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MOLDENHAUER & ASSOCIATES

APRILNEWSLETTER

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

As I started thinking about what to write in this month's article, I recognize it is time to climb the next higher mountain. As I wrote the text for an upcoming "Financial Ladder" white paper that will become a brochure, I felt inspired.

While our staff has worked hard over the past 12 months and we have certainly climbed a mountain, the future looks both brighter and more challenging. Brett and John are working hard at staff education development and we are establishing a new scholarship program for all staff members.

As many clients know, we have always been focused on being a good neighbor in our community. If you are an active client and believe strongly in a charity, please let us know so we can consider adding that charity to our 2017 Charitable Giving Program. Any suggestions should be directed to me personally at info@moldenhauerassociates.com. I will personally contact everyone who has a suggestion over the summer months to discuss your suggestion.

Over the past year the firm has changed broker dealers, added key staff and prepared for the new government DOL rules. Our client service systems continue to improve and new resources are being made available.

To focus more on our processes and grow, we have reduced the total number of workshops for this year by about 30%. We are finding more and more of our new clients coming to us via REFERRALS FROM CLIENTS. We are grateful to all clients who refer friends and family to our firm.

On a personal note, I just returned from a week in the Lower Keys with my oldest son's family. I was feeling badly because while we were there the weather was cool and windy. As soon as I had that thought, the weather in WNY took an unexpected turn toward winter. Since I'll be in WNY the 1st half of April, I am hoping the cold spell is short lived.

Kathy and I head to Duke this weekend for my 3 ½ year evaluation. I am feeling very good. Between the doctors, God, and an extensive fitness plan, I feel better than I've felt in over 10 years. Hopefully, the doctors are as happy with my progress as I am.

While I'll be in and out of WNY over the next couple months, hopefully, I'll see many of you in the near future, if just to say hello.

Richard Moldenhauer

Richard Moldenhauer

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IN-SERVICE WITHDRAWALS FROM EMPLOYEE RETIREMENT PLANS

You might be able to take money out of your 401(k), 403(b), or 457 plan while still working.

If you withdraw money out of a workplace retirement plan in your fifties, will you be penalized for it? In most cases, the answer is yes. Distributions taken from a qualified retirement plan before age 59½ usually trigger a 10% IRS early withdrawal penalty. The key word here is "usually," for there are ways to make these withdrawals with no IRS penalty, even while you are still working for your employer.[1]

You may have a strong reason to make such a withdrawal.

Maybe you want the money now. Maybe you are tired of your plan's limited choices and high fees and want to invest those assets in a different way. In fact, some of these withdrawals are made just so the assets can be transferred to an IRA. An IRA allows you many, many more investment options than the typical employer-sponsored retirement plan.[1,2]

You can avoid the 10% penalty through an in-service, non-hardship withdrawal.

Some 401(k), 403(b), and 457 plans permit such distributions for plan participants who are still working. You may be able to arrange one, but you must pay attention to the rules.[2]

Different plans have different requirements for these distributions.

Some only permit them if the employee has worked for the company for at least five years. Others shorten that obligation to two years. A plan may only let employees have this option starting in the calendar year in which they turn 59½. Employees are sometimes unable to withdraw their whole account balance. Spousal consent, in writing, may also be required.[2]

You need to know the mechanics of the distribution.

Can you withdraw your earnings as well as your contributions? Can you withdraw any matching contributions your company has provided? Is there a dollar ceiling on this type of distribution? Does the plan itself penalize such withdrawals (as opposed to the IRS)? Finally, you will want to ascertain the timeline of how long it will take to distribute the assets.

What are the potential drawbacks to doing this?

When you take an early distribution from a 401(k), 403(b), or 457 plan, you do so with a strong conviction that you are putting that money to better use or directing it into a better investment vehicle. There is always the chance that time could prove you wrong. Taking the money out of the plan may also mean losing out on future company matches. Also, while you can currently put up to $24,000 a year into a 401(k), 403(b), or 457 plan starting at age 50, the annual contribution limit for a Roth or traditional IRA is only $6,500 once you turn 50.[3]

If you need the money for an emergency, taking a loan from your plan might be a better option. If you just take the funds out of the plan without arranging a direct rollover (trustee-to-trustee transfer) to an IRA, every dollar you pocket will be taxed because the IRS considers a lump-sum retirement plan withdrawal to be regular income.[2,5]

Should your current workplace retirement plan prohibit in-service, non-hardship withdrawals, take heart: you can reach back and withdraw funds from 401(k), 403(b), and 457 accounts held at past employers after you turn 59½. So, if you have an old employer retirement plan account, you could go this route instead; though, the balance of that account might be relatively small.[4]

Speak to a financial professional before you do this.

A trustee-to-trustee transfer is one way to do it: you never touch the money, and the funds can go straight from your plan into an IRA with no tax ramifications resulting from the transfer. That move is ideally made with a financial professional's help.5

Richard Moldenhauer may be reached at 716-662-4361.

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

Citations.

1 - irs.gov/retirement-plans/plan-participant-employee/retirement-topics-tax-on-early-distributions [8/25/16]

2 - titanfinancial.net/blog/how-to-rollover-401k-funds-while-still-working-for-employer [4/24/16]

3 - forbes.com/sites/ashleaebeling/2016/10/27/irs-announces-2017-retirement-plans-contributions-limits-for-401ks-and-more/ [10/27/16]

4 - thebalance.com/what-age-can-funds-be-withdrawn-from-401k-2388807 [8/16/16]

5 - al.com/business/index.ssf/2017/01/avoid_this_costly_ira_rollover.html [1/4/17]

USING AN IRA TRUST

What is it? What kind of benefit could it provide?

Seemingly everyone has heard of an IRA, but few people know about IRA trusts.

Perhaps more people should, for an IRA trust may provide a way to "stretch" IRA assets for decades to benefit multiple generations.

An IRA trust is simply a revocable living trust designed to hold IRA assets.

It will continue to house them after your death, but that will not prevent you from distributing those assets to your heirs. This is because an IRA trust also contains one or more sub-trusts, which can be designated and customized for your beneficiaries.[1]

At your option, these sub-trusts can be made lifetime dynasty trusts (sometimes called generation-skipping trusts). Dynasty trusts are complex, but they can potentially allow your grandchildren and great-grandchildren to receive distributions of IRA assets. The distributions may occur decades from now. That may be exactly what you prefer; you may want to give your IRA assets to your grandkids when they are in their forties instead of their twenties.[1,2]

Alternately, you can draft the sub-trusts as accumulation trusts or conduit trusts. An accumulation trust accepts the Required Minimum Distributions (RMDs) from the IRA, and the trust may only distribute them to the beneficiary at the discretion of the trustee. A conduit trust can pay out IRA RMDs to the beneficiaries as soon as the trust receives them (and as the trustee permits).[1]

IRA trusts are designed to guard against two things happening to your IRA assets.

If your children or grandchildren just inherit your IRA, they could ask the IRA custodian to pay out its entire balance to them in a lump-sum distribution. That would waste the chance to "stretch" the invested IRA assets. In an IRA trust, a trustee oversees the IRA assets, effectively serving as a barrier to such a decision. In addition, since the IRA assets are parked within a trust, they are out of the reach of "predators and creditors," ex-spouses, and the courts.[1,3]

You can also set up an IRA trust sub-trust as a special needs trust to benefit a disabled adult. Funds from a special needs trust will not impact the government assistance that person receives.[3]

Since an IRA trust is a revocable living trust, you are free to revise its terms at any point before your death (at which time the trust becomes irrevocable).[1]

You need a competent estate planner to create an IRA trust.

An attorney designing one should be well versed in the specific legal terminology pertaining to inherited IRAs. Omitting or misusing key phrases could make the trust invalid or break IRS rules. Sub-trusts created within the IRA trust need to be named as primary or secondary beneficiaries of the IRA assets. As an example, naming the IRA trust as the beneficiary of your IRA is inconsistent with the purpose of the sub-trusts.[1,4]

A properly structured IRA trust can potentially "stretch" IRA assets for decades.

If you have a large IRA and want your IRA assets to be carefully distributed after you pass away, this estate planning vehicle is worth exploring.

Richard Moldenhauer may be reached at 716-662-4361.

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

Citations.

1 - thebalance.com/ira-trust-a-special-type-of-revocable-trust-for-your-ira-3505399 [6/25/16]

2 - fool.com/investing/2016/08/17/do-you-need-a-generation-skipping-trust.aspx [8/17/16]

3 - thebalance.com/what-are-the-benefits-of-an-ira-trust-3505398 [6/29/16]

4 - bankrate.com/finance/retirement/naming-trust-ira-beneficiary.aspx [1/14/16]

UPCOMING EVENTS:

Our April seminars are at:

Pane's Restaurant

Tuesday, April 25, 2017 at 6 p.m.
984 Payne Avenue
North Tonawanda, NY 14120

Chanderson's

Thursday, April 27, 2017 at 6 p.m.
11851 Route 16
Yorkshire, NY 14173

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.

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