

MOLDENHAUER & ASSOCIATES

JANUARY NEWSLETTER

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Too much snow! This could be the WNY catch phrase of the 2022-2023 winter!

When I wrote this article, I said a couple things to myself. Thank God for the good things that occurred in 2022. It appears that much of the worst of COVID is behind us and the economy, while in tough shape, appears to be settling. Perhaps we'll see a modest recovery soon.

Then I thought of the people that we cared about that were lost in 2022. Sadly, there were many. I pray for those who suffered those losses.

Like the birth of a new child, we hope that the coming year is blessed with health, good fortune, and less sadness. As an optimist, I am confident that soon the worst of the recessionary times we are living in will diminish, and life will improve.

The past couple of years have introduced many challenges to both the economy and the markets. Our politicians made difficult decisions to address COVID and the economic fallout from both the pandemic and the impact of fiscal stimulus. 2022 quickly became a year of reckoning for those decisions. I hope this was a wakeup call to our politicians on the importance of financial responsibility; for our sake in the near term, and more importantly, for the sake of our children and grandchildren.

I was reading about the kindness that one family from Buffalo extended to an unfortunate individual during the recent blizzard. I am sure there were many kindnesses that people extended to neighbors and strangers alike. That is the type of thing that people from Western New York have been famous for; for decades.

We wish you and your families a very prosperous and happy new year in 2023.

At Moldenhauer & Associates we will continue to provide exceptional service to our clients and those who entrust their financial planning to our firm. We've been practicing the quality service model since the mid 1970's and I am confident we'll continue doing our best to place our client's best interest ahead of our firms. We are always seeking ways to improve what we do for our clients. In the February article I'll explain a few of our planned improvements for 2023.

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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.

Presented by Brett A. Moldenhauer

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SHOULD YOU CONSOLIDATE YOUR RETIREMENT ACCOUNTS?

If you're like most people, you've saved for retirement in multiple ways, including employer plans and individual retirement accounts (IRAs). As you approach retirement, it may make sense to consolidate all of your savings into one account to achieve a coordinated investment plan.

Why Consolidate?

Consolidating your retirement accounts offers several potential benefits:

Less administrative hassle.

You'll receive just one account statement, making it easier to keep track of your funds. Consolidating your accounts also simplifies required minimum distribution calculations and tracking.

No overlap.

If you have multiple accounts, that doesn't necessarily mean that your investments are properly diversified. In fact, your money may be invested in similar asset classes with significant overlap. Consolidating your retirement accounts gives you a clearer view of your asset allocation picture, as well as any adjustments you may need to make.

Easier rebalancing.

Any retirement savings account requires periodic rebalancing to keep it in line with your objectives. By consolidating your accounts, you're more likely to achieve a cohesive investment strategy.

How to Consolidate

Moving a retirement account to a new employer plan or to an IRA can be done via rollover or transfer. Although these terms are often used interchangeably with transfer, there are significant differences between the two.

With a rollover, the retirement funds are paid to you directly, and you have 60 days to move them to another plan or IRA. If you are moving money from an employer plan, a 20 percent tax withholding will be deducted from the check. To avoid facing potential penalties, you must contribute enough to your new retirement account to replace the 20 percent withholding. Alternatively, you can ask your retirement plan administrator to make out a check payable to your new IRA custodian and mail it directly to you. It is then your responsibility to deposit the funds in your new account within 60 days.

With a trustee-to-trustee transfer, the funds are sent directly from one plan to another. That is why this type of transfer is often referred to as a direct rollover. Unlike regular rollovers, there is no withholding requirement for direct transfers. When requesting a transfer from your employer's plan or another retirement account, be sure to use the right terms to avoid unwanted tax consequences.

Should You Move Your Employer Plan to an IRA?

A former employer will generally let you keep your money in its retirement plan for as long as you want.

You may also choose to move those savings to an IRA. Before making the switch to an IRA, however, it's wise to consider the following factors:

Investment choices.

An employer's 401(k) plan may be lower cost, but your choice of investments will be limited, as 401(k) plan sponsors tend to simplify the investment decision for employees by reducing the number of options. With an IRA, you have a potentially unlimited choice of investments, including individual stocks, mutual funds, and alternative investments rarely offered by employer plans.

Control over distributions.

Another benefit of IRAs is that you have more control over when your retirement savings are paid to you. Distribution requirements vary among IRA providers, so be sure to understand the choices available to you and your beneficiaries.

Creditor protection.

If creditor protection is a concern, both employer plans and IRAs safeguard your retirement savings from creditors to a certain extent. Employer plans generally offer better protection than IRAs do, however. The level of protection an IRA offers depends on your state laws.

Early withdrawal.

One reason to keep funds in an employer account, at least temporarily, is that you may need to tap into your retirement savings before you reach age 59½. There is no tax penalty for taking a distribution from your former employer's plan after you reach age 55. Although you'll still pay income taxes, you will avoid the 10 percent penalty for early withdrawal, which would be assessed if you withdrew funds from an IRA before age 59½. Exceptions to the penalty on early IRA distributions include:

- Unreimbursed medical expenses that amount to more than 7.5 percent of your adjusted gross income
- Disability
- Distributions from a beneficiary IRA upon the death of the original IRA owner
- Qualified higher-education expenses
- Qualified first-time home purchase
- Distributions under a "substantially equal payment" plan, per Section 72(t) of the Internal Revenue Code

Employer stock.

Finally, before moving funds to an IRA, talk to your advisor about the best way to handle employer stock held in your 401(k) or other employer retirement plans. There may be significant tax advantages to moving stock "in kind" to a taxable brokerage account rather than to an IRA. This is often referred to as the net unrealized appreciation strategy. You will pay ordinary income tax on what you paid for the stock, but any appreciation will be taxed at long-term capital gains rates.

A Retirement Strategy That Works for You

If you have any questions about consolidating your retirement accounts, don't hesitate to reach out to us.

We can help you develop the best strategy for you, keeping you on track to meet your retirement goals.

Presented by Brett A. Moldenhauer

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

UPCOMING EVENTS:

Our upcoming seminars are at:

Pane's Restaurant

Tuesday, February 28, 2023 at 6 p.m.
984 Payne Avenue
North Tonawanda, NY 14120

The Delaware Pub & Grill

Thursday, March 2, 2023 at 6 p.m.
3410 Delaware Avenue
Kenmore, NY 14217

We encourage clients who live in the area to consider attending with a friend or two. We find that the best way to introduce new potential clients to our firm is when an existing client brings a friend to one of our seminars. As you know, these are informational/educational events. We are not there to convince people that we are the only firm to consider working with. Rather, we do believe that our firm offers a quality opportunity for those people looking for a new advisor relationship. Please consider attending an upcoming seminar in your neighborhood with a friend. You may register for a seminar by calling 716-662-4361 or through our website at www.moldenhauerassociates.com.

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