Norman J. Politziner's
Financial Planning

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Pre-Retirees: Here's How To Catch Up On Retirement Saving

If you're a pre-retiree who needs to catch up on retirement saving, or if you don't need the income from a portion of your IRA or 401(k) accounts and want to leave them to your children, here are important details for planning your future and leaving a legacy to your family: 2022 limits on contributions to federally qualified defined contribution retirement plans.

DC Basics. Defined Contribution (DC) plans are accorded tax advantages by the U.S. Government to encourage Americans to save and invest for retirement. Federally qualified retirement plans include a variety of employer-sponsored 401(k), 403(b), SEP IRA plans, as well as individually sponsored IRAs, SIMPLE IRAs, and Roth IRAs.

2022 Defined Contribution (DC) Plan Limits

IRA / ROTH IRA CONTRIBUTION LIMIT	$ 6,000
IRA / ROTH IRA "CATCH UP"	$ 1,000
401k ELECTIVE DEFERRAL	$ 20,500
401k ELECTIVE DEFERRAL "CATCH UP"	$ 6,500
SIMPLE IRA CONTRIBUTION LIMIT	$ 14,000
SIMPLE IRA "CATCH UP"	$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON DC PLAN CONTRIBUTIONS	$ 61,000

Source: Advisors4Advisors, Jan 13, 2022

In the 1980s, as the U.S. grew more prosperous and litigious, corporations sought to shift responsibility of retirement planning from company-sponsored pension plans to individuals. Instead of guaranteeing workers a pension, DC plans enabled companies to shift the responsibility of retirement planning to individuals. The U.S. system has been adapted by other major economies and is a model for the world, but new rules and regulation continue to refine and improve the American retirement saving system.

Investments in DC plans grow tax deferred, based on a promise from the Federal Government. You do not pay tax on the capital appreciation or dividends earned on investments in DC plans until you take withdrawals from your account. Essentially, the accounts grow tax-free until you start taking withdrawals. Planning properly enables many individuals to take withdrawals from a DC plan account only after retirement, when you are likely to be in a lower income tax bracket.

2022 Limits. The overall limit on contributions to DC plans in 2022 is $61,000. That's up $3,000 from 2021. For baby boomers in the workforce trying to a create a larger nest egg, DC plans may provide a way to accelerate savings in federally qualified retirement accounts.

Here's what changed in 2022:

- You can contribute up to $20,500 to a 401(k) plan now, $1000 more than in 2021.
- The contribution limit on SIMPLE IRAs is $500 higher than in

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A Trip In Time

50 years ago, a tragedy befell the Afir family. Jerry Afir, a medic in the Israeli Defense Force, was killed. I know about this only because his son, Adam, married my daughter Deborah.

50 years is a long time to grow up without a father. Think about it.

Last month Adam, Deb, Ethan and Meghan, along with Dotty, me, Uncles Eric and Paul and families went to Israel to hold a memorial service for Jerry.

Jerry moved from the US to Israel looking for adventure and found himself. He lived in Kibbutz GIVAT HAIM HAMEUCHAD, a collective farm, milking cows, raising turkeys, making friends, falling in love, marrying, having two children, and then, three years later, nothing... a life ended with so much promise.

The memorial service was a big surprise. As our family gathered around his grave, people began showing up, about 30 of them, all friends of Jerry. They prayed with us and then began telling Jerry stories. Warm stories, funny stories, poignant stories.

How does one measure a man's life?

The thought that so many people would make the effort to attend a memorial service for someone who they knew for only three years, who had died 50 years ago, was inconceivable. That he had made such a positive impression was heartwarming and, to realize that Adam grew up without a dad, without Jerry, was heartbreaking.

There is a lot of Jerry in Adam. I am grateful that I have had the opportunity to know them both better.

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IRA Strategies For 60- To 72-Years-Olds

Investments in IRAs are the main source of funding retirement income for a vast majority of Americans. Your IRA is probably crucially important to your retirement success and may also play a role in your estate plan. Trouble is, the rules on IRAs have changed and so has the investment environment, and, as a result, taking a strategic approach is not so easy. Here is a very simplified explanation of strategic planning opportunities triggered under current estate and income tax rules.

The Rules

At age 72, the law requires you start taking money out of an IRA account annually. The required minimum distribution (RMD) is based on an actuarial table of life expectancy, which sounds complicated but don't get hung up on it. All you need to know is that your RMDs are based on your age.

RMDs get taxed. When you withdraw the RMD annually, you will need to pay income tax on the amount withdrawn. A key aspect of IRA strategic tax planning is minimizing withdrawals on IRA accounts to keep as much of your IRA as possible growing without being subject to income tax.

How The Rules Affect You

If you die at age 72 before beginning RMDs from a regular IRA, your family will not be required to take anything out of that regular IRA for 10 years. To be clear, assuming your heirs don't need all or any of the IRA assets you left them, they can escape any taxation of the growth on the IRA for 10 years. That's great! The trouble is, you're dead. This is not a strategy you want to plan on happening. You want to plan to live many years past age 72.

If you have a regular IRA and you die after the required beginning date for taking RMDs, then you will be required to take RMDs annually for 10 years to deplete the IRA. That's not a good result because the IRA gets reduced by your required distribution annually and less principal is left to grow at a compound rate.

Roth Conversion Strategy

The key strategy for maximizing IRA assets in 2022 is converting traditional IRA assets to a Roth IRA. A Roth IRA is like dying before starting your required minimum distributions at age 72. It's almost like you died and went to tax heaven! There are no required minimum distributions on a Roth IRA; asset growth compounds tax free all your life. It's a great way of preserving your assets for your 80s and 90s and it offers a powerful estate tax planning benefit.

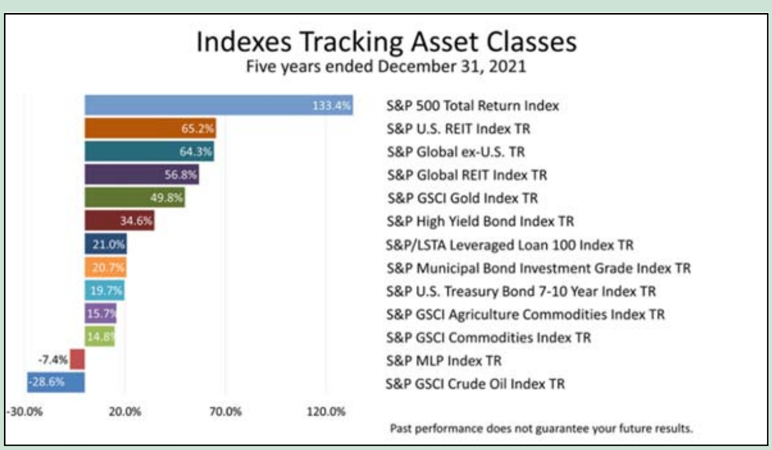
If you die, your heirs inherit a Roth IRA that must be depleted all at once in 10 years. To be clear, your heirs – assuming they do not need the assets you left for them – can let the account grow tax-free for 10 years and withdrawals by your heirs from the inherited Roth IRA is tax-free income.

Roth IRA conversion is not a strategy you want to begin to start thinking about in your 80s. If you are in your 60s and own an IRA asset that might outlive you and benefit your spouse and children after you're gone, converting to a Roth should probably be evaluated. Conversion requires paying income tax on assets withdrawn from your regular IRA and that is a calculation you must make with a qualified professional. We are here to help as always. ●

Make This Financial Resolution For 2022

The U.S. stock market's 133% five-year return dominated this diverse group of 13 securities investments. None of the other asset classes came even close to the total return of the Standard & Poor's 500 stock index.

With another year passing, the financial media is naturally talking a lot about the spectacular returns on stocks and real estate, and there's a smattering of coverage about the big losers – investments in energy and commodities. The coverage will get talked about at business luncheons, cocktail parties, and investment seminars. We suggest resolving not to get caught up in the talk in 2022.



The spectacular returns of stocks are causing speculation – not just speculation in risky investments but speculation in the media that the stock market is in for a lackluster year in 2022 or even a loss. For example, *The Wall Street Journal's*, January 3, 2022, print edition, led with a story entitled, "Stocks Confront Rockier Course In 2022." Similarly, *The New York*

Managing Your Wealth

Financial services giants make financial planning and wealth management sound very simple in slick TV ads, but it's not. Managing wealth requires knowing a lot about technical highly topics, like math, taxes and finance as well as history, psychology and how to communicate with loved ones about sensitive issues. This article highlights many of the topics of knowledge needed to manage wealth and why it's so daunting without the help of an independent personal financial advisor.

Estate tax is in flux. The $12 million personal exemption from estate tax is set to revert to $5 million on January 1, 2026. However, this could change, depending on Congress and financial, economic and political events.

Income tax brackets are also uncertain, and income tax planning includes watching Washington and acting strategically after the November 2022 election results are decided.

Charitable strategies are always important just because giving back is the right thing to do. Supporting a cause can build on your legacy and inspire the next generations in your family to keep your causes top of mind.

IRAs are more important than ever in creating a strategic financial plan because that is where Americans save for retirement. After retiring, assets in 401(k) accounts can be managed by you in IRAs. IRAs, for income tax purposes, are treated the same as 401(k), 403(b) and other federally qualified retirement accounts. They grow tax-freeonly until you withdraw money and withdrawals are taxed at your ordinary income tax rate. However, Roth IRAs are totally tax-free. Even withdrawals are tax-free.

Converting a 401(k) to an IRA, converting a traditional IRA to a Roth IRA and planning how your IRA accounts will be distributed to loved ones or charity upon your demise requires understanding the federal laws on qualified retirement accounts and knowledge of financial economics.

Psychology's pivotal role in financial decisions has come to be recognized only in the last two decades. The burgeoning field of behavioral finance is now part of the investment knowledge needed to avoid making mental mistakes, reacting emotionally to bad news, and recency bias.

Modern families have spawned new legal and accounting strategies to protect family members from horror stories in estate planning. People are living longer than ever and are wealthier than ever. With half of all marriages ending in divorce, families are split asunder by injustice and argument over assets.

After a 50-year marriage and raising two children, Edith, a 75-year-old succumbed after a long battle with cancer. Ed, her 75-year-old spouse, could not stand to live alone and remarried a server he met at the casino. A year after marrying Rita, a 50-year-old with two children, Ed dies. Rita, and her children, inherit Ed's $3 million portfolio and two homes. His children get nothing because he never created a Will.

Another example is the couple who, upon the marriage of their child, give the newlyweds a $1 million down payment on a home. Ten years later, when the child is divorced, the value of the home must be split evenly with their child's spouse.

Trusts, prenuptial agreements, insurance, and qualified retirement accounts must be structured to protect your children, spouse, and other loved ones from losing control of assets you give them when you die. That's part of the new landscape of financial planning for modern families.

Business owners contend with a unique set of circumstances involving:

- corporate form of business or entities, (LLC, S-Corp, or Corporation, etc.)
- partnerships
- equity ownership
- business and personal liability for debts and other risks
- income earned annually
- buy/sell agreements
- family impact
- taxation of the business

Real estate investors and **doctors** have all of the same variables to consider but they have some added twists. For instance, owners of apartment buildings with swimming pools may face a large liability if someone drowns. Protecting yourself from slip-and-fall lawsuits and other risks inherent in developing and owning real estate is just one aspect of knowledge needed to invest wisely in real estate. Successful business owners often find it advantageous to purchase a building to house their business by setting up a real estate entity that owns the building and leasing it to the existing operating business. This is a common real estate strategy for doctors as well as business owners.

Investing is thought by many individuals to be the only knowledge or by far the main knowledge topic required to manage wealth and make a sound financial plan, but it is only one aspect of the job. Investing is important but the other aspects listed above are often just as important.

Retirement is a mashup of all of the topics previously discussed. To create a smart retirement plan requires knowledge of investing, tax, and the full range of topics mentioned here which may be required or come in handy. ●

Times, led its business section on Jan. 1, 2022, with the headline," The Big Uneasy." "Shares soared as interest rates stayed low and stimulus programs helped the economy," The Times reported. "But expected changes could make investors wary."

We suggest ignoring the speculation. The stock market is unpredictable. Covid, too, has been unpredictable. Inflation is higher than in decades. Federal Reserve policy just changed from dovish to hawkish on inflation, but interest rates have never been so low in U.S. history.

Despite the unprecedented crosscurrents, the stock market could go much higher in 2022. It also could go down. However, the economy is roaring and there is certainly no sign of a recession on the horizon.

If you rely on our advice, resolve in 2022 not to get caught up in the financial zeitgeist. ●

Market Data Bank: 2nd Quarter 2022

A BEAR MARKET BEGINS

The pandemic, Russian war on Ukraine, soaring inflation, rising interest rates, and growing possibility of a recession led a bear market to begin on June 13, when the S&P 500 dropped more than -20% from its January 3, 2022, all-time high. Stocks posted a -16.1% loss in 2Q 2022, after a -4.6% loss in 1Q 2022.

A 12-MONTH WALL OF WORRY

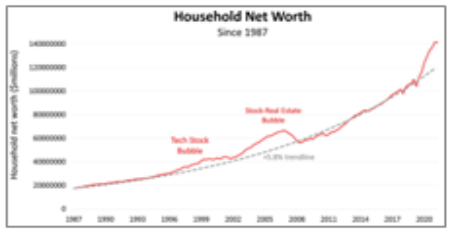
Despite the back to back quarterly losses, the S&P 500 stock index over the five years ended June 30, 2022, showed a total return, including dividends, of +71%. The five year period included the pandemic market meltdown of February and March 2020, when the stock market lost -34% of its value.

INDUSTRY SECTORS

Higher energy prices propelled energy companies to the top of the 10 industry sectors in the S&P 500 stock index, with a +40% return in the 12 months ended June 30. Energy was No. 1 for the past four quarters but it was the worst performer for the five previous quarters starting in 4Q 2019.

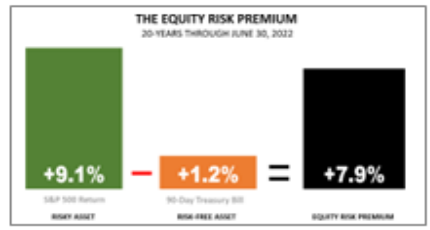
INDEXES TRACKING 13 ASSET CLASSES

Despite being in the throes of a bear market, No. 2 of the broad array of 13 investments for the five years ended June 30 was U.S. stocks. The other top performers were commodity, gold, and energy investments, all of which are more volatile than the S&P 500 index. Bonds and non-U.S. equities lagged by a wide margin.



CONSUMERS ARE IN THE BEST SHAPE EVER

Household net worth surged like never before during the pandemic. Entering this downturn, household balance sheets were exceptionally strong. With consumers accounting for 70% of U.S. economic activity, this unusual support for continued consumer spending, suggests a short, shallow downturn.



NO SUCH THING AS A FREE LUNCH

Amid a bear market, remember this is what you signed signed-up for: a risky asset subject to periodic bear market drops of 40% or even 50%. This is why equities paid a premium over risk-free U.S. Treasury Bills for the past 20 years, which included bear markets in 2002, 2008, and early 2020.

Past performance is never a guarantee of your future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk and political instability. Bonds offer a fixed rate of return while stocks fluctuate. Investing in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Sources: Sector performance data from Standard and Poor's. Household net worth data through March 2022 from Federal Reserve Bank of St. Louis, released June 9, 2022; Equity risk premium data from Craig Israelsen, Ph.D, Advisors4Advisors. ●

How To Catch Up On Retirement Saving

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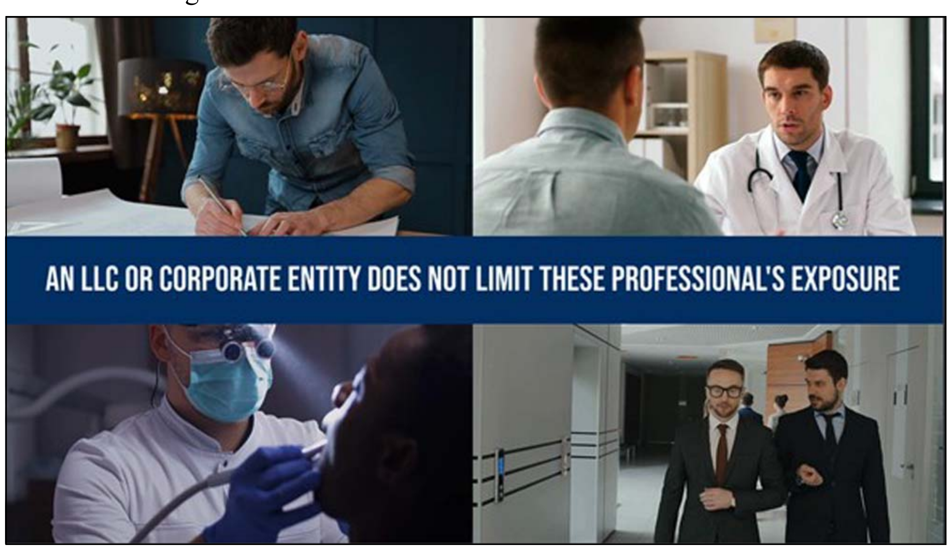
2021, rising to $14,000 in 2022.

Maximizing contributions to DC plans is a fundamental of financial planning for architects, engineers, physicians, lawyers, dentists, and other professionals and business owners, not only because it allows tax-advantaged growth but also because of professional liability.

An LLC or corporate entity does not limit a professional's exposure. But federally qualified DC plans do protect those assets from creditors, including lawsuit judgments resulting from a malpractice lawsuit. The protection from liability lawsuits and other creditors generally begins a year after you make a contribution to the plan. So, it is best to make DC plan contributions as early in the year as is feasible.

Maximizing contributions to a federally qualified retirement plan for a far-off retirement is hard behaviorally. We can coach you on this. ●



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