve higher yields also involve a higher degree of risk. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost.

4 Roth IRA contributions cannot be made by taxpayers with high incomes. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawal can also be taken under certain other circumstances, such as a result of the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

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TERM VS. PERMANENT LIFE INSURANCE

According to industry experts, most people don't have enough life insurance. The American Council of Life Insurers recently reported that average coverage equals \$183,780, which is equivalent to approximately 3.5 years in terms of income replacement (with the median income being \$54,132 in 2022, according to the Bureau of Labor Statistics). That's only half the recommended 7-year threshold.^{1,2}

Furthermore, almost half of consumers said that their households would be in immediate or near-immediate financial trouble if the primary wage earner died today.³

When considering life insurance, one of the most important factors to understand is the difference between term and permanent insurance. Here's an inside look at both.

Term and Perm

Term life insurance is temporary; it provides a death benefit for a specific term, such as 10, 20, or 30 years. Unlike other types of life insurance, it does not accumulate a cash value. If the policyholder dies during that term, their beneficiaries receive the benefit from the policy. When the contract ends, so does the coverage.

This limited term leads to term life insurance's main advantage: price. Generally, term life insurance costs less than permanent life insurance, especially if the purchaser is younger. This has the potential to free up funds for other household expenses.

Permanent insurance remains in place as long as the policyholder makes payments. In addition, permanent policies are designed to build up "cash value," a cash reserve that accumulates with the policy. Typically, this cash reserve pays a modest rate of return. However, the policyholder has limited access to the funds.

Which Should You Choose?

Term life insurance can be designed to provide protection against upcoming expenses, such as putting children through college. Permanent life insurance, on the other hand, can be more useful for covering long-term financial needs, such as estate planning.

Many people find that they have a combination of short- and long-term needs. In such circumstances, it may be prudent to have both types: a basic level of permanent life insurance supplemented by a term policy. A review of your situation may help determine what type of life insurance is appropriate.

Several factors will affect the cost and availability of life insurance, including age, health, and the type and amount of insurance purchased. Life insurance policies have expenses, including mortality and other charges. If a policy is surrendered prematurely, the policyholder also may pay surrender charges and have income tax implications. You should consider determining whether you are insurable before implementing a strategy involving life insurance. Any guarantees associated with a policy are dependent on the ability of the issuing insurance company to continue making claim payments.

Term or Perm?

In 2021 people purchased more permanent life insurance policies than term life insurance policies. However, term policies account for approximately 74% of the face amount of the policies issued.³

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Citations.

- 1 - ACLI.com, 2022
- 2 - BLS.gov, 2022
- 3 - LIMRA.com, 2022

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HOW WILL WORKING AFFECT SOCIAL SECURITY BENEFITS?

In a recent survey, 70% of current workers stated they plan to work for pay after retiring.¹

And that possibility raises an interesting question: how will working affect Social Security benefits?

The answer to that question requires an understanding of three key concepts: full retirement age, the earnings test, and taxable benefits.

Full Retirement Age

Most workers don't face an "official" retirement date, according to the Social Security Administration. The Social Security program allows workers to start receiving benefits as soon as they reach age 62 – or to put off receiving benefits up until age 70.²

"Full retirement age" is the age at which individuals become eligible to receive 100% of their Social Security benefits. Individuals born in 1960 or later can receive 100% of their benefits at age 67.

Earnings Test

Starting Social Security benefits before reaching full retirement age brings into play the earnings test.

If a working individual starts receiving Social Security payments before full retirement age, the Social Security Administration will deduct \$1 in benefits for each \$2 that person earns above an annual limit. In 2023, the income limit is \$21,240.³

During the year in which a worker reaches full retirement age, Social Security benefit reduction falls to \$1 in benefits for every \$3 in earnings. For 2023, the limit is \$56,520 before the month the worker reaches full retirement age.³

For example, let's assume a worker begins receiving Social Security benefits during the year he or she reaches full retirement age. In that year, before the month the worker reaches full retirement age, the worker earns \$65,000. The Social Security benefit would be reduced as follows:

Earnings above annual limit	$\$65,000 - \$56,520 = \$8,480$
One-third excess	$\$8,480 \div 3 = \$2,827$

In this case, the worker's annual Social Security benefit would have been reduced by \$2,827 because they are continuing to work.

Taxable Benefits

Once you reach full retirement age, Social Security benefits will not be reduced no matter how much you earn. However, Social Security benefits are taxable.

For example, say you file a joint return, and you and your spouse are past the full retirement age. In the joint return, you report a combined income of between \$32,000 and \$44,000. You may have to pay income tax on as much as 50% of your benefits. If your combined income is more than \$44,000, as much as 85% of your benefits may be subject to income taxes.⁴

There are many factors to consider when evaluating Social Security benefits. Understanding how working may affect total benefits can help you put together a strategy that allows you to make the most of all your retirement income sources – including Social Security.

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- 1 - EBRI.org, 2022
- 2 - SSA.gov, 2023
- 3 - SSA.gov, 2023
- 4 - SSA.gov, 2023

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Our upcoming seminars are at:

TO RESUME IN SEPTEMBER 2023

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