POLARIS
ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

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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-free only 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.

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The Markets Have The Flu; Again!

Here we go again! The Investment Markets are feeling ill. The buyers are on vacation and some sellers are panicking. We have always wondered why these investors are so quick to sell off their quality income producing assets while never thinking of such a thing when it comes to their homes. After all, housing markets can get sick too!

Maybe it's because housing prices don't get posted on the internet daily. Maybe it's because no one gets a monthly "statement" as to what their houses are worth. But there is one thing that homeowners do get right: When they think their houses have gone down in value, they stop spending and wait!

That's why, when we get that question about stock market declines; "What should we do now?" The answer is already known. "Stop spending and wait!"

Here is another thought. Look at what we own and compare that to how we feel about our homes. Of course we love our homes, but what do we think about our stocks. Here are a few of our biggest holdings: Apple, Microsoft, Amazon, Google, Johnson and Johnson, Proctor and Gamble, Visa, Pfizer and Coca Cola. There's a thousand more. Do we really want to dump great companies like these because the market is sick?

If you're feeling queasy about the markets getting the flu, please call us. Go get that brightly colored chart we use titled; "How Should we manage Your Money," and call us to talk about it. (We will gladly send you another.) Because understanding what we own and seeing how markets have rebounded in the past will help you to make the right long term decision.

Be well,

Ric and Trang

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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.

PENSION
ASSETS
RETIREMENT
401K / IRA
SOCIAL SECURITY
STRATEGIC TAX PLANNING

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.

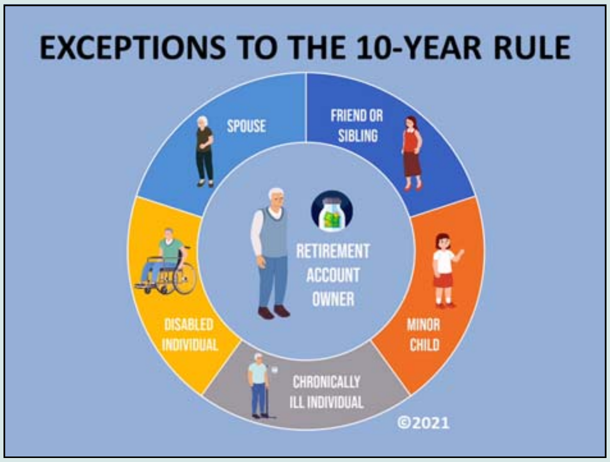
Roth IRA conversion is not a strategy you want to begin to start thinking about in your 80s. If you are in your 60s and own an IRA asset that might outlive you and benefit your spouse and children after you're gone, converting to a Roth should probably be evaluated. Conversion requires paying income 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. ●

Making A Life-Changing Financial Difference To A Spouse And Needy Loved Ones

Tax law and estate planning might bore you to death, but this brief tip could make a life-changing financial difference to your surviving spouse, and other loved ones, including disabled and chronically ill family or friends, as well any minor children in your life.

These individuals are among the five exceptions to the usual distribution rules on the inheritance of assets in IRA, 401(k), or other federally qualified retirement plans.

New rules, that went into effect on January 1st, 2020, with the enactment of The Secure Act, require the beneficiary of inherited IRA or 401(k) accounts to deplete the money in those accounts within 10 years. It was a technical change that many overlooked in the rush of tax law changes that occurred in 2020 during the pandemic. But it made a big difference in tax planning.



To be clear, until 2020, beneficiaries of an inherited IRA or 401(k) were not required to liquidate an inherited account within 10 years, as is now required, which had left open a major tax break: They had the option to stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a

Making A Life-Changing Difference To Loved Ones

STRETCHING OUT DISTRIBUTIONS OVER DECADES COULD TRANSFORM THE INHERITANCE INTO AN INCOME STREAM FOR LIFE.

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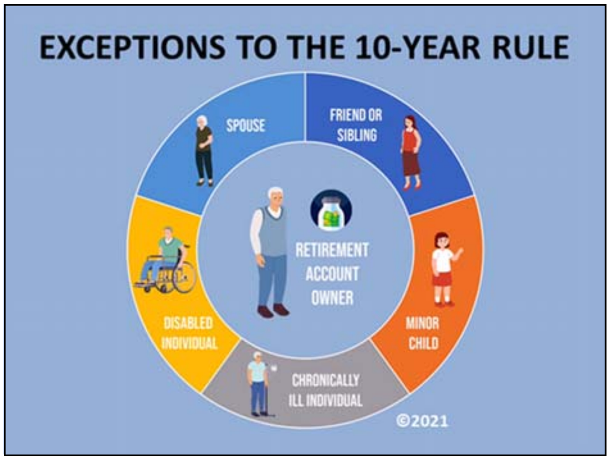
To be clear, until 2020, beneficiaries of an inherited IRA or 401(k) were not required to liquidate an inherited account within 10 years. That had left open a major tax break to heirs of retirement accounts. They had the option to stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a much longer period.



The 10-year mandatory distribution rules in the Secure Act carved out some key exceptions for certain individuals that now require consideration of those who intend to pass on assets in their retirement plan, IRA or other qualified plan assets to a spouse, chronically ill or disabled individual or minor child.

For a disabled individual, who inherits federally qualified retirement assets, for instance, stretching out distributions over decades could transform the inheritance into an income stream for life. The same is true for a widower, chronically ill individual, or minor child that inherits your retirement account.

In addition, a fifth exception to the usual distribution rules applies to a beneficiary who is less than 11 years younger than the retirement account owner. A sibling or friend who is 10 years or less your junior, who inherits qualified retirement account assets, also may use their life expectancy -- instead of taking required distributions over 10 years.

If you own a sizable IRA, 401(k) or other qualified account, and your beneficiary is your spouse, a friend or sibling 10 years or less younger, an individual with a disability, chronic illness, or a minor child, the five exceptions to the 10-year rule pose complicated tax planning as well as legal and investment issues requiring personal advice from a professional that is beyond the scope of this article. ●

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New Research Warns Consumers On Long-Term Care Insurance Policies

Are
You
Covered?

A new survey of long-term care insurer rate increases offers a rare glimpse into an insurance sector with a history of problems for consumers.

Long-term care insurance (LTCI) is a relatively new type of insurance. For most of its 50-year history, insurers made overly optimistic assumptions about key factors in the price of their policies, including:

- how much to charge for policies
- how many policyholders would keep their policies in force
- how long policyholders would live
- how many policyholders would need long-term care during their lives and for how long
- the yield insurers would earn on their investments

Because the insurers' assumptions turned out to be wrong so often, they have gone to state insurance regulators to request approval for price increases, as allowed by the policy contracts. Milliman, a national actuarial firm, recently released the results from a voluntary survey of 20 insurance companies that have asked for a rate increase. A few highlights:

- Most rate hike requests received full or partial approval.
- The average approved increase was 29%, with a range from 5% to more than 60%.
- Companies that request a rate increase also provide reduced benefit options, including reduced daily benefits, reduced benefit periods, increased elimination periods, and reduced inflation protection. Only about 11% of policyholders elected a reduced benefit option.
- Many companies also offer a reduced paid-up benefit, with no further premiums due, but fewer than 5% of policyholders elected this option.
- Cash buyouts are under discussion but are not yet common.
- The review process and the results vary by state. A National Association of Insurance Commissioners task force is developing a multi-state process to encourage uniformity and efficiency.

The March 2022 survey of long-term care insurer rate increases confirms that LTCI is fraught with risks to policyholders. Whether you have a received a policy rate increase notice or are considering buying a new policy, we recommend consulting with a professional who understands the risks. ●

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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. ●

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