

MOLDENHAUER & ASSOCIATES

FEBRUARY NEWSLETTER

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

INTRODUCTION TO 72(T) DISTRIBUTIONS

P.2-3

BENEFICIARY PLANNING

P.3

TEACHING TEENS FINANCIAL RESPONSIBILITY

P.3-4

"No, no, no, no. Lightspeed is too slow. We're going to have to go right to *Ludicrous Speed*." Spaceballs is one of the best "spoof" movies of all time. It sure feels like we've gone into ludicrous speed lately, and we're reminded of it constantly. (If you need a laugh, watch the movie)

Artificial Intelligence (AI) is entering *Ludicrous Speed*. The entire world seems to have been enamored with "Large Language Models," such as Chat GPT. I admit that it's a pretty neat tool. Enter DeepSeek, the disruptor. Several articles have been written about the cheaper, easier and more quickly developed Chinese competitor as a threat to the US's dominance on AI. It's unclear whether this is true, or if this will fall under the category of Chinese propaganda.

My bet is that it's a little bit of both. However, I'm also a competitive person. I think the US has a competitive spirit, which has propelled our economy to largest, strongest, and best (and also flawed, sometimes) in the history of mankind. I think DeepSeek will result in faster and better innovation from the US. What's next on the horizon, autonomous/self driving vehicles, or robots? It very easily could be both, and gives us hope for continued economic strength. Sometimes we need the reminder to work harder and persevere.

The following Monday, we came to work with every headline being about the newly enacted tariffs. Like US dominance in AI, there are A LOT of opinions. We'll see how this plays out, but focusing on long term goals can help us ignore the short term noise.

Beyond the economy, I'm reminded of *Ludicrous Speed* at least once a week. My phone creates little picture montages of my kids. It's crazy how quickly the last 12 years has passed. Like the headlines, whether it be the election, DeepSeek, or tariffs, it always seems there is a reason for chaos with four kids. They have conflicting schedules, different friends, personalities, goals and objectives. There are times I feel like we won't make it through the day. Then I wake up and do it all over again (Andrea carries the heavier burden with the kids). I'm an emotional person, and so I'm usually watery eyed by the end of the movie. Through the challenges, I think about how lucky I am to have amazing kids. I miss the excitement and laughs when they were smaller. It makes me more excited for what they can and will do and accomplish in life. I look forward to them becoming the people they are meant to be.

Whether it's the economy, or my family, I'll take ludicrous speed. It's scary, but it gets us where we want to go. It helps us focus on what's important, do what's needed, and makes difficult decisions easier. It's life.

Brett Moldenhauer

Brett Moldenhauer





INTRODUCTION TO 72(T) DISTRIBUTIONS

Premature distributions from IRAs (i.e., distributions prior to age 59½) are generally subject to a 10 percent penalty. Why? To prevent people with insufficient savings from retiring too early, spending their nest egg, and then needing to rely on government assistance for the remainder of their retirement.

Certain premature distributions from IRAs are exempt from the distribution penalty:

- Death of the IRA holder
- Disability of the IRA holder
- To pay for qualified medical expenses
- To purchase health insurance for certain unemployed individuals
- To pay for certain first-time home purchase expenses
- To pay for certain education expenses of qualified individuals
- To pay for an IRS levy
- Qualified birth or adoption

Section 72(t) of the Internal Revenue Code (IRC) provides another exception to this rule. IRA holders younger than age 59½ may take a series of substantially equal periodic payments (SEPPs)—also known as 72(t) distributions—over the course of their life expectancy or over the combined life expectancy with their beneficiary (usually a spouse).

How SEPPs Work

To qualify as a SEPP, the distribution must occur annually and must be calculated using one of three calculation methods. A series of distributions begun before age 59½ must generally continue unchanged for five years or until the holder reaches age 59½, whichever is later. This five-year rule is waived upon death or disability.

Payments can be modified only in the case of death, disability, or a permissible onetime change to the calculation method (more below). The 10 percent early distribution penalty, plus interest, will be retroactive to the first year of distribution. Payments can also be invalidated through:

- Any addition to the account balance, other than gains or losses
- Any nontaxable transfer of a portion of the account balance to another retirement plan
- A rollover by the taxpayer of the amount received, resulting in such amount not being taxable

Calculating SEPPs

There are three calculation methods for determining the value of the SEPP: the required minimum distribution (RMD) method, the amortization method, or the annuity method. As mentioned previously, IRA holders can make a one-time switch from the annuity or amortization methods to the more conservative RMD method if they wish to receive smaller distributions. They cannot, however, change the calculation method to receive a larger distribution.

Each distribution method is based on one of the life expectancy tables in IRS Publication 590:

- The Joint Life Table is used to calculate the payments for elderly clients whose spouses are more than 10 years younger than the IRA holder and the sole primary beneficiary.
- The Single Life Table is used to calculate the payments for an inherited IRA.
- The Uniform Life Table is used to calculate the payments for unmarried clients, married clients with a non-spouse beneficiary, or married clients whose spouse beneficiary is not more than 10 years younger.

The RMD method. Payment is determined according to the rules for calculating RMDs under IRC Section 401(a)(9). Each year, the payment is determined by dividing the account balance by the number from the appropriate life expectancy table for that year. Generally, payments may be based on the joint life expectancy of the IRA holder and a designated beneficiary, the IRA holder's single life expectancy, or the IRA holder's life expectancy based on the Uniform Lifetime Table.

The amortization method. Payments are determined by amortizing the IRA balance over either the joint life expectancy of the IRA holder and a designated beneficiary or over the IRA holder's single life expectancy. A reasonable interest rate, decided on before withdrawals begin, must be used. The withdrawal amount remains the same year-to-year, and it will generally be larger than the amount provided through the RMD method.

The annuity method. This method is similar to the amortization method, but instead of using a life expectancy table to determine the payment over the IRA holder's single or joint life expectancy, it uses an annuity factor derived from the UP-1984 Mortality Table. This method results in the highest payment.

Claiming Exemption from the 10 Percent Early Distribution Penalty

If you receive an early distribution from your plan that is coded as a 2, 3, or 4 on IRS Form 1099-R, you will not be subject to an early distribution penalty. If, however, you receive a distribution that is coded as a 1 and you are eligible to claim one of the exceptions to the 10 percent penalty, file IRS Form 5329 with your tax return to claim your exemption.

Presented by Brett A. Moldenhauer

Moldenhauer & Associates
6195 West Quaker Street | Orchard Park, NY 14127
716.662.4361 | 716.662.5509 fax
brettm@moldenhauerassociates.com

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.

© 2023 Commonwealth Financial Network®

BENEFICIARY PLANNING

What You Need to Know

Designating a beneficiary on retirement accounts is one of the most important—yet one of the most frequently neglected—retirement planning tasks. A beneficiary is any person or entity that an account owner chooses to receive the benefits of a retirement account in the event the account owner dies. Here are some important factors to consider when selecting beneficiaries for your retirement accounts:

Don't leave a beneficiary form blank, and don't name your estate as beneficiary.

Failing to name an individual, or individuals, as your beneficiary could deprive your heirs or loved ones of inheriting your retirement assets. Another downside of not naming a beneficiary: your retirement assets would need to go through the lengthy probate process and could be subject to creditors.

Make a beneficiary designation for each retirement account that you own.

People often make the mistake of assuming that the beneficiary they name on one account will dictate who the beneficiary is on their other retirement accounts, but that is not the case. You need to have a valid beneficiary on file for each account.

Remember that beneficiary designations take precedence over wills.

Retirement assets are distributed according to the named beneficiary, regardless of any other agreements, such as wills.

Keep your beneficiary designations current.

Many people fail to update their beneficiary designations after major life events, such as a marriage, divorce, or new addition to the family.

Consider consulting a professional.

You may wish to seek the guidance of an experienced attorney, CPA, or financial advisor to help you make the best choices for you and your heirs.

Presented by Brett A. Moldenhauer

Moldenhauer & Associates
6195 West Quaker Street | Orchard Park, NY 14127
716.662.4361 | 716.662.5509 fax
brettm@moldenhauerassociates.com

This material has been provided for general informational purposes only and does not constitute tax, legal, or investment advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a qualified professional regarding your situation. Commonwealth Financial Network® does not provide tax or legal advice.

Authored by the Strategic Retirement Solutions team at Commonwealth Financial Network.®

© 2024 Commonwealth Financial Network.®

TEACHING TEENS FINANCIAL RESPONSIBILITY

We feel confident our kids will be taught reading, writing, and basic math in school. But how will they learn to budget, use a credit card, save for a car or a down payment on a home, and stay out of debt? Just as reading and writing are critical skills for a successful future, so is financial responsibility. Unlike with common academic subjects, however, it often falls on families to teach money-related lessons. Before a teenager leaves the nest, they should know these basic financial concepts to lay a foundation for success in adulthood.

Budgeting and Banking

Allowances are commonly offered to kids as a reward for doing chores. They also provide lessons in saving and budgeting. A **monthly allowance**—as opposed to a weekly one—gives more opportunities for planning ahead because the cash needs to last longer. Creating a budget with your teen for how to spend an allowance can lead to a discussion about prioritizing needs over wants and figuring out how to spend less on some things so you have more to spend on others. You might suddenly find your kid packing a snack at home, for example, instead of visiting the vending machine at school.

Teens often have additional opportunities to learn money management when they earn cash from **part-time jobs** or summer work. That additional income means they have more to spend and budget—and they're attaining more financial independence.

One common approach is to instruct kids to divide their income into three categories: save, spend, and give. Although saving in an envelope or piggy bank might work for young children, opening a **savings account** for your teen helps them learn about banking in general, accruing interest, and planning for long-term goals. Many banks offer teen **checking accounts** with a debit card as well as allow parental access and controls.

It might be possible to set up direct deposit for paychecks and have your teenager check the balance from their mobile phone. Looking at the paycheck together can also spark lessons in taxes, such as types of deductions, what the government uses the money for, and who must file a return. This way, you'll save

them from a big surprise when their take-home pay is less than expected. You can also look into youth **brokerage accounts** to get your teen to learn about investing.

A Course in Good Credit

Once your teen has money in the bank, they'll need a way to access it. Options include debit cards, prepaid cards, and adding an authorized user to your credit card account. Each of these methods offer lessons in how to spend within your means.

A **debit** or **prepaid card** can help your teen start making online and in-person purchases without incurring debt. Practicing using a debit card can get them in the mindset of spending only what they have, which will be helpful when they are eligible for an actual **credit card**. Although most lenders won't issue a credit card to anyone younger than 18, adding your teen as an authorized user on your credit card is another option for a starting experience with credit. To maintain the same spend-within-your-means line of thinking that a debit card offers, consider requiring receipts for your teen's purchases and collecting cash from them for each expense.

Look at the credit card bill together each month, explaining annual fees, interest charges, late payment fees, and—most important—the consequences of amassing credit card debt. Paying the bill together can also help your teen form a habit of checking all charges, getting mistakes or fraudulent charges corrected, and paying attention to due dates.

Once you've taught your teen how to responsibly pay the bill, you can explain the basics of **credit scores**, such as how they're calculated and how they can affect a person's ability to borrow and make large purchases as an adult.

Contributing to a Cause

"Spend, save, give" might sound easy, but what would motivate your teen to donate any of their earnings—and to whom should they give? One way to introduce the concept of donating to charity is to share information about the contributions you make, why you chose those organizations, and how the recipients benefit from your help. Perhaps your teen is an animal lover, has a friend battling a disease, has a relative who is a veteran, or is interested in another cause that would benefit from a donation.

After selecting a charity, discuss the importance of researching organizations to confirm their legitimacy and to verify that any contributions directly benefit those in need. Lastly, educate your teen about itemized tax deductions and how charitable donations to qualified organizations can reduce your tax bill.

Staying Safe from Scams

Just as you've taught your child general online safety, there are new lessons to learn once debit cards, banking apps, and online donations enter the mix. It's important that your teen knows never to share passwords, online banking information, or account numbers. Help them regularly check credit card bills or debit accounts for fraudulent charges and guide them through reporting purchases they don't recognize.

If you have questions about how to communicate these—or any other financial concepts—to your teen, please reach out to our office. We aim to help your whole family achieve financial success.

Presented by Brett A. Moldenhauer

Moldenhauer & Associates
6195 West Quaker Street | Orchard Park, NY 14127
716.662.4361 | 716.662.5509 fax
brettm@moldenhauerassociates.com

This material has been provided for general informational purposes only and does not constitute tax, legal, or investment advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a qualified professional regarding your situation. Commonwealth Financial Network® does not provide tax or legal advice.

© 2023 Commonwealth Financial Network®



Moldenhauer & Associates is on Facebook.

Follow us on our Facebook page for latest updates and features at **Moldenhauer & Associates.**

You will also be able to comment on our posts and ask questions to any of our experienced advisors! You may have a question where our answers could benefit you and others! Find us at <https://www.facebook.com/MoldenhauerAssociates/>



UPCOMING EVENTS:

Our March seminars are at:

O'Brien's West End Inn

Tuesday, March 25, 2025 at 6 p.m.
340 Union Street
Hamburg, NY 14075

Orchard Park Country Club

Thursday, March 27, 2025 at 6 p.m.
4777 South Buffalo Street
Orchard Park, NY 14127

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 information/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.

Securities and advisory services offered through Commonwealth Financial Network®, Member FINRA/SIPC, a Registered Investment Advisor. Fixed insurance products and services are separate from and not offered through Commonwealth Financial Network®.

Privacy & Security

Trust is at the heart of every successful, ongoing relationship. At Moldenhauer & Associates, earning and keeping your trust is the standard for everything we do. Because of this commitment, we never sell, rent or trade e-mail addresses with any other company. E-mail addresses furnished by our clients and potential clients will be used strictly for sending newsletters and client communication from Moldenhauer & Associates.

Before investing, carefully consider the investment objectives, limitations, risks, fees and expenses of the products and any underlying investment options. This information can be found in the product prospectuses. Copies are available from our office. Please read carefully before investing.