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MOLDENHAUER & ASSOCIATES

DECEMBERNEWSLETTER

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

What a year it has been. In a year that offered many challenges, our firm made strides identifying who we are. We seem to be crystalizing our strengths and, hopefully, minimizing our shortcomings. It takes a lot of effort for "successor management" to develop and become effective.

The firm has become more Brett and less Rich over the past several years. This has been good for employees and clients alike. Brett has his own style of leadership. With the firm's shift to Commonwealth as our Broker Dealer, challenges and opportunities developed. We are a stronger firm with greater technical capacity. 2017 demonstrated that our future is bright and we are moving forward.

Our advisor staff has become stronger and our younger members are developing nicely. We have had administrative changes and we are stronger in that area and getting better. Last month, the firm added a new administrative/paraplanner staff person. This is all good. For me it gives me an opportunity to focus on Estate Planning and Business Owner benefits.

The advisors have had a busy year and the confusion of changing tax rules will make the next few months even more interesting. I had hoped to write a sound directional article on the new tax law, but today I may be as confused as you. We expect changes that affect most people in a positive fashion. Whether they will be significant or be back-dated remains to be seen. This will give me a good topic in January if the Tax Law comes to fruition.

As we get into the Holiday Season, our staff wishes you and your families the very best. May this year end well and the next year be one of your very best.

Richard Moldenhauer

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LIFE INSURANCE IS PROBABLY CHEAPER THAN YOU THINK

Good news for those apprehensive about the premiums - and the process.

According to a new study, 41% of Americans lack life insurance coverage.

The 2017 Insurance Barometer Study, conducted by the non-profit organizations LIMRA and Life Happens, also discovered that while 84% of Americans felt life insurance was appropriate for most people, just 70% thought it was a good idea for them.[1]

What is preventing so many people from insuring themselves?

Perhaps outdated perceptions about the cost of the coverage and the process of securing it. Most people think life insurance is more expensive than it really is and assume there will be a long, drawn-out path to obtaining a policy. The reality is different.

Life insurance is easier than ever to buy and not as costly as many believe.

A life insurance shopper may be pleasantly surprised by the data contained in the next three paragraphs.

How much would a healthy, non-smoking 35-year-old man pay per year to maintain a whole life policy offering a $250,000 death benefit? According to LifeHappens.org, the average yearly premium is actually just under $3,000.[2]

How about term life? LIMRA recently asked consumers how much a healthy 30-year-old would pay annually to keep up a 20-year, $250,000 term life policy. Their median estimate was $400 – which was way off. The annual premiums would be less than half that.[3]

Even premiums for long-term care insurance policies have declined slightly. A new study from actuarial firm Milliman Inc., which surveyed 17 insurance companies selling standalone LTC policies, finds that the average annual premium fell by $17 in 2016 to $2,480.[4]

New industry regulations have encouraged insurers to lower premiums.

These rules took effect in most states at the start of 2017, and they permit lower capital requirements for insurance carriers. In some cases, the regulations they replaced were literally antiquated, dating back to the Civil War. This has encouraged major carriers to reprice term coverage.[3]

A life insurance medical exam might soon be the exception rather than the norm.

Consumers dislike these exams and the way they slow down the process of getting coverage; scheduling the doctor's appointment, waiting on test results, and waiting on the insurance carrier's approval can take a month or longer.

Things are changing. Insurers have begun to use algorithms to qualify applicants instead. Consumers fill out questionnaires about their health history and family health history; with their permission, the insurer culls information from past life insurance and health insurance applications, motor vehicle records, and prescription drug histories. A software program determines whether the person qualifies for coverage and the price of coverage. At the rate things are going, life insurance medical exams might disappear in the 2020s.[5]

Living without life insurance means taking a financial risk.

Too many households are taking it, mistakenly believing that life insurance is a cost they cannot afford. The expense will likely be less than they think and may be trivial compared to the financial pressures an uninsured couple or family may face after a tragedy.

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

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

Citations.

1 - newsday.com/long-island/understanding-the-value-and-importance-of-life-insurance-1.14233401 [9/20/17]

2 - lifehappens.org/product-selector/comparing-the-cost-permanent-and-term-life-insurance/ [3/6/17]

3 - nerdwallet.com/blog/insurance/new-rules-mean-lower-life-insurance-rates/ [3/6/17]

4 - forbes.com/sites/howardgleckman/2017/09/08/the-traditional-long-term-care-insurance-market-crumbles/ [9/8/17]

5 - tinyurl.com/ybolyb38 [8/6/17]

REFRAIN FROM TAPPING YOUR RETIREMENT FUNDS

Markets have cycles, and at some point, the major indices will descend.

Retirement accounts are not bank accounts.

Nor should they be treated as such. When retirement funds are drawn down, they impede the progress of retirement planning, even if the money is later restored.

In a financial crush, a retirement account may seem like a great source of funds.

It is often much larger than a savings account; it is technically not a liquid asset, but it can easily be mistaken for one.

The central problem is this: when you take a loan or an early distribution from an IRA or a workplace retirement plan, you are borrowing from your future self. In fact, you may effectively be borrowing more money from your future than you think. Even if you put every dollar you take out back into the account, you are robbing those dollars you removed of the tax-deferred growth and compounding they could have realized while invested.

An early withdrawal will commonly come with a 10% penalty.

The Internal Revenue Service does not want you to cash out your retirement account prior to age 59½, so it puts an additional tax on withdrawals from traditional IRAs and employer-sponsored retirement plans that occur before then. (This applies even to withdrawals defined as "hardship distributions," where the account holder has demonstrated a severe financial dilemma and a lack of other financial sources to address the problem.)[1,2]

The money exiting the plan is considered a distribution of ordinary, taxable income. So, you will pay regular income tax on the money you take out, plus a penalty equal to 10% of the amount withdrawn.[1,3]

In the case of a workplace retirement plan, you will not even receive 100% of what you take out. The plan must withhold 20% of the withdrawn funds from you to cover income taxes.[2]

There is one asterisk worth noting here. The I.R.S. will let you withdraw your contributions to a Roth IRA at any point during your life, tax free and penalty free. Roth IRA earnings, however, are a different story – if you begin to withdraw those earnings before you reach age 59½ and have owned the Roth IRA for at least five years, then regular income taxes and the 10% penalty apply to the distribution.[1]

Loans come with their own set of issues.

Most employer-sponsored retirement plans allow them once you are vested. You can usually withdraw up to $50,000 or 50% of your account balance, whichever is less; the term of repayment is typically five years.[1,3]

All that may appear very convenient, but you are still borrowing money that could be growing and compounding in the account – with taxes deferred, no less. Moreover, the loan comes with interest and cuts into your take-home pay.[3]

In some cases, you may feel like you have no choice but to borrow from your employee retirement plan: your back is against the wall financially due to hospital bills, high-interest debts, or other pressures; you lack other financial means to address these pressures; and you certainly do not want to turn to a predatory lender.

If you do take a loan from your workplace retirement plan account, remember two things. One, the loan should not be so large that your monthly household debt approaches 35-40% of your gross income. Two, you should avoid taking a loan if it appears you may leave the company in the coming months. If you quit or are fired, you may need to repay the whole loan balance in as little as 60 days. Any money you fail to repay will be considered a distribution of taxable income to you otherwise.[3]

All this underscores the need to build an emergency fund.

If you have adequate cash on hand for sudden financial crises, you can refrain from taking what should be thought of as a withdrawal or loan of last resort.

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Citations.

1 - tinyurl.com/ya42no9v [9/13/17]

2 - forbes.com/sites/financialfinesse/2017/03/16/the-401k-distribution-opportunity-you-need-to-think-twice-about/ [3/16/17]

3 - cnbc.com/2017/04/13/never-pull-money-from-your-401k--except-in-these-3-cases.html [4/13/17]

UPCOMING EVENTS:

Our January seminars are at:

Ilio DiPaolo's Restaurant	JP's Pub
Tuesday, January 23, 2018 at 6 p.m.	Thursday, January 25, 2018 at 6 p.m.
3785 South Park Avenue	1986 Lakeview Road
Blasdell, NY 14219	Lake View, NY 14085

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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