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MOLDENHAUER & ASSOCIATES

AUGUST NEWSLETTER

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Hopefully, the worst of the pandemic is behind us. Our entire staff is back at the office and we are making every effort, possible, to get back to normal. The office has been organized to provide safety that complies and exceeds the CDC Guidelines. The staff is protected and you will be protected, too.

We are making serious plans to redo much of the client meeting areas, as well as, the staff and advisor spaces. While this will take time, we think you will like the improvements.

In past newsletters, I had mentioned that we plan on adding client service capabilities and the ability to offer new products. Presently, one of the staff is studying Medicare Supplement Plans. We have established a relationship with a specialty provider that will allow us to offer many options to our clients.

The firm as adding a new employee in August. While the person has been selected and the starting date will be soon, we will wait and make the introduction in next month's newsletter.

Kathy and I are back in WNY for the summer. The weather here is as hot as South Carolina. We had planned on spending more time in WNY but with the pandemic, our plans changed.

As I end this section, let me encourage everyone to be safe, careful, and to make the needed changes so you can lead a full life during these challenging times.

Let's hope the summer is good for all of us. We appreciate you and your business.

Richard Moldenhauer

Richard Moldenhauer

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A ROTH IRA'S MANY BENEFITS

Why do so many people choose them over traditional IRAs?

The IRA that changed the whole retirement savings perspective.

Since the Roth IRA was introduced in 1998, its popularity has soared. It has become a fixture in many retirement planning strategies because it offers savers so many potential advantages.

The key argument for going Roth can be summed up in a sentence: ***Paying taxes on your retirement contributions today may be better than paying taxes on your retirement savings tomorrow.***

Think about it. Would you rather pay taxes today or wait 10 years and see where the tax rates end up? With that in question in mind, here are some of the potential benefits associated with opening and contributing to a Roth IRA.

What you see is what you get.

Roth IRA contributions are made with after-tax dollars, and any potential earnings on investments within a Roth IRA are not subject to income tax or included in the account owner's income. Instead, they accumulate on a tax-deferred basis and are tax-free when withdrawn from the Roth if the distribution is qualified.[1]

You can arrange tax-free retirement income.

Roth IRA earnings can be withdrawn tax-free as long as you are 59½ or older and have owned the account for at least 5 years. The IRS calls such tax-free withdrawals qualified distributions.[2]

Withdrawals don't affect taxation of Social Security benefits.

If your provisional income is between $25,000 and $34,000 — or $32,000 and $44,000 for joint filers — then your Social Security benefits may be taxed if you take withdrawals before your full retirement age. Luckily, a qualified distribution from a Roth IRA doesn't count as taxable income, which may be a means of avoiding taxation on your social security benefit.[3,4]

You have until your tax-filing deadline to make a Roth IRA contribution for a given tax year.

For example, IRA contributions for the 2019 tax year may be made up until April 15, 2020. While April 15 is the annual deadline, many IRA owners who make lump sum contributions for a given tax year make them as soon as that year begins, not in the following year. Making your Roth IRA contributions earlier gives the funds in the account more time to potentially grow. Remember, though that Roth IRA contributions cannot be made by taxpayers with high incomes. In 2019, the income phaseout limit was $137,000 for single filers and $203,000 for married couples who file jointly.[5]

Who can open a Roth IRA?

Anyone with earned income (and that includes a minor).

How much can you contribute to a Roth IRA annually?

The combined annual contribution limit to all of your traditional and Roth IRAs is $6,000 for 2019 and 2020 ($7,000 if you're age 50 or older), but income limits may reduce or eliminate your ability to contribute. To sweeten the deal even further, you can keep making annual Roth IRA contributions all your life.[6]

All this may have you thinking about opening up a Roth IRA.

A chat with the financial professional you know and trust may help you evaluate whether a Roth IRA is right for you, given your particular tax situation and retirement horizon.

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Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

1 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]

2 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]

3 - kiplinger.com/slideshow/retirement/T055-S001-how-retirement-income-is-taxed/index.html [1/27/20]

4 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]

5 - morningstar.com/articles/852560/20-ira-mistakes-to-avoid [2/10/20]

6 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]

BEFORE YOU CLAIM SOCIAL SECURITY

A few things you may want to think about before filing for benefits.

Whether you want to leave work at 62, 67, or 72, claiming the retirement benefits you are entitled to by federal law is no casual decision. You will want to consider a few key factors first.

How long do you think you will live?

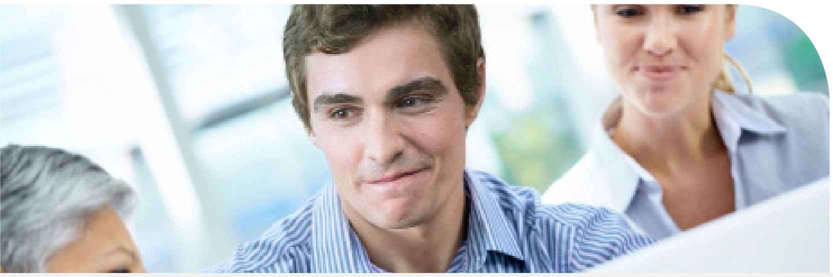
If you have a feeling you will live into your nineties, for example, it may be better to claim later. If you start receiving Social Security benefits at or after Full Retirement Age (which varies from age 66 to 67 for those born in 1943 or later), your monthly benefit will be larger than if you had claimed at 62. If you file for benefits at FRA or later, chances are you probably a) worked into your mid-sixties, b) are in fairly good health, and c) have sizable retirement savings.[1]

If you really need retirement income, then claiming at or close to 62 might make more sense. If you have an average lifespan, you will, theoretically, receive the average amount of lifetime benefits regardless of when you claim them. Essentially, the choice comes down to more lifetime payments that are smaller versus fewer lifetime payments that are larger. For the record, Social Security's actuaries project that the average 65-year-old man to live 84.0 years, and the average 65-year-old woman, 86.5 years.[2]

Will you keep working?

You might not want to work too much, since earning too much income may result in your Social Security being withheld or taxed.

Prior to Full Retirement Age, your benefits may be lessened if your income tops certain limits. In 2018, if you are aged 62 to 65, receive Social Security, and have an income over $17,040, $1 of your benefits will be withheld for every $2. If you receive Social Security and turn 66 later this year, then $1 of your benefits will be withheld for every $3 that you earn above $45,360.[3]



Social Security income may also be taxed above the program's "combined income" threshold. ("Combined income" = adjusted gross income + nontaxable interest + 50% of Social Security benefits.) Single filers who have combined incomes from $25,000 to $34,000 may have to pay federal income tax on up to 50% of their Social Security benefits, and that also applies to joint filers with combined incomes of $32,000 to $44,000. Single filers with combined incomes above $34,000 and joint filers whose combined incomes surpass $44,000 may have to pay federal income taxes on up to 85% of their Social Security benefits.[3]

When does your spouse want to file?

Timing does matter, especially for two-income couples. If the lower-earning spouse collects Social Security benefits first, and then the higher-earning spouse collects them later, that may result in greater lifetime benefits for the household.[4]

Finally, how much in benefits might be coming your way?

Visit SSA.gov to find out, and keep in mind that Social Security calculates your monthly benefit using a formula based on your 35 highest-earning years. If you have worked for less than 35 years, Social Security fills in the "blank years" with zeros. If you have, say, just 33 years of work experience, working another couple years might translate to a slightly higher Social Security income.[1]

A claiming decision may be one of the most significant financial decisions of your life. Your choices should be evaluated years in advance – with insight from the financial professional who has helped you plan for retirement.

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Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

1 - MarketWatch.com, November 2, 2019

2 - SSA.gov, May 28, 2020

3 - BlackRock.com, May 28, 2020

4 - MarketWatch.com, November 11, 2019

COLLEGE FUNDING OPTIONS

You can plan to meet the costs through a variety of methods.

How can you cover your child's future college costs? Saving early (and often) may be key for most families. Here are some college savings vehicles to consider.

529 college savings plans.

Offered by states and some educational institutions, these plans allow you to save up to $15,000 per year for your child's college costs without having to file an I.R.S. gift tax return. A married couple can contribute up to $30,000 per year. (An individual or couple's annual contribution to a 529 plan cannot exceed the yearly gift tax exclusion set by the Internal Revenue Service.) You can even front-load a 529 plan with up to $75,000 in initial contributions per plan beneficiary – up to five years of gifts in one year – without triggering gift taxes.[1,2]

529 plans commonly feature equity investment options that you may use to try and grow your college savings. You can even participate in 529 plans offered by other states, which may be advantageous if your student wants to go to college in another part of the country. (More than 30 states offer some form of a tax deduction for 529 plan contributions.)[1,2]

Earnings from 529 plans are exempt from federal tax and generally exempt from state tax when withdrawn, so long as they are used to pay for qualified education expenses of the plan beneficiary. If your child doesn't want to go to college, you can change the beneficiary to another child in your family. You can even roll over distributions from a 529 plan into another 529 plan established for the same beneficiary (or another family member) without tax consequences.[1]

Grandparents can start a 529 plan (or other college savings vehicle) just like parents can. In fact, anyone can set up a 529 plan on behalf of anyone. You can even establish one for yourself.[1]

These plans now have greater flexibility. Thanks to the federal tax reforms passed in 2017, up to $10,000 of 529 plan funds per year may now be used to pay qualified K-12 tuition costs.[2,3]

Coverdell ESAs.

Single filers with modified adjusted gross incomes (MAGIs) of $95,000 or less and joint filers with MAGIs of $190,000 or less can pour up to $2,000 into these accounts annually, which typically offer more investment options than 529 plans. (Phaseouts apply above those MAGI levels.) Money saved and invested in a Coverdell ESA can be used for college or K-12 education expenses.[3]

Contributions to Coverdell ESAs aren't tax deductible, but the accounts enjoy tax-deferred growth, and withdrawals are tax free, so long as they are used for qualified education expenses. Contributions may be made until the account beneficiary turns 18. The money must be withdrawn when the beneficiary turns 30, or taxes and penalties will occur. Money from a Coverdell ESA may even be rolled over into a 529 plan.[3,4]

UGMA & UTMA accounts.

These all-purpose savings and investment accounts are often used to save for college. They take the form of a trust. When you put money in the trust, you are making an irrevocable gift to your child. You manage the trust assets until your child reaches the age when the trust terminates (i.e., adulthood). At that point, your child can use the UGMA or UTMA funds to pay for college; however, once that age is reached, your child can also use the money to pay for anything else.[5]

Whole life insurance.

If you have a permanent life insurance policy with cash value, you can take a loan from (or even cash out of) the policy to meet college costs. Should you fail to repay the loan balance, obviously, the policy's death benefit will be lower.[6,7]

Did you know that the value of a life insurance policy is not factored into a student's financial aid calculation? If only that were true for college savings funds.[6]

Imagine your child graduating from college, debt free. With the right kind of college planning, that may happen. Talk to a financial professional today about these savings methods and others.

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Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

1 - IRS.gov, May 28, 2020

2 - CNBC.com, May 29, 2020

3 - forbes.com, September 9, 2019

4 - IRS.gov, May 28, 2020

5 - Finaid.org, May 28, 2020

6 - FinancialResidency.com, July 20, 2019

7 - FA-mag.com, September 24, 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.**

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