

MOLDENHAUER & ASSOCIATES

JUNE NEWSLETTER

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

"BACKDOOR" ROTH IRAS

P. 2

THE PROS AND CONS OF EARLY RETIREMENT PLAN ROLLOVERS

P. 3

JUNE SEMINARS

P. 4

I usually attempt to start my monthly article with a positive comment or two. Perhaps you are finding this lockdown, and the issues related to it, becoming a bit much. Everyone is suffering and recovery will require an extreme effort by everyone. It seems the politicians would rather fight with us rather than for us. The tragedy related to deaths in nursing homes is mind boggling. The fact that schools are shut down will have a lasting effect on many children. It is really up to you and me to let our political leaders know how concerned we are about the problems they are making worse. I know of several small business that have been shut and will never open again. We are all struggling to get through this. I hope society reopens and the casualties of this pandemic can be minimized.

The friends we have lost during this terrible time will be missed forever.

On a more positive note, certain states and communities are beginning to open again. The sooner we get back to normalcy, the faster our country will recover. It is my hope that we start manufacturing more of our health-related products in the United States. I think most of us agree that the security provided by having a more self-reliant supply chain would better prepare our nation for a brighter future.

At Moldenhauer & Associates, this shut down setback has given us a chance to refocus on how we can create a business that provides more value for our clients. Over the next few months, you will notice several changes that we hope you will appreciate. We intend to take added steps to make our clients feel safe when they visit our office. Clients should feel free to offer suggestions for our consideration. Send suggestions to info@moldenhauerassociates.com, if you respond, we will call you for added suggestions.

During these past few months, I have realized how much I appreciate friends and family. I hope that I can be a better friend, husband, father and grandfather in the future. Since I've been isolated for so long, I have learned that I do not like isolation. I expect you feel the same.

I hope we can all get back to our lives in the very near future. Be safe, be careful, and be optimistic.

Richard Moldenhauer

Richard Moldenhauer

 Find us on
Facebook



“BACKDOOR” ROTH IRAS

If you make too much money to open a Roth IRA, you could create one this way.

You can sum up the appeal of a Roth IRA in three words: federal tax benefit. Potential earnings in a Roth IRA grow tax free as long as the owner abides by the Internal Revenue Service (I.R.S.) rules, and withdrawals are federally tax free once you reach age 59½ and have held the Roth IRA for at least five years.¹

Unfortunately, some people make too much money to contribute to one. In 2020, joint filers with modified adjusted gross incomes (MAGI) of \$206,000 or more and single filers with MAGI of \$139,000 are not eligible for a ROTH IRA.

There is a way for high earners to bypass these limits, however: the “backdoor” Roth IRA strategy.²

High-income taxpayers may create Roth IRAs indirectly. This involves a little maneuvering, but may be of interest to certain investors.

The “backdoor” IRA strategy typically starts with the creation of a traditional IRA. The contributions to this new IRA are usually non-deductible, because of the IRA owner's high modified adjusted gross income. This new traditional IRA is fully or partly funded, and with a financial professional's help, it is quickly converted to a Roth IRA, and any tax liability is paid.³

Why does speed matter in this strategy? Well, the longer it takes to convert the traditional IRA into a Roth IRA, the greater the potential earnings of that traditional IRA. Since any traditional IRA earnings converted over to the Roth represent taxable income, those earnings should be minimal if the transfer is completed shortly after opening the account. (In the above example, the IRA contribution is made with after-tax dollars, so the initial contribution amount is not subject to federal taxes.)³

Keep in mind this article is for informational purposes only. It's not a replacement for real-life advice, and a professional should be consulted before attempting this type of strategy. Also, tax rules are constantly changing, and there is no guarantee that the tax treatment of Roth and Traditional IRAs will remain the same.

Pluses and minuses. The big attraction is the potential for tax-free retirement income, not to mention tax-exempt growth for the account. In addition, while mandatory annual withdrawals are required from traditional IRAs starting at age 72, no mandatory annual withdrawals are required from Roth IRAs while the original owner lives. Under the 2019 SECURE Act, most non-spouse beneficiaries of a Roth IRA are required to have the funds distributed to them by the end of the 10th calendar year following the year of the original owner's death.⁵

Any Roth IRA conversion is a taxable event, and these conversions cannot be undone. That given, think about the basic rules for traditional IRAs. Generally, distributions from traditional IRAs must begin once you reach age 72, and the money distributed to you is taxed as ordinary income. When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty.^{4,5}

Richard Moldenhauer may be reached at 716-662-4361.
Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Advisor, Fixed Insurance products and services offered through Moldenhauer and Associates.

Citations.

1 - Investopedia, January 24, 2020

2 - IRS.gov, January 24, 2020

3 - RetirementPlans.Vanguard.com, May 11, 2020

4 - Fool.com, July 25, 2019

5 - IRS.gov, February 24, 2020



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/pages/Moldenhauer-Associates/292972874217494>

THE PROS AND CONS OF EARLY RETIREMENT PLAN ROLLOVERS

Should you withdraw and reinvest your retirement plan money while you are still on the job?

Did you know you might be able to take some or all of the money in your 401(k), 403(b), or 457 plan and roll it over into another type of retirement account? Were you aware that you could do this while you are still working for your current employer – without any withholding or early withdrawal penalties?

Let's look at how these rollovers can happen and the pros and cons of making them.

Some 401(k), 403(b), and 457 plans offer this kind of flexibility. If your plan provides this choice, you must first pay attention to the rules.

To start, some basics. Distributions from 401(k) plans and most other employer-sponsored retirement plans are taxed as ordinary income, and if you take one before age 59½, a 10% federal income tax penalty commonly applies. (The 2020 CARES Act allows some one-time exceptions to penalties this year.) In addition, 20% of the withdrawn amount is withheld for tax purposes. Generally, once you reach age 72, you must begin taking required minimum distributions.¹

Now, the fine print. You may be able to take money out of your plan in your fifties or sixties, while still working, via an in-service non-hardship withdrawal by arranging a direct rollover of these assets to an Individual Retirement Account (IRA), avoid both the 10% penalty and the 20% tax withholding in the process.²

An IRA may give you a wider range of investment options than many employer-sponsored retirement plans. If you are dissatisfied with the range of choices your plan presents, this alone may motivate you to make a direct rollover.³

You should certainly speak to a financial professional with the knowledge to help you coordinate a direct rollover (also called a trustee-to-trustee transfer). A direct rollover moves assets from your workplace retirement plan into an IRA without a taxable event.²

Generally, distributions from traditional IRAs must begin once you reach age 72. The money distributed to you is taxed as ordinary income. When such distributions are taken before age 59½,

they may be subject to a 10% federal income tax penalty; although, the CARES Act allows some exceptions to these penalties in 2020. You may continue to contribute to a Traditional IRA past age 70½ under the SECURE Act as long as you meet the earned-income requirement.⁴

The criteria for making in-service non-hardship withdrawals can vary. Some workplace retirement plans simply prohibit them. Others permit them when you have been on the job for at least five years or when assets in your plan have accumulated for at least two years or you are 100% vested in your account.²

In addition, you will want to ask your employee benefits or human resources officer some questions. How long will a direct rollover take? Is there a dollar or percentage limit on how much can be rolled over? Can you withdraw and roll over matching contributions as well as your own account contributions and earnings?

Weigh the pros and cons. Who knows if your reinvested assets will perform better in an IRA than they did in your company's retirement plan? Only time will tell. Right now, you can put up to \$7,000 into an IRA, annually, if you are 50 or older; that pales in comparison to the \$26,000 yearly contribution limit on a basic 401(k), 403(b), or 457 plan. Lastly, if your employer matches your retirement plan contributions, getting out of the plan may mean losing future matches.⁵

Richard Moldenhauer may be reached at 716-662-4361.
Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

This material was prepared by MarketingPro, Inc., and does not necessarily represent the views of the presenting party, nor their affiliates. This information has been derived from sources believed to be accurate. Please note - investing involves risk, and past performance is no guarantee of future results. The publisher is not engaged in rendering legal, accounting or other professional services. If assistance is needed, the reader is advised to engage the services of a competent professional. This information should not be construed as investment, tax or legal advice and may not be relied on for the purpose of avoiding any Federal tax penalty. This is neither a solicitation nor recommendation to purchase or sell any investment or insurance product or service, and should not be relied upon as such. All indices are unmanaged and are not illustrative of any particular investment.

Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Advisor, Fixed Insurance products and services offered through Moldenhauer and Associates.

Citations.

1 - IRS.gov, February 20, 2020

2 - DWC401k.com, May 10, 2020

3 - CNBC.com, April 21, 2020

4 - Investor.Vanguard.com, May 10, 2020

5 - IRS.gov, November 6, 2019

UPCOMING EVENTS:

Our upcoming seminars are at:

UPCOMING SEMINAR SITES AND DATES TO BE DETERMINED SOON.

Please visit our website at www.moldenhauerassociates.com for updates.

We encourage clients who live in the area to introduce potential clients to our firm by bringing a friend to one of our seminars. These are informational and educational events. We are not there to convince people that we are the only firm to consider. Rather, we believe our firm offers a quality opportunity for people looking for a new advisor. Please attend a seminar in your neighborhood with a friend.

Richard Moldenhauer is a representative with Commonwealth Financial Network. Call him at 716-662-4361.

Securities and advisory services offered through Commonwealth Financial Network, Member FINRA/SIPC, a Registered Investment Advisor, Fixed Insurance products and services offered through Moldenhauer and Associates.

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. We use e-mail addresses furnished by our clients and potential clients strictly for sending newsletters and client communication.

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.