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IN THIS ISSUE

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LinkedIn® – Ryan Nietert
Facebook – OakCrest Capital, LLC
Twitter – @OakCrestCapital

www.oakcrestllc.com

17W220 22nd Street
Suite 300/Box 4
Oakbrook Terrace, IL 60181
312-525-8793
ryan.nietert@oakcrestllc.com

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RETIREMENT QUESTIONS THAT HAVE NOTHING TO DO WITH MONEY

Think about these factors before you leave work for the last time.

Retirement planning is not entirely financial. Your degree of happiness in your "second act" may depend on some factors that don't come with an obvious price tag. Here are some non-monetary factors to consider as you plan your retirement.

What will you do with your time? Too many people retire without any idea of what their retirement will look like. They leave work, and they cannot figure out what to do with themselves, so they grow restless. It's important to identify what you want your retirement to look like and what you see yourself doing. Maybe you love your career, and can't imagine not working during your retirement. There's no hard and fast rule to your dream retirement, so it's important to be honest with yourself. An EBRI retirement confidence survey shows that almost 74% of retirees plan to work for pay, whereas just 27% of retirees report that they've actually worked for pay.[1]

While this concept doesn't have a monetary value, having a clear vision for your retirement may help you align your financial goals. It's important to remember that your vision for retirement may change—like deciding you don't want to continue working after all.

Where will you live? This is another factor in retirement happiness. If you can surround yourself with family members and friends whose company you enjoy, in a community where you can maintain old friendships and meet new people with similar interests or life experience, that is a definite plus. If all this can occur in a walkable community with good mass transit and senior services, all the better. Moving away from the life you know to a spread-out, car-dependent suburb where anonymity seems more prevalent than community may not be the best decision for you.

How are you preparing to get around in your eighties and nineties? The actuaries at Social Security project that the average life expectancy for men is 84 years old, and the life expectancy for women is 86.[5] years. Some will live longer. Say you find yourself in that group. What kind of car would you want to drive at 85 or 90? At what age would you cease driving? Lastly, if you do stop driving, who would you count on to help you go where you want to go and get out in the world?

How will you keep up your home? At 45, you can tackle that bathroom remodel or backyard upgrade yourself. At 75, you will probably outsource projects of that sort, whether or not you stay in your current home. You may want to move out of a single-family home and into a townhome or condo for retirement. Regardless of the size of your retirement residence, you will probably need to fund minor or major repairs, and you may need to find reliable and affordable sources for gardening or landscaping.

These are the non-financial retirement questions that no pre-retiree should dismiss. Think about them as you prepare and invest for the future.

Sources:

1. EBRI/Greenwald Retirement Confidence Survey, 2020

2. SSA.gov, 2021

RETURNS (AS OF 2/26/21)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	2.61%	1.47%	29.01%	11.98%
US Large Cap	Dow Jones TR	3.17%	1.06%	21.74%	7.31%
US Small Cap	Russell 2000 TR	6.14%	11.45%	49.08%	13.32%
International	MSCI EAFE NR USD	2.11%	0.99%	19.85%	1.87%
Taxable Bonds	Barclays US Agg Bond TR	-1.44%	-2.15%	1.38%	5.32%

THE NEW INHERITED I.R.A. RULES

Do you know what has changed for I.R.A. beneficiaries?

New inherited I.R.A. rules took effect on January 1, 2020. The Setting Every Community Up for Retirement Enhancement (SECURE) Act became law on that day, altering the regulations on inherited Individual Retirement Account (I.R.A.) distributions.

The big change: the introduction of the 10-year rule for beneficiaries. Most people who inherit an I.R.A. now have to empty that I.R.A. of assets within ten years of the original owner's death. You can do this as you wish; you can withdraw the whole I.R.A. balance at once, or take incremental distributions on the way to meeting the 10-year deadline.[1]

Remember that tax rules constantly change. There is no guarantee that the tax treatment of Roth and Traditional I.R.A.s will remain what it is now. This article is for informational purposes only. If you have inherited or expect to inherit a traditional or Roth I.R.A., be sure to consult a financial professional for real-world advice.

Are there exceptions to this rule? Yes. If the deceased I.R.A. owner was your spouse, you can treat the inherited I.R.A. like an I.R.A. of your own. If it is a traditional I.R.A., you generally must take required minimum distributions (R.M.D.s) from it once you reach age 72. The I.R.S. taxes those distributions as regular income, and if you take any distributions before age 59½, they may be subject to a 10% federal income tax penalty. If it is a Roth I.R.A., you aren't required to take R.M.D.s. (You may continue to contribute to a Traditional I.R.A. past age 72 as long as you meet the earned-income requirement.)1

Certain non-spousal I.R.A. beneficiaries still have the chance to "stretch" inherited I.R.A. distributions over their remaining lifetimes, using Internal Revenue Service formulas (a choice available to most I.R.A. beneficiaries before 2020). You may choose this option if you are less than ten years younger than the original I.R.A. owner. You can also elect to do this if you meet the SECURE Act's definition of a "disabled" or "chronically ill" individual (you have a life-altering physical or mental impairment or require extended care).[1,2]

Lastly, if a child inherits an I.R.A., they can take distributions based on the child's life expectancy until the age of 18, at which point the aforementioned 10-year rule applies.[1]

If you are a Roth I.R.A. beneficiary, be aware of the 5-year rule pertaining to Roth I.R.A.s. If you inherit a Roth I.R.A. that is less than five years old at the time of the original owner's death, any earnings taken from it will count as taxable income. If the Roth I.R.A. is more than five years old, you can take tax-free distributions from the earnings. Assets representing the original owner's Roth I.R.A. contributions can become tax-free distributions regardless of when the original owner opened the Roth I.R.A.[1]

What's the big takeaway from all this? Suppose you are relatively young and anticipate a large I.R.A. inheritance, and that big I.R.A. is a traditional I.R.A. In that case, you can anticipate greater income taxes during the 10-year window when you take those inherited I.R.A. distributions.

By the way, the new rules do not apply to inherited I.R.A.s whose initial owners died prior to 2020. If you are a beneficiary of such an I.R.A., then you may still attempt to "stretch" the inherited I.R.A. assets according to I.R.S. life expectancy formulas and take R.M.D.s as required by the old rules.[3]

Sources:

1. NerdWallet, November 25, 2020

2. FedWeek, March 3, 2020

3. Forbes, October 28, 2020

SHOULD YOU CONSIDER REFINANCING YOUR MORTGAGE?

What to consider.

Are you considering refinancing your mortgage? Perhaps you want to shorten the term of your home loan. Maybe you have an adjustable-rate mortgage now and want to refi into a fixed rate. Or maybe you want to tap into home equity or consolidate debt. Whatever your reason(s), you must weigh two questions. One, how long do you want to stay in your home? Two, how much money are you expected to save?

Refinances break down into three types: rate-and-term, cash-out, and cash-in. Rate-and-term refinances (also known as refis) simply adjust the term and/or the interest rate of your existing loan. Even though interest rates are rising now, they still make up the bulk of refinances. The no-cash-out variety adds closing costs to the loan balance, relieving you from having to pay those costs out of pocket.

A cash-out refi gives you an opportunity to tap home equity and pay off your existing mortgage. In a cash-out mortgage, the loan balance on the refinance is at least 5% more than the balance on the original loan. As you just owe the balance of your original loan to the lender, the overage is either paid out as cash at closing or routed to your creditors to help you whittle down other debts.

A cash-in refi is the inverse of a cash-out refi. You bring cash to the closing to lower the outstanding principal of the loan, pursuant to a shorter loan term or a lower interest rate available at lower loan-to-values (LTVs). You may be able to cancel mortgage insurance premium payments as part of the move.

How much will a refi cost? In ballpark terms, the answer is often $2,000-$5,000. In percentage terms, think 3-5% of the loan amount. The price of a refi may be notably cheaper in one state than another, thanks to variations in closing costs. Of course, certain closing costs may be negotiable, like app and processing fees. Sometimes you can save on title searches, title insurance, and inspections by turning to a third party for those services. If your last appraisal was conducted recently, you might be able to negotiate your way out of a new one.[1]

Sometimes you can refinance without an appraisal. The Federal Housing Administration (FHA) and Veterans Administration (VA) offer streamlined refinancing programs to homeowners with existing FHA or VA-backed home loans. The underwriting process is less demanding than it would be otherwise. Besides usually waiving the appraisal, these programs also commonly waive credit score and income verifications.[2]

In some situations, refinancing may not be "the answer." If you are stretching the term of your loan out with a refi, you will carry mortgage debt for years longer than you originally planned, complete with thousands more paid out in interest. If you are using home equity to fund a remodel or upgrades, your home's value may not rise as much as you anticipate from the work. Then there are the little curveballs life throws at us, such as potential job changes and relocations. If you sense you might have to move before you can recapture the closing costs of the refi, is it even worth the trouble to try?

Hopefully, you will be able to lower the interest rate on your loan, shorten its term, or find a way to reduce your monthly payments through refinancing. Online calculators and a conversation with a trusted mortgage professional may help you determine the potential break-even points for a refi and find paths to a home loan more suitable to your needs.

Citations:

1. Investopedia.com, January 22, 2021

2. The Mortgage Reports, November 23, 2020

OakCrest Capital, LLC | 17W220 22nd St. | Suite 300/Box 4 | Oakbrook Terrace, IL 60181 | 312-525-8793

OakCrest
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