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MOLDENHAUER & ASSOCIATES

SEPTEMBERNEWSLETTER

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I was reflecting back on my July Newsletter contribution. It seems I am often talking about health and life more than financial planning. That may seem a bit strange, but I have always believed that the three topics are closely connected. The people who know me best know I've taken the health of those I know very seriously.

When I returned from Vietnam in 1970, I initially assumed I'd head back to law school, but life seemed to get in the way. I was almost 26 years old, and my father, who had just turned 46, unexpectedly passed away. A heart attack at his age was uncommon and he felt he was still a young man. He had had a successful business, but he had done no financial planning. Like most people, he believed that he had a long future and plenty of time to plan.

At that time, I could not understand or appreciate how he had not taken his mortality and future more seriously. I'd seen war and, I think, I had learned about mortality along with my contemporary brothers at arms. I wanted to help my mother, but, almost as important, I wanted to know why a seemingly successful person did not get good legal or financial advice.

So, I explored the financial industry, and I met with a few lawyers. What a shock. I learned that financial products do not sell themselves like cars, clothes, or other fun stuff. I also learned that people who were disciplined enough to plan, became more successful.

Regardless of our career choice, when we are young and trying to make it all work, the stressors are overwhelming. Most of us feel like we may be unique, almost to a point where we think nobody else has our struggles. Then, as we get a few years down the road, the stress may change but it is still present. And so, it goes.

Then there is the period between "planning to become older" and "getting older" when things get serious. That is when working with a firm that takes your financial needs seriously becomes important.

By early 1971, when I made the decision to enter the financial business, I had no idea we'd be the firm we are 50 some years later. The world keeps changing and we keep adapting, while we try to stay true to our purpose. Finding a firm that is committed to ongoing personal financial planning service is more important than ever.

I was speaking with an old friend about modern technology and how it is affecting our lives, as well as, our business. While technology is here to stay, I personally am a bit spooked as to how it is invading every part of our lives. Privacy, which we know is extremely important, seems to be slipping away from our control. Our firm and Commonwealth both take privacy and security very seriously.

Let me take a brief trip back in time. In 2000 or there abouts, we started doing regular marketing seminars. Our purpose was twofold. First, we wanted to attract clients that wanted to do a better job with their financial planning. Secondly, we wanted to grow our business.

I would always start with what I had learned was the biggest mistake people often make. That mistake was and is PROCRASTINATION. I talked about how people preferred doing the things that provided immediate gratification, while putting off the important stuff. Often the important stuff never got addressed. Almost always, people put off the important things until it was too late to do a real course correction.

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The longer we procrastinate the harder a real course correction becomes. I say this to encourage you to do the important stuff now. Start with focusing on family, health, and financial improvement. Now is the best time to clean up the little messes that turn into the big messes.

Well over 50 years have gone by, and reality has not changed. People still find it easier to defer the important planning, instead focusing on the current trends and things that provide more immediate gratification or pleasure.

Today there is more information available, but the individual must take personal responsibility and care about someone or something. While hard, putting the energy into financial planning can pay big dividends.

As many of us have noticed, life is a cycle. When we are young, we are gifted with health and time. The natural tendency is to waste both. Only a few of us take full advantage of life's opportunities when we are young. It seems that time is endless. During young adulthood and middle age, we are busy with survival, raising our family, building our career, and paying the bills.

Then we see the sun starting to set. Our natural reaction should be concern and early planning. Some do what they should, and others procrastinate. Those who get their houses in order the soonest often enjoy the sunset the longest. There should be an urgency, but often this is where procrastination sets in.

As I finish this article, I am thinking how fast the summer months flew by. In August I thought I'd escape the rainy weather by heading out west for my annual fly-fishing trip. The rain followed me out west. The weather certainly affected the fishing, but it was a nice time anyhow. I hope your summer was enjoyable.

Richard Moldenhauer

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NAVIGATING RETIREMENT PITFALLS

Much is written about the classic financial mistakes that plague start-ups, family businesses, corporations, and charities. Some classic financial missteps have been known to plague retirees, too.

Calling them "missteps" may be a bit harsh, as not all of them represent errors in judgment. Either way, becoming aware of these potential pitfalls may help you to avoid falling into them in the future.

Managing Social Security.

Social Security benefits are structured to rise about 8% for every year you delay receiving them after your full retirement age. Is waiting a few years to apply for benefits an idea you might consider? Filing for your monthly benefits before you reach your full retirement age can mean comparatively smaller monthly payments.[1]

Managing medical costs.

One report estimates that the average couple retiring at age 65 can expect to need $315,000 to cover health care expenses during the course of their retirement, even with additional coverage such as Medicare Part D, Medigap, and dental insurance. Having a strategy can help you be better prepared for medical costs.[2]

Understanding longevity.

Actuaries at the Social Security Administration project that a 65-year-old man has a 34% chance and a 65-year-old woman has a 45% chance to live to age 90. The prospect of a 20- or 30-year retirement is not only reasonable, but it should be expected.[3]

Managing withdrawals.

You may have heard of the "4% rule," a guideline stating that you should take out only about 4% of your retirement savings annually. Each person's situation is unique but having some guidelines can help you prepare.

Managing taxes.

Some people enter retirement with investments in both taxable and tax-advantaged accounts. Which accounts should you draw money from first? To answer the question, a qualified financial professional would need to review your financial situation so they can better understand your goals and risk tolerance.

Managing other costs, like college.

There is no "financial aid" program for retirement. There are no "retirement loans." A financial professional can help you review your anticipated income and costs before you commit to a long-term strategy, and help you make a balanced decision between retirement and helping with the cost of college for your children or grandchildren.

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2. Fidelity.com, 2023
3. LongevityIllustrator.org, 2023

INSURANCE NEEDS ASSESSMENT: MARRIED WITH CHILDREN

A growing family, by definition, means growing financial obligations—both present and in the future. Raising children can increase your insurance needs and heightens the urgency for being properly prepared.

Auto

When a child becomes a new driver, one choice is to add the teenager to the parents' policy. You may want to discuss with your auto insurer ways to reduce the additional premium that accompanies a new driver.

Home

You should periodically review your homeowners policy for three primary reasons:

A growing family generally accumulates increasing amounts of personal belongings. Think of each child's toys, clothes, electronic equipment, etc. Moreover, household income tends to rise during this time, which means that jewelry, art, and other valuables may be among your growing personal assets.

The second reason is that the costs of rebuilding—and debris removal—may have risen over time, necessitating an increase in insurance coverage.

Lastly, with growing wealth, you may want to raise liability coverage, or if you do not have an umbrella policy, consider adding it now. Umbrella insurance is designed to help protect against the financial risk of personal liability.

Health

With your first child, be sure to change your health care coverage to a family plan. If you and your spouse have retained separate plans, you may want to evaluate which plan has a better cost-benefit profile. Think about whether now is the appropriate time to consolidate coverage into one plan.

Disability

If your family is likely to suffer economically because of the loss of one spouse's income, then disability insurance serves an important role in replacing income that may allow you to meet living expenses without depleting savings.

The information in this material is not intended as tax or legal advice. It may not be used for the purpose of avoiding any federal tax penalties. Please consult legal or tax professionals for specific information regarding your individual situation.

If you already have disability insurance, consider increasing the income replacement benefit since your income and standard of living may now be higher than when you bought the policy.

Life

With children, the amount of future financial obligations increases. The cost of raising children and funding their college education can be expensive. Should one of the spouses die, the loss of income might severely limit the future quality of life for your surviving children and spouse. Not only does death eliminate the future income of one spouse permanently, but the future earning power of the surviving spouse might be diminished as single parenthood may necessitate fewer working hours and turning down promotions.

The amount of life insurance coverage needed to fund this potential financial loss is predicated on, among other factors, lifestyle, debts, age and number of children, and anticipated future college expenses.

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.

Some couples decide to have one parent stay at home to care for the children full time. The economic value of the stay-at-home parent is frequently overlooked. Should the stay-at-home parent die, the surviving parent would likely need to pay for a range of household and child-care services and potentially suffer the loss of future income due to the demands of single parenthood.

Extended Care

The earlier you consider extended-care choices the better. However, the financial demands of more immediate priorities, like saving for your children's college education or your retirement, will take precedence if resources are limited.

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TAX EFFICIENCY IN RETIREMENT

Will you pay higher taxes in retirement?

It's possible. But that will largely depend on how you generate income. Will it be from working? Will it be from retirement plans? And if it does come from retirement plans, it's important to understand which types of plans will be financing your retirement.

Another factor to consider is the role Social Security will play in your retirement. When do you plan to start to take Social Security benefits? If you have a spouse, when do they plan on taking benefits? It's critical to answer key Social Security benefits questions so you have a better understanding of how it will affect your taxable income.

What's a pre-tax investment?

Traditional IRAs and 401(k)s are examples of pre-tax investments that are designed to help you save for retirement.

You won't pay any taxes on the contributions you make to these accounts until you start to take distributions. Pre-tax investments are also called tax-deferred investments, as the money you accumulate in these accounts can benefit from tax-deferred growth.

For individuals covered by a retirement plan at work, the tax deduction for a traditional IRA in 2023 is phased out for incomes between $116,000 and $136,000 for married couples filing jointly, and between $73,000 and $83,000 for single filers.[1]

Keep in mind that once you reach age 73, you must begin taking required minimum distributions from a traditional IRA, 401(k), and other defined contribution plans in most circumstances. Withdrawals are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty.

What's an after-tax investment?

A Roth IRA is the most well-known. When you put money into a Roth IRA, the contribution is made with after-tax dollars. Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2023, contributions to a Roth IRA are phased out between $218,000 and $228,000 for married couples filing jointly and between $138,000 and $153,000 for single filers.

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 withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Remember, this article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, or financial professionals before modifying your retirement strategy.

Are you striving for greater tax efficiency?

In retirement, it is especially important – and worth a discussion. A few financial adjustments may help you manage your tax liabilities.

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TO RESUME IN FALL 2023

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