OAKCREST INSIGHT

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RETIREMENT SEEN THROUGH YOUR EYES

After you leave work, what will your life look like?

How do you picture your future? If you are like many contemplating retirement, your view is likely pragmatic compared to that of your parents. That doesn't mean you must have a "plain vanilla" tomorrow. Even if your retirement savings are not as great as you would prefer, you still have great potential to design the life you want.

With that in mind, here are some things to think about.

What do you absolutely need to accomplish? If you could only get four or five things done in retirement, what would they be? Answering this question might lead you to compile a "short list" of life goals, and while they may have nothing to do with money, the financial decisions you make may be integral to achieving them.

What would revitalize you? Some people retire with no particular goals at all, and others retire burnt out. After weeks or months of respite, ambition inevitably returns. They start to think about what pursuits or adventures they could embark on to make these years special. Others have known for decades what dreams they will follow ... and yet, when the time to follow them arrives, those dreams may unfold differently than anticipated and may even be supplanted by new ones.

In retirement, time is really your most valuable asset. With more free time and opportunity for reflection, you might find your old dreams giving way to new ones. You may find yourself called to volunteer as never before or motivated to work again in a new context.

Who should you share your time with? Here is another profound choice you get to make in retirement. The quick answer to this question for many retirees would be "family." Today, we have nuclear families, blended families, extended families; some people think of their friends or their employees as family. You may define it as you wish and allocate more or less of your time to your family as you wish (some people do want less family time when they retire).

Regardless of how you define "family" or whether or not you want more "family time" in retirement, you probably don't want to spend your time around "dream stealers." They do exist. If you have a grand dream in mind for retirement, you may meet people who try to thwart it and urge you not to pursue it. (Hopefully, they are not in close proximity to you.) Reducing their psychological impact on your retirement may increase your happiness.

How much will you spend? We can't control all retirement expenses, but we can control some of them. The thought of downsizing may have crossed your mind. While only about 10% of people older than 60 sell homes and move following retirement, it can potentially lead to more manageable mortgage payments. You could also lose one or more cars (and the insurance that goes with them) and live in a neighborhood with extensive, efficient public transit. Ditching landlines and premium cable TV (or maybe all cable TV) can bring more savings. Garage sales and donations can have financial benefits as well as helping you get rid of clutter, with either cash or a federal tax deduction.[1]

This article is for informational purposes only and is not a replacement for real-life advice, so make sure to consult your tax, legal, and accounting professionals before modifying your overall tax strategy.

Could you leave a legacy? Many of us would like to give our kids or grandkids a good start in life, but given some of the economic realities of today, leaving an inheritance can be trickier than many realize.

Consider a couple with, for example, $285,000 in retirement savings. If that couple follows the 4% rule, the old maxim that you should withdraw about 4% of your retirement savings per year, subsequently adjusted for inflation – then you are talking about $11,400 withdrawn to start. When you combine that $11,400 with Social Security and other potential investment income, that couple isn't exactly rich. Sustaining and enhancing income becomes the priority, and legacy preparations may have to take a backseat. On the other hand, a recent survey showed that 92% of all respondents believe it is important to leave money and other assets to their children.[2]

How are you preparing for retirement? This is the most important question of all. If you feel you need to prepare more for the future or reexamine your existing strategy in light of recent changes in your life, conferring with a financial professional experienced in retirement approaches may be a smart move.

Sources:

1. IRS.gov, March 14, 2019

2. Bankofamerica.com, Spring 2019

RETURNS (AS OF 3/31/21)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	3.03%	7.02%	62.71%	15.03%
US Large Cap	Dow Jones TR	5.13%	1.06%	21.74%	11.21%
US Small Cap	Russell 2000 TR	-0.94%	14.13%	110.25%	13.80%
International	MSCI EAFE NR USD	2.11%	0.99%	19.85%	1.87%
Taxable Bonds	Barclays US Agg Bond TR	-1.09%	-3.28%	0.64%	4.67%

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

THE SHRED PARTY

What should you get rid of and hold on to? When and why?

If a shred party happens to spring up in your area, you may want to mark your calendar. For many years, shred parties, where a business or organization hosts clients or the public to the use of giant paper shredders, have presented a fun and easy way for folks to rid themselves of paper clutter. Sometimes, it's more than just paper, as some industrial-sized shredders even have the ability to destroy hard drives and other electronic storage devices.

Protection from identity theft. Of course, this is not just about clutter: old bills and financial documents are just the sorts of things that scammers and identity thieves want to get their hands on. The only way to be totally certain that you are safe is the total destruction of those documents and devices once their practical use has come to an end.

A shred party can also be a nice day out. It's not unusual for the big shredding trucks to be parked outside on a pleasant spring or summer day. Depending on the hosting organization, the shred party might be attached to some other activity, like a potluck, barbecue, or community celebration. COVID may limit part of the celebration this year, but the opportunity to shred documents may still present itself.

What do you bring? The better question may be: when is it wise to let go of the documents that you've been storing? It's important to be sure because they certainly aren't something you can get back from the shredder once they're gone!

A recent article from I.R.S. suggests the following guidelines:

*For your tax returns, hold on to those for up to seven years.
*Purchase and sale statements for your house, for your entire ownership of the house.
*Utility bills, at least one year.
*Statements from your investment or brokerage account, at least one year.
*Purchase and sales confirmations related to your investment or brokerage account, at least one year.
*Statements from your bank account, at least one year.
*Statements from your credit card provider, at least one year.

It's important to remember, also, that the above represents a general guideline; different sources offer different suggestions. The I.R.S. acknowledges that, in some cases, it's okay to shred your tax returns after three years. Your financial professional may have a different prescription for you, however, based on their close understanding of your financial life.

Citations:

1 - IRS.gov, September 29, 2020

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