

# MOLDENHAUER & ASSOCIATES

## JANUARY NEWSLETTER

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Happy New Year! Brett led the firm through a difficult but successful year. Moldenhauer & Associates is entering its 50th year as a financial planning firm. Brett has been successfully leading the business since early 2013. He has grown and the business and because our broker/dealer, Commonwealth Financial Network®, affords us the latest state-of-the-art resources, we are a better firm and we continue to grow into a more complete client focused enterprise.

I started writing this article in mid-December 2023, as I was considering the progress we have made since 2000. During December, the economy showed some strength that had been hidden for several months. While the year ended well in the markets, inflation and the economy will take time and work to recover.

The lives we lead today are amazing and so different from the lives many of us grew up with. While not often discussed, the financial industry has changed. When I entered the business in 1971, the financial business consisted of stockbrokers and insurance agents. At that time, I chose the insurance industry because I felt it was far more client focused. It was a different time.

In those days, normal life expectancy was 66. People retired at 65 and started collecting a Social Security benefit. Social Security was a very modest benefit that most people only collected for a few years. The program was a profit center for the Federal Government. Most private retirement plans prevented individuals and small businesses from installing retirement programs.

Today, some people retire younger, and many people retire much later. I received a call from a good friend who is 96 and still works most days of the week. While he is unusual, it is common for people to be actively working well into their 70's.

Most people have IRAs and/or 401-k plans. There are other plans available for many people to consider. When people retire, they have, at least, moderate retirement savings. Managing that money properly is critical. Yet most people are not prepared to accomplish that successfully, thus, the need for client focused financial services. We remain committed to lead in the financial planning industry.

I had set this article aside for the Christmas Holidays. We had the good fortune to spend the holidays with the southern half of our family. One of my grandsons from WNY joined us for a few days between Christmas and New Years. I only wish we could have been with the whole family. I hope you were able to enjoy your holidays with family and friends.

As I start the New Year, I, like most of you, am making plans about what I want to happen in 2024. Perhaps my plans (which I used to call goals) are more short term than some of yours. Some are family, some are health related, some are financial, and some are spiritual. On top of that, I add a few personal things. As we write our plans, remember that age affects what one thinks about.

I believe family is our greatest blessing. It can be a challenge, but I believe it is almost always a blessing. My goal is always to spend as much good quality time as possible with family and friends. You will never regret making the effort to focus on relationships.

When people are young, health is often taken for granted. As we age, we start to recognize our mortality, often understanding that habits, diet, and fitness play an ever-increasing part in maintaining good health. I was lucky to develop an appreciation at an early age. Now that I am a fully qualified senior, I am glad I started young, but it is never too late.

*(continued on p.2)*

At my age, health is not just exercise and diet. Heck, I see more doctors than I knew existed. If you are young, it is usually about your annual physical. As you age, the lists of specialists can get long. I find if I stick with the exercise and watch what I eat, the medical appointments are better. Perhaps you agree.

I have addressed the financial issues earlier and most readers know we are here to help.

Consider your faith. The longer I live, the more humanity was not just an accident. Help others and, in so doing, you are helping yourself. Instead of thinking about what we get, consider how we feel when we give.

Thanks for reading.

*Richard Moldenhauer*

Richard Moldenhauer

## **INHERITING AN IRA FROM YOUR SPOUSE: WHAT ARE YOUR OPTIONS?**

Losing a spouse is one of the most difficult things anyone can experience. It is important for you to know what your options are and which one is best for you. As a spouse inheriting IRA assets, you can move the assets either to your own traditional or Roth IRA or to a spousal-inherited IRA opened in your name.

### **Always Consult with a Professional**

Each option comes with different considerations and rules to follow. Will your decision require you to take mandatory distributions? Will you be able to make additional contributions? Are there penalties you need to be aware of when you eventually distribute the assets? The answers to these considerations are discussed below. But before you make your decision, be sure to consult with your financial advisor or tax professional to determine which option is best based on your unique set of circumstances.

#### **Option 1: Transfer the funds to a spousal-inherited traditional or Roth IRA in your name.**

Distributions you take from your spousal-inherited traditional or Roth IRA aren't subject to withdrawal penalties; however, you are not permitted to make additional contributions to the account after the initial funding. In addition, you must take the required minimum distributions (RMDs) from the account. The start date for your RMDs will depend on how old your spouse was upon death.

#### **Option 2: Transfer the funds to your own traditional or Roth IRA.**

This strategy is commonly referred to as "treating the assets as your own." With this option, you would transfer the assets directly into your own traditional or Roth IRA. The standard traditional and Roth IRA rules will apply to contributions, distributions, and RMDs.

### **RMD rules.**

When and if an RMD is required will depend on the type of account to which you choose to transfer the funds and how old your spouse was when they passed away. RMDs from traditional IRAs must begin at age 73\*, while Roth IRAs do not have RMDs. For spousal-inherited IRAs, RMDs must begin the year your spouse would have reached their own RMD age. IRS guidelines require you to take larger RMD amounts from a spousal-inherited IRA than if you opened a traditional IRA. Generally, the option with the lowest RMDs that allows you to delay them as long as possible is best. This would lessen the tax liability on your RMDs and enable you to stretch your retirement assets over a longer period of time.

### **Key Considerations**

#### **How old are you?**

Distributions from a spousal-inherited IRA are always penalty free regardless of your age. The same is not true for traditional and Roth IRAs, however. Distributions taken from these accounts by an account owner who is younger than 59½ may be subject to a 10 percent early withdrawal penalty. Consequently, if you are younger than 59½, the spousal-inherited IRA option may be the best choice because you would have access to the funds if needed without having to worry about paying an early withdrawal penalty. For example:

*Elizabeth is 48 years old and inherits her deceased husband's IRA. She transfers the assets to a spousal-inherited IRA. When she needs that money to pay for living expenses, she can take distributions from the account without owing penalties. The fact that she is younger than 59½ doesn't matter.*

If you move the assets to your own traditional IRA instead of a spousal-inherited IRA in your name, normal IRA distribution rules would apply. Any distributions you might take would most likely be subject to a 10 percent penalty because you are younger than 59½. Returning to our example:

*If Elizabeth puts the inherited assets into her own IRA rather than a spousal-inherited IRA, she would be penalized on the distributions she takes to pay for living expenses, as the normal IRA rules would apply. Specifically, because she is younger than 59½, Elizabeth would be subject to the 10 percent early withdrawal penalty on distributions from the account.*

#### **How old was your spouse?**

When treating the assets as your own, when your RMDs begin is determined by your age. As mentioned earlier, if you choose a spousal-inherited IRA, your RMDs begin the year your spouse would have reached their own RMD age.

If the intention is to delay RMDs as long as possible, whether your spouse is older or younger than you will determine the best option. If your spouse is younger, a spousal-inherited IRA might be a better fit because you can delay RMDs until after you reach your RMD age. If your spouse is older, treating the assets as your own might be better because you will not reach RMD age until after your deceased spouse would have, had they lived. For example:

Cathy passes away at age 63. Her husband, John, is 68 years old. If John chooses to treat the assets as his own, his RMDs will begin in five years when he turns 73. If he chooses the spousal-inherited option, he can wait 10 years to start RMDs, the year Cathy would have turned 73 had she lived.

Assuming the same information, except that John passes away, not Cathy. Cathy will want to treat the assets as her own so she can delay her RMDs until she turns 73 rather than starting RMDs sooner when John would have turned 73 had he not passed away.

## The Ability to Change Course

If you choose to move your spouse's assets into a spousal-inherited IRA in your name, you can always decide at a later date to treat the assets as your own and move them to your own IRA. The reverse scenario, however, is not true. Once you treat the assets as your own, the assets must remain in your own IRA; they cannot be transferred to a spousal-inherited IRA after the fact. For example:

*Matthew is 55 years old and inherits his deceased wife's IRA. He immediately puts the assets into his own IRA. Six months later, he needs to withdraw some funds to pay for childcare. Because the assets are in his own IRA and he is not 59½, the withdrawn funds will be subject to the 10 percent early withdrawal penalty. He does not have the option to move the funds to a spousal-inherited IRA to avoid the penalty.*

A common strategy for spouses younger than 59½ is to move some or all of the funds to a spousal-inherited IRA so that penalty-free distributions are available if needed. If you follow this course, once you reach age 59½, you can move the assets to your own IRA once you reach age 59½. Distributions would continue to be penalty free and RMDs would not be required until you turn age 73\*—or not at all if the decedent had a Roth IRA and the spouse transfers the assets to their own Roth IRA.

**Please note:** Spousal-inherited RMDs are larger, so if you take this option, it is usually beneficial to treat the assets as your own before the year your spouse would have reached RMD age to ensure that you are taking the smallest possible RMD amounts.

The chart below summarizes the two options:

Option	Pros	Cons
Spousal-Inherited IRA	<ul style="list-style-type: none"> <li>• Penalty-free distributions</li> <li>• Ability to transfer to own IRA</li> <li>• Ability to delay RMDs until deceased spouse would have reached age 73*</li> </ul>	<ul style="list-style-type: none"> <li>• If deceased spouse already reached age 73*, RMDs must begin in year following date of death</li> <li>• Larger RMDs</li> <li>• RMDs required from inherited Roth IRA</li> </ul>
Treat Assets as Your Own	<ul style="list-style-type: none"> <li>• Smaller RMDs</li> <li>• RMDs not required until age 73*</li> <li>• RMDs not required from Roth IRAs</li> </ul>	<ul style="list-style-type: none"> <li>• Distributions penalized if younger than 59½</li> <li>• Cannot transfer to spousal-inherited IRA</li> </ul>

\* Age 70½ if you turned 70½ prior to January 1, 2020. Age 72 if you turned 72 prior to January 1, 2023.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

## 2023 IRA DEADLINES ARE APPROACHING

### What you need to know.

Financially, many of us associate the spring with taxes—but we should also associate December with important Individual Retirement Account (IRA) deadlines. This year, like 2024, will see a few changes and distinctions.

Remember, this article is for informational purposes only. It is not a replacement for real-life advice, so consult your tax, legal, and accounting professionals for the most up-to-date information about IRA account deadlines and contribution strategies.

The deadline to take your Required Minimum Distribution from traditional IRAs is December 31, 2024.

The deadline for making 2023 annual contributions to a traditional IRA, Roth IRA, and certain other retirement accounts is April 15, 2024.<sup>1</sup>

Some people may not realize when they can make their IRA contribution. You can make a yearly IRA contribution between January 1 of the current year and April 15 of the next year. Accordingly, you can make your IRA contribution for 2024 any time from January 1, 2024, to April 15, 2025.<sup>1</sup>

A person can open or contribute to a Traditional IRA past age 72 as long as they have taxable income.<sup>2</sup>

If you make a 2023 IRA contribution in early 2024, you must tell the investment company hosting the IRA account for which year you contribute. If you fail to indicate the tax year that the contribution applies to, the custodian firm may make a default assumption that the contribution is for the current year (and note exactly that to the IRS).

So, write "2024 IRA contribution" or "2023 IRA contribution," as applicable, in the memo area of your check, plainly and simply. Be sure to write your account number on the check. If you make your contribution electronically, double-check that these details are present.

*Presented by Brett A. Moldenhauer*

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2. IRS.gov, July 5, 2023

<https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-ira-contribution-limits>

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## A LOOK BACK AT 2023

*The year in brief.*

Interest rates were the chief concern in 2023 as market watchers watched closely how the Federal Reserve and Chairman Jerome Powell balanced concerns over inflation with worries over the economy's resilience.

Despite numerous headwinds from elevated inflation, geopolitical conflicts, banking troubles, and a fear of an impending recession that never came, the U.S. economy showed steady growth throughout the year.<sup>1</sup>

Artificial intelligence optimism, steady consumer spending, and solid corporate earnings reports provided much-needed tailwinds that helped keep the economy from a much-feared 2023 recession.

### The U.S. economy.

Annual inflation simmered to a more moderate 3.2% for the 12 months ended October 2023; this is a notable cooling from recent highs of 6.5% in 2022 and 7% in 2021. The federal government's core consumer price index, which excludes volatile food and energy prices, was up 4% for the 12-month period ending October.<sup>2</sup>

The Federal Reserve raised benchmark interest rates four times throughout 2023 to curb inflation. The most recent hike occurred during the July 26th meeting, when interest rates increased 25 basis points to 5.50%.<sup>3</sup>

Positive indicators support an overall healthy national economy. The first quarter saw a 2.2% annualized gross domestic product increase, followed by a 2.1% increase in the second quarter.

The most recent November estimate for the third quarter expects a 5.2% increase. The Bureau of Labor Statistics reports show that the economy has been adding over 100,000 jobs a month, and the unemployment rate remains relatively stable at 3.9%, a small uptick from the recent January low of 3.4%.<sup>4,5,6</sup>

The three major U.S. equity benchmarks have rebounded since their 2022 lows, with the S&P 500 up 9.23%, the DJIA up 8.86%, and the NASDAQ soaring 22.78% for the first ten months of the year.<sup>7</sup>

One notable concern is the housing market, which has stalled due to increased interest rates. The 30-year fixed rate mortgage average hit 7.79% in October, the highest level in decades. Existing home sales hit their lowest point in the last thirteen years, down 2% in September and down 15.4% year-over-year.<sup>8,9</sup>

### The global economy.

Attention has turned to the wavering economy of China, which is experiencing falling consumer prices, a deepening real estate crisis, and high unemployment amongst younger workers. China's year-to-date real GDP growth was 4.9% as of quarter three, much lower than the long-term average of 8.8%. These indicators may suggest unfavorable conditions for future economic global growth.<sup>10,11</sup>

The U.S. was not the only country to experience cooling inflation in 2023. Headline inflation in the euro area fell from 8.39% in 2022 to 5.52% in the third quarter of 2023. Many other countries enjoyed similar trends of cooling inflation as well.<sup>12</sup>

WTI crude oil prices remained well below the nearly \$120 highs of 2022, peaking briefly at \$91 a barrel in September due to supply shortage before settling back to the more moderate \$70-\$80 a barrel average for the rest of the year.<sup>13</sup>

As for equities, MSCI's EAFE index, which tracks developed overseas stock markets, was relatively flat at 0.21% YTD as of October 31. While many national indexes experienced anywhere from tepid to modest gains, the Hang Seng index was down 13.49% by the end of October.<sup>14</sup>

### Looking back, looking forward.

Many anticipated a recession in 2023—a suspicion that hasn't come to pass. But fear of a recession is still hot in the minds of many market pundits as 2024 approaches. All eyes remain on the Fed as they continue their tightrope walk of trying to tame inflation while monitoring overall economic health.

While solid consumer spending has been one linchpin of an otherwise uncertain economic landscape, it's unclear how long it will persist. Concerns over high housing costs, rising credit card debt, and dwindling savings in the face of increased consumer prices have some anticipating a slowdown in spending in 2024. A resilient labor market may also help counterbalance these concerns.<sup>15,16</sup>

When the economy gives mixed signals, it's essential to prepare. That's why we work with our clients to ensure their financial strategy reflects their goals, time horizon, and risk tolerance. We understand the economy will move through cycles, so we look to keep you updated during the highs and the lows.

### Have an excellent 2024.

#### Citations

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## UPCOMING EVENTS:

Our upcoming seminars are at:

### The Roycroft Inn

Tuesday, March 5, 2024 at 6 p.m.  
40 S Grove Street  
East Aurora, NY 14052

### Orchard Park Country Club

Thursday, March 7, 2024 at 6 p.m.  
4777 South Buffalo Street  
Orchard Park, NY 14127

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](http://www.moldenhauerassociates.com).

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