THE
Retirement Report
Retirement Transition Planning

POLARIS ADVISORS, LLC.

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Navigating Required Minimum Distributions

When you are halfway through your 70th year on the planet, U.S. law says you must start taking money out of IRAs, SEPs and SIMPLE plans as well as 401(k), 403(b) and other U.S. Government qualified retirement plans. Only a Roth IRA account, which you fund with after-tax dollars, is exempt from federally-required minimum distributions (RMD).

From Uncle Sam's perspective, it's only fair to tax you; you avoided paying tax on money you placed in a non-Roth IRA account, and he wants his cut. From your perspective, it's time to maximize your life savings by paying as little as possible in income tax on your withdrawals.

When RMDs kick in at age 70½, not following the rules can cost you real money. With a bit of strategic financial planning, however, you can turn the rules to your advantage.

Here are five tips that can add up to substantial savings in navigating the withdrawal maze:

Delay your first payment. You don't have to make your initial withdrawal at the midpoint of your 70th year. You can delay it up to April 1st of the following year. So, if you hit 70½ in October 2019, you could delay your withdrawal to March 31st, 2020. The downside is that, in 2020, you must pay taxes on two RMDs. That second withdrawal must occur by year-end of 2020. Planning it matters!

Ask your plan custodian about how much you are required to withdraw. Firms like Fidelity and Vanguard will calculate how much you must withdraw. At age 70, in most cases, you must tap 1/27.4 of your account, based on a 27.4-year life expectancy of 96 and a few months, according to the IRS Uniform Lifetime

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Fear Not The Minimum Required Distribution

As described in our front page article, IRA owners are required to start taking withdrawals after they've reached 70 ½. Some don't need them and wish they could defer the distributions. However, the IRS isn't telling us what to do with our money, they just want us to pay taxes. We can always reinvest the after tax portion of our Required Distribution.

We've seen the rise of some insurance products designed to defer these distributions, and we're not a fan. Like most insurance based investments, the earnings are poor since the policies divert much of it from us to the insurance company through fees and hidden charges. Also, they usually separate us from our principal for many years, if not forever. Instead we're paid a fixed monthly annuity that doesn't begin until years down the road. We can't take one time larger withdrawals, and won't be able to increase our monthly amount to cover inflation.

Consider instead, creating a "companion" account to our IRA. Have the Required Distributions go there and get reinvested for the future. If we never need these funds, we can set up a trust to direct them to our children, helping them with costs like housing or our grandchildren's education. Unlike the insurance "solution," we keep full control of the funds for the rest of our life.

Pending tax laws may make it harder for our kids to inherit our IRA. (See page 2) Call us to discuss this trust based answer. Insurance not required!

Be Well;

Ric and Trang

Tax Law Changes Delayed But Not Dead

For years, year-end tax tips were delivered in this space every September, but this year's story is a real cliffhanger. The twist in the plot is the pending tax legislation. Ironically known as the SECURE Act, an acronym, the legislation is officially named, "Setting Every Community Up for Retirement Enhancement." The bill is likely to cause frantic last-minute tax maneuvering at the end of 2019.

In the spring of 2019, the SECURE Act passed a vote in the House of Representatives by a 417 to 3 margin and seemed like it would sail through enactment because it gained favor with both the House of Representatives and Senate as well as the President. But its enactment was stalled in the Senate all summer. However, it has some popular provisions, like delaying from age 70½ to 72, and expanding the use of annuities in 401(k)s and other federally-qualified retirement accounts. The Act still is expected to be signed into law, though it might not happen until this December.

Perhaps the biggest impact financially would be felt by distributions of income from IRAs to your children and other non-spouse beneficiaries. Non-spouse heirs, under current rules, may elect to draw minimum annual distributions from inherited IRAs over their actuarial life expectancy. Under the SECURE Act, they'd be required to withdraw everything in an inherited IRA in 10 years, accelerating tax payments.

This provision would prevent your heirs from taking minimum annual distributions based on their life expectancy on inherited IRAs — a popular strategy known as a "Stretch IRA." If the SECURE Act is indeed enacted and you have already set up a Stretch IRA for your children or other beneficiaries other than your spouse, be aware that you may need to consider some careful tax planning. IRA owners in this situation would be wise to be prepared for enactment, particularly if you live in a state with a high income-tax rate. You may want to consider utilizing a trust to move the IRA distributions to a state with no income tax, enabling your beneficiaries to avoid state income tax on those required distributions of income on inherited IRAs.

This aspect of retirement income planning is fraught with complexity. New York and California recently enacted laws adversely affecting non-spouse beneficiaries residing in states with an income tax. Please contact us with questions about this topic, as this strategy requires personal advice from a qualified tax professional. ●

The Fed Just Cut Rates Again; What's It Mean To You?

The Fed cut rates again on October 30th, for the third time in 2019. What's it mean to your long-term financial plan?

The rate cut is a reversal in policy and not what the Fed had expected to do, which is worrisome because the Fed has caused every recession in modern U.S. history by making a policy mistake. However, admitting its previous financial plan had been wrong, the Fed's abandonment of its earlier forecast, that inflation was a danger,

is encouraging.

Federal Reserve policy has grown far more responsive to economic fundamentals and market sentiment. Former Fed Chair Ben Bernanke, who had studied financial crises for decades before becoming the nation's top central banker, was the right person to guide the economy when the global

How To Give Gifts And Not Trip On The Gift Tax

It may be better to give than to receive, as the old saying goes, but it's also best to avoid the taxes on your generosity. What's also smart is knowing when you have to file a tax form as a gift giver.

You can give one person up to $15,000 yearly without incurring any taxes. In fact, you can give multiple people a gift of up to that amount, and they don't even have to be related to you — your son, your daughter, your best friend, your manicurist, whoever.

So, if you give your favorite niece $25,000, you only owe taxes on the $10,000 above the $15,000 limit. And a gift need not be cash. It could be stock or real estate or cars.

What's more, the limit is per person, not per couple. Your spouse could give that lucky soul the same amount, doubling your household's giving and you're personally still staying under the yearly $15,000 ceiling. Note that only you, the giver, are on the hook to pay any tax, and not the recipient.

The tax stops people from giving all their money and property away during their lifetimes to skirt the estate tax when they die. The good news is that — with a little planning — you don't have to pay the gift tax right away, and maybe never.

In addition to the $15,000 per recipient annual limit, there's a lifetime exclusion amount, $11.4 million in 2019 — this covers *all* your lifetime giving to everybody. With the lifetime exclusion, your estate pays what you gave in excess of that cap.

The lifetime exclusion allows people more freedom to give big gifts. Example: You give your sister $40,000 this year. The extra $25,000 ($40,000 gift minus $15,000 annual exclusion) is taxable. Instead of paying that tax now, you count it against the $11.4 million lifetime number. After subtracting that $25,000 from the lifetime exclusion, you have $11.375 million still to go.

It's rare for most Americans to go over the $11.4 million lifetime giving limit. But if you're well-heeled and very generous — your daughter's destination wedding in Corsica costs a bundle — then you can hit it. The gift tax rate ranges from 18% to 40%.

About filing with the IRS: Every year you go over the $15,000 exclusion level, you need to file a Form 709. That way, the government can track who is on the road to reaching the lifetime $11.4 million exclusion.

Some things may not seem to be gifts, but are, and you're required to file the form, like that large sum you blew on your daughter's costly nuptials. Or that $100,000 you just plugged into your grandchild's 529 college saving plan, which means $85,000 of it is potentially taxable. And if you make an interest-free loan to a friend, the IRS sees it as a gift, too.

Some gifts are tax-free, provided that you give them the right way. Such as gifts for medical or educational expenses. Should you pay someone else's hospital bill, don't give the money to the patient, who then settles the medical tab themselves. You pay the hospital directly. Ditto for education. Instead of giving the money to the student, write the check to the school. Giving to your spouse or a charity is also totally free from the gift tax.

One sure thing about gifts is that they make people happy. Staying within the rules makes the tax man happy, too. It's best to consult a qualified tax professional about this topic, and we are here to help. ●

financial crisis occurred in 2008. He implemented policies never-before tried in a major world economy. His successor, Janet Yellen, a labor economist, who fatefully had spent her professional life studying how to increase employment, continued Mr. Bernanke's quantitative easing plan and deftly extended the expansion.

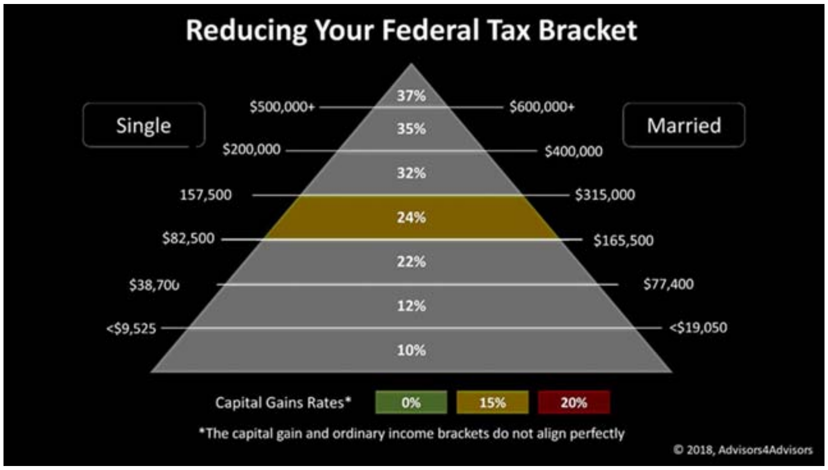
Although opinions about the direction of interest rates or stock prices in the next year or two will always vary, it is clear that the Federal Reserve has made progress in achieving its dual mandate to promote employment and control inflation. The Fed — led by Jerome Powell and backed by a deep team of the world's best minds — has abandoned its long-held forecast for a 2% inflation rate — and in admitting its mistake to raise rates on December 14th, 2018, its change of policy should be viewed in the context of the Fed's progress. The third interest-rate cut of 2019 signaled that the Fed is no longer worried about inflation and determined to defend the 10½-year long expansion in 2020 and beyond, even if it means admitting it made a mistake and is changing course.

Amid the cacophony of modern-day living, don't lose sight of the unceasing progress in the world, and always try to frame your long-term investment perspective from this easily overlooked trend of civilization. ●

High Income Earners & Roth Conversion

Roth IRAs are tax-free, making them popular, but a married couple is ineligible to contribute to a Roth if they earned more than $199,000 of modified adjusted gross income in 2018 ($135,000, if single). A "backdoor" around this limit enables you to convert traditional IRA assets into tax-free Roth IRA accounts, even if you're over the income limit. Here's a strategic approach for maximizing the backdoor route to get tax-free Roth treatment with the least amount of conversion-tax.

When you convert a traditional IRA to a Roth account, you are required to pay tax on the income withdrawn from your traditional IRA. If you do not have the cash on hand to pay the extra income tax you'll owe next April 15, you probably should forget about converting now; withdrawing a larger sum to pay for the income taxes is a risky financial bet and is generally unwise.



If you have the cash on hand to pay the extra income tax you'll owe in the year you draw from your traditional IRA to make the conversion to the Roth, your next move is maximizing your tax bracket. For instance, if your taxable income is $177,500 after making a $100,000 withdrawal from the traditional IRA, consider lowering the amount you convert to avoid pushing you into the 32% bracket. Reducing a $130,000 contribution to a Roth by $30,000 lowers your maximum tax bracket to 24%, for example, giving you the maximum benefit of the 24% bracket.

Because of the stock market's performance in 2018, you may be able to convert a traditional IRA to a Roth with little or no tax taxes. If you funded a deferred compensation plan or traditional IRA with after-tax income in late 2017 or 2018, its fair market value may be lower now than the amount you contributed, and you could convert that traditional IRA account to a Roth tax-free!

To be clear, if you made after-tax contributions to an IRA in 2017 or 2018 and it's shown little or no appreciation, consider converting that IRA to a tax-free Roth IRA, and because you will owe little or no additional income tax on the conversion and — unlike the traditional IRA — the Roth will create tax-free income upon withdrawal.

If you made after-tax IRA contributions to a traditional IRA in 2017 or 2018, or if you want to evaluate a Roth IRA conversion, please contact our office because this is a technical tax topic that requires specialized tax advice. ●

Navigating RMDs

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Table. By the way, your required minimum distribution stays the same from January 1st through December 31st and does not fluctuate with the performance of your portfolio.

Where the money comes from in your account is up to you. You don't have to draw from every single fund you own to make RMDs. You could take equal amounts from every fund in your IRA, yes, but you can also withdraw from the best-performing funds. Similarly, if you own several IRAs, you could withdraw from each of them, or you can add up all of your assets from the separate IRAs and take a large single withdrawal from one of them.

Pay taxes later. Your plan provider can withhold whatever percentage amount you specify before distributing the remainder to you. That's easy, but it deprives you of the full use of your RMD. Alternatively, the provider could send you all the money intact. At tax time, you must pay what you owe the United States. Meanwhile, you have use of your entire RMD to invest with or whatever you want. Again, it just requires a little planning and the savings can add up when this tip is applied in concert with the other strategic planning tips on this list.

If you haven't left the labor force, you don't have to withdraw from your employer's 401(k) or other retirement plan. An exemption from RMDs is available if you are still working. To qualify for the "still-working exemption," you must own no more than 5% of the company for which you work and be employed throughout the entire year. While most qualified plans permit this exemption, it's best to confirm with your employer before doing so.

One caveat: The mandatory initial RMD age of 70½ is the subject of pending tax legislation and could be pushed back to age 72. It's a wrinkle to be mindful of in tax planning currently.

Implementing these tips requires knowing the rules regulating required minimum distributions and devising a strategic lifetime plan for maximizing retirement income in your personal situation. If you have questions or need a professional tax advisor, please call us with any questions. ●