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

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Many of us are thrilled to see the nice weather that late spring brings so we can get out and enjoy the sunshine and fresh air. I have enjoyed watching many of my grandchildren playing on their sports teams. We have been in WNY for a few weeks, and it has been nice to see many familiar faces again.

In the last newsletter, I tried to get some of the retired, and soon to be retired, to rethink how they are treating the precious time they have in the future. I provided a partial list of important considerations that will help. It was just the beginning. So, let us expand on the thinking.

I know some of us have reasons to not take steps that might brighten our futures. Young or old, to achieve improvement, one must take the first step. This first step can be painful, and it will at least be scary. But all progress starts with the first step.

A healthy older person I know had lost interest in just about everything. He had lost his job to a younger person, he had no close family or friends, and his interests had all been left in the past. He decided to start volunteering at the VA. While he was frightened at first, after a couple of weeks he made a few friends and he learned he liked helping the older veterans. When I last saw him, a few months ago, he was smiling, and his life was improving.

Last fall, when I returned to my gym in Charleston, I saw an old friend. I was happy to see him because he and I had both served in Vietnam and we enjoy discussing our history. While we did not know each other during those times, most Vietnam vets share a common bond.

When I had last seen him, before Covid, he was happily married to a wonderful woman who, at age 70 was still healthy and running marathons. Since then, she got Covid and because of complications had passed away. While he was still grieving, he had taken a new job as a tour guide. He was working several days a week, but the people he was meeting were bringing joy to his life. Not only was he replacing the time spent in anguish with work, but he was also earning a nice living at the same time.

These are two simple stories. I have several others I would like to share but there are important lessons here.

Whether old or young, idle hands and unchallenged minds waste your greatest resource, which I believe is the ability to contribute to the world around you. When you are busy and contributing, you are taking the first steps toward a better future. You will feel better, smile more, and the most desolate life will make more sense.

Richard Moldenhauer
 Richard Moldenhauer



WHERE WILL YOUR RETIREMENT MONEY COME FROM?

What workers anticipate in terms of retirement income sources may differ considerably from what retirees actually experience. For many people, retirement income may come from a variety of sources. Here's a quick review of the six main sources:

Social Security

Social Security is the government-administered retirement income program. Workers become eligible after paying Social Security taxes for 10 years. Benefits are based on each worker's 35 highest earning years. If there are fewer than 35 years of earnings, non-earning years are averaged in as zero. In 2022, the average monthly benefit was estimated at \$1,625.^{1,2}

Personal Savings and Investments

Personal savings and investments outside of retirement plans can provide income during retirement. Retirees often prefer to go for investments that offer monthly guaranteed income over potential returns.

Individual Retirement Account

Traditional IRAs have been around since 1974. Contributions you make to a traditional IRA may be fully or partially deductible, depending on your individual circumstances. In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.

Roth IRAs were created in 1997. 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 withdrawals also can be taken under certain other circumstances, including as a result of the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Defined Contribution Plans

Many workers are eligible to participate in a defined-contribution plan such as a 401(k), 403(b), or 457 plan. Eligible workers can set aside a portion of their pre-tax income into an account, which then accumulates, tax-deferred.

In most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) 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.

Defined Benefit Plans

Defined benefit plans are "traditional" pensions—employer-sponsored plans under which benefits, rather than contributions, are defined. Benefits are normally based on factors such as salary history and duration of employment. The number of traditional pension plans has dropped dramatically during the past 30 years.³

Continued Employment

In a recent survey, 71% of workers stated that they planned to keep working in retirement. In contrast, only 31% of retirees reported that continued employment was a major or minor source of retirement income.⁴

Expected Vs. Actual Sources of Income in Retirement

What workers anticipate in terms of retirement income sources may differ considerably from what retirees actually experience.

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

Citations.

1. SSA.gov, 2022
2. AARP.org, June 8, 2021
3. Investopedia.com, July 18, 2022
4. EBRI.org, 2022

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IMPORTANT BIRTHDAYS OVER 50

Most children stop being “and-a-half” somewhere around age 12. Kids add “and-a-half” to make sure everyone knows they’re closer to the next age than the last.

When you are older, “and-a-half” birthdays start making a comeback. In fact, starting at age 50, several birthdays and “half-birthdays” are critical to understand because they have implications regarding your retirement income.

Age 50

At age 50, workers in certain qualified retirement plans are able to begin making annual catch-up contributions in addition to their normal contributions. Those who participate in 401(k), 403(b), and 457 plans can contribute an additional \$7,500 per year in 2023. Those who participate in Simple Individual Retirement Account (IRA) or Simple 401(k) plans can make a catch-up contribution of up to \$3,500 in 2023. And those who participate in traditional or Roth IRAs can set aside an additional \$1,000 a year.^{1,2}

Age 59½

At age 59½, workers are able to start making withdrawals from qualified retirement plans without incurring a 10% federal income tax penalty. This applies to workers who have contributed to IRAs and employer-sponsored plans, such as 401(k) and 403(b) plans (457 plans are never subject to the 10% penalty). Keep in mind that distributions from traditional IRAs, 401(k) plans, and other employer-sponsored retirement plans are taxed as ordinary income.

Age 62

At age 62 workers are first able to draw Social Security retirement benefits. However, if a person continues to work, those benefits will be reduced. The Social Security Administration will deduct \$1 in benefits for each \$2 an individual earns above an annual limit. In 2023, the income limit is \$21,240.³

Age 65

At age 65, individuals can qualify for Medicare. The Social Security Administration recommends applying three months before reaching age 65. It’s important to note that if you are already receiving Social Security benefits, you will automatically be enrolled in Medicare Part A (hospitalization) and Part B (medical insurance) without an additional application.⁴

Age 65 to 67

Between ages 65 and 67, individuals become eligible to receive 100% of their Social Security benefit. The age varies, depending on birth year. Individuals born in 1955, for example, become eligible to receive 100% of their benefits when they reach age 66 years and 2 months. Those born in 1960 or later need to reach age 67 before they’ll become eligible to receive full benefits.⁵

Age 73

In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a traditional Individual Retirement Account and other defined contribution plans. You may continue to contribute to a traditional IRA past age 70½ as long as you meet the earned-income requirement.

Understanding key birthdays may help you better prepare for certain retirement income and benefits. But perhaps more importantly, knowing key birthdays can help you avoid penalties that may be imposed if you miss the date.

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

Citations.

1. If you reach the age of 50 before the end of the calendar year.
2. IRS.gov, 2023
3. SSA.gov, 2023
4. SSA.gov, 2023. Individuals can decline Part B coverage because it requires an additional premium payment.
5. SSA.gov, 2023

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TO RESUME IN SEPTEMBER 2023

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