OAKCREST INSIGHT

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IMPORTANT BIRTHDAYS OVER 50

Most children stop being "and-a-half" somewhere around age 12. Kids add "and-a-half" to make sure everyone knows they're closer to the next age than the last.

When you are older, "and-a-half" birthdays start making a comeback. In fact, starting at age 50, several birthdays and "half-birthdays" are critical to understand because they have implications regarding your retirement income.

Age 50

At age 50, workers in certain qualified retirement plans are able to begin making annual catch-up contributions in addition to their normal contributions. Those who participate in 401(k), 403(b), and 457 plans can contribute an additional $7,500 per year in 2023. Those who participate in Simple Individual Retirement Account (IRA) or Simple 401(k) plans can make a catch-up contribution of up to $3,500 in 2023. And those who participate in traditional or Roth IRAs can set aside an additional $1,000 a year.[1,2]

Age 59½

At age 59½, workers are able to start making withdrawals from qualified retirement plans without incurring a 10% federal income tax penalty. This applies to workers who have contributed to IRAs and employer-sponsored plans, such as 401(k) and 403(b) plans (457 plans are never subject to the 10% penalty). Keep in mind that distributions from traditional IRAs, 401(k) plans, and other employer-sponsored retirement plans are taxed as ordinary income.

Age 62

At age 62 workers are first able to draw Social Security retirement benefits. However, if a person continues to work, those benefits will be reduced. The Social Security Administration will deduct $1 in benefits for each $2 an individual earns above an annual limit. In 2023, the income limit is $21,240.[3]

Age 65

At age 65, individuals can qualify for Medicare. The Social Security Administration recommends applying three months before reaching age 65. It's important to note that if you are already receiving Social Security benefits, you will automatically be enrolled in Medicare Part A (hospitalization) and Part B (medical insurance) without an additional application.[4]

Age 65 to 67

Between ages 65 and 67, individuals become eligible to receive 100% of their Social Security benefit. The age varies, depending on birth year. Individuals born in 1955, for example, become eligible to receive 100% of their benefits when they reach age 66 years and 2 months. Those born in 1960 or later need to reach age 67 before they'll become eligible to receive full benefits.[5]

Age 73

In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a traditional Individual Retirement Account and other defined contribution plans. You may continue to contribute to a traditional IRA past age 70½ as long as you meet the earned-income requirement.

Understanding key birthdays may help you better prepare for certain retirement income and benefits. But perhaps more importantly, knowing key birthdays can help you avoid penalties that may be imposed if you miss the date.

Citations

1. If you reach the age of 50 before the end of the calendar year.
2. IRS.gov, 2023
3. SSA.gov, 2023
4. SSA.gov, 2023. Individuals can decline Part B coverage because it requires an additional premium payment.
5. SSA.gov, 2023

RETURNS (AS OF 05/31/23)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	0.25%	8.86%	1.15%	11.15%
US Large Cap	Dow Jones TR	0.33%	-0.72%	-0.25%	9.04%
US Small Cap	Russell 2000 TR	-1.09%	-0.66%	-6.14%	7.87%
International	MSCI EAFE NR USD	-4.76%	5.04%	0.19%	5.78%
Taxable Bonds	Barclays US Agg Bond TR	-1.14%	2.64%	-2.18%	-3.71%

THE FIVE BASICS OF FINANCIAL LITERACY

Credit and Debt

Understanding the ways credit and debt work for and against you are some of the first steps toward understanding personal finance. While it's not useful to be scared of credit and debt and avoid it entirely, there are some things to look out for.

- **Debt:** Debt is like any tool: when used correctly, it can be quite useful. When used incorrectly, debt can easily spiral out of control. Missing payments may negatively affect your credit score, and that can take years to recover from. Missed payments, for example, can stay on your credit report for seven years.[1]
- **Credit Score:** Your credit score is one of the factors lenders use to judge your trustworthiness and qualification for mortgages, auto loans, and other lending. Landlords and employers may also check your credit before renting to you or offering you a job.

Interest

Interest can work against you, but it can work for you, too. When you take out a loan with an interest rate, it's working against you, but when you invest early and take advantage of compound interest, it's working for you.

- **Compound Interest:** When you've got an account that's accruing interest, the interest earned gets added to the principal. Then, interest is earned on the new, larger principal, and the cycle repeats. That's compound interest, baby!

The Value of Time

It's never too early to start saving. In fact, the earlier you start, the better your result. By getting started with retirement savings sooner rather than later, you can leverage the value of time to your advantage.

- **Cindy vs. Charlie**: Consider the case of Cindy and Charlie, who will each invest a total of $100,000. Cindy starts right away, depositing $10,000 a year at a hypothetical 6% rate of return. After 10 years, Cindy stops making deposits. Charlie, on the other hand, waits 10 years before starting to invest. He also puts $10,000 a year away for 10 years, at the same hypothetical rate as Cindy. After 20 years, who has more money? Shockingly, Cindy's balance is nearly twice as big as Charlie's, thanks to the extra time her investment returns had to compound.[2]

Inflation

Inflation has the potential to eat away the purchasing power of your money. That means, with inflation, the dollar you earn today may not be worth a dollar in the future. Here some things to keep in mind when thinking about inflation.

- **Cash in a Mattress:** Keeping all your cash under a mattress is not only unsafe, it literally costs you money. Assuming the rate of inflation is a hypothetical 2%, every dollar you squirrel away will shrink in value to just $.98 next year.
- **Rate of Return:** Because inflation erodes the purchasing power of your money, any returns you earn on your accounts may not be the "real" rate of return. If your account earned a hypothetical 6% rate of return over the last year, but inflation was 1.5%, your real rate of return was 4.5%.[3]

Identity Theft and Safety

In the modern world, identity theft is one of the biggest threats to financial and personal safety. A cracked password or misplaced Social Security number can have big consequences on your current and future finances.

- **Consider using a password manager:** The common wisdom is to use a unique password for each site and service you use. A password manager can make this easier by generating and storing strong passwords until you need to use them

Citations

1.Experian, 2023

2.This is a hypothetical example of mathematical compounding. It's used for comparison purposes only and is not intended to represent the past or future performance of any investment. Taxes and investment costs were not considered in this example. The results are not a guarantee of performance or specific

investment advice. The rate of return on investments will vary over time, particularly for longer-term investments. Investments that offer the potential for high returns also carry a high degree of risk. Actual returns will fluctuate. The types of securities and strategies illustrated may not be suitable for everyone.

3.This is a hypothetical example used for illustrative purposes only. It is not representative of any specific investment or combination of investments. Past performance does not guarantee future results.

TRADITIONAL VS. ROTH IRA

Traditional Individual Retirement Accounts (IRA), which were created in 1974, are owned by roughly 36.6 million U.S. households. And Roth IRAs, created as part of the Taxpayer Relief Act in 1997, are owned by nearly 27.3 million households.[1]

Both are IRAs. And yet, each is quite different.

Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions to their account(s). Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.[2,3]

For individuals covered by a retirement plan at work, the deduction for a traditional IRA in 2023 is phased out for incomes between $116,000 and $136,000 for married couples filing jointly, and between $73,000 and $83,000 for single filers.[4]

Also, within certain limits, individuals can make contributions to a Roth IRA with after-tax dollars. To qualify for a tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Like a traditional IRA, contributions to a Roth IRA are limited based on income. For 2023, contributions to a Roth IRA are phased out between $218,000 and $228,000 for married couples filing jointly and between $138,000 and $153,000 for single filers.[4]

In addition to contribution and distribution rules, there are limits on how much can be contributed each year to either IRA. In fact, these limits apply to any combination of IRAs; that is, workers cannot put more than $6,500 per year into their Roth and traditional IRAs combined. So, if a worker contributed $3,500 in a given year into a traditional IRA, contributions to a Roth IRA would be limited to $3,000 in that same year.[4]

Individuals who reach age 50 or older by the end of the tax year can qualify for "catch-up" contributions. The combined limit for these is $7,500.[4]

Both traditional and Roth IRAs can play a part in your retirement plans. And once you've figured out which will work better for you, only one task remains: open an account.[5]

FEATURES OF TRADITIONAL AND ROTH IRAS

	TRADITIONAL IRA	ROTH IRA
TAX-DEDUCTIBLE CONTRIBUTIONS	YES*	NO
TAX-DEFERRED GROWTH	YES	YES
TAX-FREE WITHDRAWALS	NO**	YES***
INCOME LIMIT FOR 2023 CONTRIBUTIONS	DEDUCTION PHASES OUT FOR ADJUSTED GROSS INCOMES BETWEEN \$116,000 AND \$136,000 (MARRIED FILING JOINTLY) OR BETWEEN \$73,000 AND \$83,000 (SINGLE FILER)[4]	ELIGIBILITY PHASES OUT FOR ADJUSTED GROSS INCOMES BETWEEN \$218,000 AND \$228,000 (MARRIED FILING JOINTLY) OR BETWEEN \$138,000 AND \$153,000 (SINGLE FILER)[5]
DISTRIBUTIONS REQUIRED AT AGE 73?	YES	NO

* Up to certain limits

** Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.

*** To qualify, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½.

Citations

1. ICI.org, 2022
2. IRS.gov, 2023. In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.
3. Up to certain limits, traditional IRAs allow individuals to make tax-deductible contributions into their account(s). Distributions from traditional IRAs are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty. Generally, once you reach age 73, you must begin taking required minimum distributions.
4. IRS.gov, 2023
5. The Tax Cuts and Jobs Act of 2017 eliminated the ability to "undo" a Roth conversion.