

# THE Retirement Report

## Retirement Transition Planning

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## 20 Questions On Required Minimum Distributions

**D**o you remember playing “20 Questions”? Here are the answers to 20 questions about required minimum distributions (RMDs). Most of this information comes from the frequently asked questions section of the IRS website.

Q1. What is an RMD?

A. This is the amount you’re required to withdraw from your 401(k) plans, other employer-sponsored retirement plans, and IRAs.

Q2. Which plans do the RMD rules apply to?

A. The rules cover all employer-sponsored retirement plans, including pension and profit-sharing plans, 401(k)s, 403(b) plans for nonprofits, and 457(b) plans for government entities, plus traditional IRAs and IRA-based plans such as SEPs, SARSEPs, and SIMPLE-IRAs.

Q3. When do I have to begin taking RMDs?

A. The required beginning date (RBD) is April 1 of the year after the year in which you turn age 70½. For example, if your 70th birthday was January 1, 2016, you must begin taking RMDs no later than April 1, 2017.

Q4. When do I have to take RMDs in future years?

A. The deadline is December 31 of the year for which the RMD applies. Thus, if you turn 70½ in 2016, you must take the RMD for the 2017 tax year by December 31, 2017.

Q5. How do you figure out the RMD amount?

A. Divide the balances in your plans and IRAs on December 31 of the prior year by the factor in the appropriate IRS

life expectancy table.

Q6. Can I withdraw more than the required amount?

A. You can withdraw as much as you like; RMDs are the least you are allowed to take.

Q7. If I take more than the RMD this year can I withdraw less in a future year?

A. No. Each RMD is calculated based on the account balance and life expectancy factor for that particular year.

Q8. Do I have to take RMDs from all of my retirement plans?

A. Although you must calculate the RMD separately for each IRA you own,

you can withdraw the total amount from just one IRA or any combination of IRAs that you choose. However, for employer-sponsored plans

other than a 403(b), the RMD must be taken separately from each plan account.

Q9. What happens if I fail to take an RMD?

A. The IRS imposes a penalty equal to 50% of the amount that should have been withdrawn (reduced by any amount actually withdrawn).

Q10. How are RMDs taxed?

A. Generally, the entire amount of an RMD is taxable at ordinary income rates. The exception is for amounts attributable to non-deductible contributions to an IRA.

Q11. Are there any exceptions to the RMD penalty?

A. The penalty may be waived if you can show that the shortfall was due to reasonable error and you now have withdrawn the required amount.

(Continued on page 4)

## Flexible Spending For More Financial Security

**O**ur front page article this quarter addresses the MRD, or more fully known as the Minimum Required Distribution. IRA accounts, whether built by annual contributions or resulting from a 401(k) rollover, represent deferred wages, or wages saved from our past work. Happily, the IRS allows us to defer taxes on those wages, too! But, at age 70½, the IRS is tired of waiting, and insists that those taxes start getting paid. So, we must withdraw an amount each year that theoretically would deplete our IRA over our remaining lifetime. For the year we turn 70½, that amount is approximately 1/27th of our account balance, or just about 3.7% (assuming a 27-year life expectancy).

What we like about this scheme is that our withdrawal gets adjusted each year as the account grows or shrinks. So, after a good year with our investments we get a raise, and after a meager or negative year, we tighten our purse strings. This ties our spending to our income, just as it was when we were employed.

We encourage our retired clients to watch their accounts to see whether withdrawals are exceeding earnings. If they are, a tighter budget in the following year would be prudent. The question of how much we can withdraw each year is very difficult because it depends on what our investments earn many years into the future. Being flexible with our spending by matching it to investment results is one way to create more financial security.

Stay Well,

*Ric and Trang*

# Social Security Options Remain

**R**ecent federal legislation ended several strategies that could help you maximize Social Security retirement benefits. But with some advance planning, you still can take advantage of a few things the new law didn't change.

Under the Bipartisan Budget Act of 2015, three strategies have been eliminated:

**1. File and suspend:** A higher-earning spouse could apply for retirement benefits at full retirement age, which is age 66 for most baby boomers. Then the same spouse suspended the benefits, usually until age 70, when the amount of monthly payments from the government would be higher. In the meantime, the lower-earning spouse claimed spousal benefits, which would be larger than the other spouse would have received on his or her own.

This strategy disappeared on April 29, 2016 (six months from the date the new law was enacted). If you suspend benefits now, not only will you not receive benefits, but your spouse also won't be entitled to the higher spousal benefits. But if you turned age 62 before 2016 and you already chose to "file and suspend,"

you still qualify.

**2. Restricted application:** A spouse who was eligible for benefits either on his or her own or as a spouse could file a restricted application for spousal benefits only. Then that spouse waited—typically, until age 70—to apply for benefits based on his or her own earnings record. That entitled the spouse to higher Social Security payments.



The new law eliminates the restricted application option for those who turn age 62 after 2015. You now must claim all of your benefits when you file, and the benefits will be based on your own earnings history or the spousal benefit, whichever is greater.

### 3. Lump-sum payment strategy:

Previously, if you used the file-and-suspend strategy at full retirement age, you could request that all suspended payments be paid in a single lump sum at a later date, up until age 70. This lump-sum option also is no longer allowed after April 29, 2016.

Despite these changes, Social Security rules still provide plenty of flexibility. For example, a lower-

earning spouse can continue to base Social Security benefits on the work history of the higher-earning spouse if that produces greater benefits. Similarly, a surviving spouse still may be in line for increased benefits.

The 2015 law doesn't affect the rules for "early" or "late" retirement, either.

You're eligible for Social Security retirement benefits as early as age 62, but this choice results in reduced monthly benefits. Waiting instead to apply for benefits after your full retirement age results in higher monthly payouts—and the longer you wait, until you reach age 70, the more you may receive. ●

## Remember The Lesson Of Rebalancing

**S**ometimes investors need to be reminded just how unpredictable equity markets can be. Any big, unforeseen event—such as the United Kingdom's so-called "Brexit" vote to leave the European Union—can result in dramatic market swings. And because such fluctuations are as inevitable as they are unpredictable, it makes sense to be prepared for all possibilities.

The best way for most investors to deal with short-term volatility is to stick to a long-term plan, rather than panicking or making ill-considered market moves. And your plan will need a proper balance between stocks and

bonds in your portfolio. Historically, stocks have outperformed other kinds of investments and have provided a hedge against inflation, while bonds have provided steady income and more protection against market volatility.

Diversification and asset allocation—core principles for attempting to control investment risks—are used to create a portfolio that may have the breadth to reduce volatility when markets get turbulent. Your overall tolerance for risk can help determine how you allocate your investments to stocks, bonds, and other assets. Diversification and asset allocation are designed to minimize

inherent risks, although there are no absolute guarantees.

But as important as it is to choose a mix of investments that makes sense for you, you'll also need to revisit your portfolio periodically to help restore the balance you've established. If stock prices rise, for example, that part of your portfolio may grow larger than you intended—and this could make you vulnerable if equity prices fall. "Rebalancing" helps you get back to the target percentages you started with.

Yet as simple as that may sound, rebalancing can seem counterintuitive in practice. It requires you to sell investments that have been doing well

# Meeting With The Family For Elder Care Planning

**B**usiness managers would never chart a course of action for the future without gathering all of the necessary information, analyzing the pros and cons of different approaches, and meeting with the main people who have a stake in the outcome. Yet many families approach eldercare issues with a similar lack of foresight.

If there is an aging member of your family who soon may need help at home or perhaps will move into an eldercare facility of some kind, it's essential for everyone to talk about what's ahead. Consider trying to call the appropriate relatives together for a family meeting—and be prepared to answer some of these questions:

**Can you meet?** Frequently, inertia will take over or some family members won't see the need for a family discussion. It's difficult to find the time with our busy schedules and other commitments. What's more, many families today are dispersed around the country and beyond. Nevertheless, it's important to bring everyone together to work out a plan.

**Why should you meet?** Whether or not specific problems need to be addressed immediately, a meeting gives family members a chance to share information and air their concerns. One or more siblings may feel that too much of the caretaking is falling to them, while

others may express their intention to do more. Encourage family members to get such feelings out on the table. Keep in mind that there is no right or wrong approach. The needs of each family and the best solutions for everyone will vary.

**Who should you invite?** This depends on the size of your family, who takes an active family role, and other factors. Certainly, the children of an elderly parent should be involved, and perhaps the grandchildren, too, if they're old enough to be meaningful participants. Depending on the situation, close family friends and professional advisers also might be included. There could be value to bringing in a third-party caretaker, perhaps a nursing aide or someone else paid to help the parent, who might contribute insight to the discussion. Finally, consider whether or not to include the loved one whose future is being discussed.

**What should you cover?** The older family member's health care may be at the top of the agenda. You may decide to move the person to a nursing or assisted living facility or to upgrade accommodations at a current location. Another option is to keep the person at

home and use live-in care. It's also important to determine whether the parent has a living will or other health care directives that express what kind of care he or she wants to receive. Finances also will be an important part of the equation. Establishing a durable power of attorney for a designated



person to handle financial matters could be helpful, and you might decide that one or more trusts could help protect family assets. Federal and state rules covering such documents are

complex, so be sure to consult with professionals experienced in this area of the law.

**How should you conduct the meeting?** Just as for a business meeting, an agenda that you develop beforehand could help keep the discussion on track. One of you may want to take the lead in creating an agenda and distributing it by email to everyone who will be there, then revising it to include other family members' concerns.

**What should you do next?** Trying to maintain good communication with everyone is very important, and even in families that have not always been harmonious, this is one time when everyone needs to try to come together for the benefit of the loved one. Of course, conflicting viewpoints are likely to be expressed at the meeting, so you all will need to be prepared to compromise. Have someone take detailed notes and circulate them to everyone, and then ask everyone to agree to honor the agreements you've reached.

You all will have to remain flexible in case the situation changes. Develop a "plan B" if, for example, you choose a particular facility that doesn't work out or the elderly person's condition suddenly worsens. Finally, don't expect miracle solutions, but do involve your financial and other advisers in this crucial effort to help this family member. ●

and buy others that have slumped. Your natural inclination may be to keep riding a wave of success, and to stay away from parts of the market that haven't performed well.

But rebalancing can help impose needed discipline for your plan. It can enable you to sell high and buy low and to maintain the broad balance that may cushion your holdings against volatility. And though it sometimes may result in a lower rate of return than you would have gotten if you'd let your winning positions continue to grow, that may be a small price to pay

for feeling more comfortable about your investments.

Rebalancing also can help you resist the impulse to try to "time" the market—attempting to jump in when prices are rising and to get out before they fall. That is rarely a recipe for success and could lead to significant losses.

How often should you rebalance? Expert opinions vary, but you probably should review your portfolio and rebalance at least once a year. The end of the year could be a good time to get your ducks in a row. ●





