



MOLDENHAUER & ASSOCIATES

SEPTEMBER NEWSLETTER

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Fall seems to have arrived. My parents prefer not to be in WNY when the weather starts to change and have headed back home to South Carolina. One of the advantages of WNY is that we usually have four very defined seasons. I love summer, like winter, and am relatively indifferent about Spring and Fall. Personally, I think of Fall as "cleaning up from Summer and getting ready for Winter".

This seems like an appropriate analogy for the US economy at the moment. The economy seems strong, bolstered by great markets since the beginning of 2023. Things are changing though, and the Federal Reserve is trying to figure out how to, in the most gentle of manners, slow down the economy enough to have put inflation to bed, while also not slowing it down too much as to cause a recession. This so-called "soft landing" is very difficult to pull off. Adding to the difficulty are many geopolitically concerning events, and the most polarizing election the US has seen in a VERY long time.

Another thing that Fall means to me is the beginning of the school year. New teachers, new friends, new classes, new subjects and topics. New can be unsettling, but it also means new opportunities. This, too, sounds like an appropriate analogy for the stock market and the economy.

Bring on the Fall, the leaves, the cooling air, and the Bills! And please drive extra carefully around school buses and school zones; the future depends on it!

One last thing, we will, once again, be a drop off site for the Marine's Toys for Tots Campaign. If you are heading south before November 1st and would like to donate an

unused toy, feel free to drop it off and we will make sure it gets put in the Toys for Tots drop off bin once the bins are delivered to us.

Brett Moldenhauer

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IMPORTANT NOTICE

It has been brought to our attention that when we are calling our clients our phone number may be coming through at Potential Spam. We have tried to call the major phone carriers to see if this was something they can resolve on their end and have been told that individuals need to adjust the settings on their individual cell phones. In order to resolve this issue, please add our office phone # of 716-662-4361 to your contact list on your cell phone so you will know that we are trying to reach you.

HELP YOUR KIDS GET A HEAD START ON SAVING WITH A ROTH IRA

Contributing to a Roth IRA is an extremely efficient way to save for retirement. The earlier contributions are made, the more time savings have to grow tax free. Wouldn't it be great if your children could take advantage of a Roth IRA and start saving in their teenage years? Good news! They can. Your child may be eligible to open a minor-owned Roth IRA to start saving for retirement, as well as other future expenses.

Minors may also be eligible to open traditional and inherited IRAs, but this article focuses only on the benefits of a Roth IRA.

Opening a Minor-Owned Roth IRA

The registration process varies from provider to provider, but the account is typically opened as a custodial Roth IRA. The child is the account owner, with an adult serving as the custodian. Contributions are reported to the IRS under the minor's social security number, but the custodian completes the new account paperwork and is the individual authorized to act on the account. The custodian is usually (but not always) a parent. Providers may have additional requirements if someone other than a parent serves as the custodian.

There is no age requirement to make a Roth contribution—the same eligibility rules apply to both adults and minors. Once the child reaches the age of majority (either 18 or 21 depending on the state), the funds can be transferred into a Roth IRA in the adult child's name. Subsequently, the adult child is authorized to manage the account.

Earned Income

The minor must have earned income to make a Roth contribution. A child with a part-time job after school or summer employment is a prime candidate.

Income Documentation

Ideally, your child's employer will issue a W-2 for the work performed. But what if your child isn't employed with a company but does neighborhood work, such as mowing lawns, shoveling snow, or babysitting? Is the money received considered earned income? The answer is, maybe. It's up to you to document that your child received earned income and that the amount is reasonable. For example, you could not pay your child \$1,000 for two hours' worth of babysitting. Consultation with a tax advisor or CPA is recommended if you're unsure whether your child's work can be substantiated as earned income and if the pay is reasonable.

Funding the Roth

The total amount minors can contribute for a year is \$7,000 (for 2024) or 100 percent of their earned income, whichever is less. A commonly asked question is, must the contribution be made with the income earned by the child, or can it be funded with a gift from a parent or family member? Either option works.

Keep in mind that the IRS imposes limits on tax-free gifts. If a minor-owned Roth IRA is funded as a gift, we recommend

consulting a tax advisor to ensure that IRS gift tax rules are followed.

Contribution Benefits

Five years after the first contribution is made to a Roth IRA, different options for withdrawing funds apply.

Retirement funding. Once the child reaches age 59½, all funds in the Roth IRA can be withdrawn tax and penalty free.

For example, let's assume your 15-year-old son or daughter makes a \$6,000 contribution and never contributes again. Assuming a 6 percent rate of return compounded annually, that contribution will be worth \$110,520 when the child is 65 years old. That beats a normal savings account earning minimal interest. **Please note:** This scenario is hypothetical, and future rates of return can't be predicted with certainty.

First-time home purchase. Your child can withdraw the earnings in the account tax and penalty free to pay for costs associated with purchasing his or her first home. The amount not subject to tax and penalty is capped at \$10,000. (Consult IRS Publication 590-B for details on what expenses are deemed qualified home acquisition costs.)

Education expenses. Earnings may be withdrawn to pay for qualified education expenses, including college tuition, books, and supplies. Distributions of earnings will not be subject to the early-withdrawal penalty but will be subject to ordinary income taxes. (Consult IRS Publication 590-B for details on what expenses are deemed qualified education costs.)

Emergencies. If needed for an emergency, account contributions can be withdrawn tax and penalty free.

In this case, the five-year waiting period after the account has been opened does not apply. The child's contributions can be withdrawn at any time and at any age.

The Value of Saving

It's unrealistic to expect children earning money to think about saving it for retirement rather than buying what they want now. But providing them with a Roth IRA is a good way to instill the practice of setting money aside for the future. Plus, if you agree to match the funds they contribute, you'll demonstrate the importance of putting money away for the long haul. All in all, a minor-owned Roth IRA is a great way to teach your children the value of saving—and to get them started!

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HOW TO PRIORITIZE FINANCIAL GOALS AS YOUR LIFE BECOMES MORE COMPLEX

Some people are savers, some are spenders, some live carefully within their means, and some live life to the fullest, even if that results in accumulated debt. You likely won't remain solidly in one category throughout your life, as circumstances, income, and expenses change. So, even if you saved diligently during your youth, at some point, you may suddenly be faced with a combination of financial obligations that require decisions about what to prioritize. When juggling day-to-day expenses, debt (student, credit card, or other types), saving for retirement, and saving for your child's college education, where should you focus? Here's a guide to help you decide the priority order these obligations should take, and why.

Establishing Priorities

Emergency fund.

Before shifting your focus to long-term savings or debt repayment, your priority should be building an emergency fund to provide a safety net. These funds should be available to cover unexpected financial difficulties like job loss, car or home repairs, or medical emergencies. Do your best to save at least three to six months' worth of living expenses in an account that you can easily access whenever necessary. Building this buffer before you put money toward other obligations will keep you from deeper debt and additional financial trouble caused by an emergency.

Helpful tip: Set up automated transfers to your emergency savings account, treating it like a monthly bill. This way, the funds will grow consistently, and you'll be able to build a safety net without constant effort.

High-interest debt.

Since credit card debts and personal loans often come with high interest rates, paying those off should be your next priority. This will help free up money for other financial goals and eliminate the interest payments that are costing you more money than you actually owe. You can also call credit card companies and ask if they can lower your interest rate. They might not agree, but it's worth trying.

Helpful tip: Choose a debt repayment strategy that works best for you. Consider the snowball method (paying off debts from smallest to largest) or the avalanche method (paying off debts with the highest interest rates first). Then, stick to the plan until all your high-interest debts are cleared.

Retirement savings.

Your retirement may seem too far in the future for you to think about now, but this should come next on your list of financial priorities. Why should it come ahead of saving for your child's college tuition, which is likely to be a huge expense? Because, unlike retirement, there are various options for funding a college education, including scholarships, grants, and student loans.

There are far fewer options for funding your living expenses after retirement. Also, since more Americans are living longer, maintaining your standard of living will require more money. You don't want to outlive your financial resources.

Helpful tip: Take advantage of individual retirement accounts (IRAs) or employer-sponsored retirement plans like 401(k)s. Try to contribute at least enough to receive any company matching contributions because that's essentially free money for you. Thanks to compound interest, even a small contribution now can result in significant savings as it grows over time.

Children's college education.

The reason this financial obligation falls last on the list of priorities is certainly not because it's less important. College costs are high, and it makes sense to start saving early. But, if you must sacrifice this goal to focus on others, you can fund your child's education in other ways. Scholarships, grants, and part-time student employment opportunities may be available for supplementing education expenses if you haven't saved enough to cover costs.

Helpful tip: Explore the option of a 529 savings plan or education savings account (ESA). These accounts offer tax benefits and can help you save money to use specifically toward educational expenses. If you can manage to automate contributions, you'll maintain consistency and enable your fund to build steadily over time.

This priority order can serve as a good guide, but changing financial goals, income, or other circumstances might cause you to reassess and refocus from time to time. The key is to find a balance between the financial obligations you have now and making sure your financial future is secure, too. As always, your financial advisor can help you determine the best strategy to maintain stability, maximize your benefits, and minimize your costs and penalties based on your individual situation and goals.

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The fees, expenses, and features of 529 plans can vary from state to state. 529 plans involve investment risk, including the possible loss of funds. There is no guarantee that an education-funding goal will be met. In order to be federally tax free, earnings must be used to pay for qualified education expenses. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax at the recipient's marginal rate and subject to a 10 percent penalty. By investing in a plan outside your state of residence, you may lose any state tax benefits. 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses.

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UPCOMING EVENTS:

Our upcoming seminars are at:

Bravo Café & Catering

Thursday, October 17, 2024 at 6 p.m.
5781 Seneca Street
Elma, NY 14059

GDI Countryside Inn

Tuesday, October 22, 2024 at 6 p.m.
2049 Sandridge Road
Alden, NY 14004

O'Brien's West End Inn

Thursday, October 24, 2024 at 6 p.m.
340 Union Street
Hamburg, NY 14075

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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