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OAKCREST INSIGHT

FEBRUARY 2024

IN THIS ISSUE

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9 FACTS ABOUT RETIREMENT

Retirement can have many meanings. For some, it will be a time to travel and spend time with family members. For others, it will be a time to start a new business or begin a charitable endeavor. Regardless of what approach you intend to take, here are nine things about retirement that might surprise you.

1. Many consider the standard retirement age to be 65. One of the key influencers in arriving at that age was Germany, which initially set its retirement age at 70 and then lowered it to age 65.[1]
2. Every day between now and the end of the next decade, another 10,000 baby boomers are expected to turn 65. That's roughly one person every eight seconds.[2]
3. The 65-and-older population is one of the fastest-growing demographics in the United States. In 2022, there were 58 million Americans aged 65 and older. That number is expected to increase to 82 million by 2050.[3]
4. Ernest Ackerman was the first person to receive a Social Security benefit. In March 1937, the Cleveland streetcar motorman received a one-time, lump-sum payment of 17¢. Ackerman worked one day under Social Security. He earned $5 for the day and paid a nickel in payroll taxes. His lump-sum payout was equal to 3.5% of his wages.[4]
5. Seventy-three percent of retirees say they are confident about having enough money to live comfortably throughout their retirement years.[5]
6. The monthly median cost of an assisted living facility is nearly $5,000, and seven out of ten people will require extended care in their lifetime.[2]
7. Sixty-four percent of retirees depend on Social Security as a major source of their income. The average monthly Social Security retirement benefit as of January 2024 was $1,907.[5,6]
8. Centenarians – there are 108,000 of them as of 2024. By 2053, this number is expected to increase to 513,000.[7]

9. Seniors aged 65 and over spend over four hours a day, on average, watching TV.[8]

Conclusion

These stats and trends point to one conclusion: The 65-and-older age group is expected to become larger and more influential in the future. Have you made arrangements for health care? Are you comfortable with your investment decisions? If you are unsure about your decisions, maybe it's time to develop a solid strategy for the future.

Citations

1. SSA.gov, 2024
2. Genworth.com, 2024
3. PRB.org, 2024
4. Social Security Administration, 2024
5. EBRI.org, 2023
6. SSA.gov, 2024
7. PewResearch.org, January 9, 2024
8. BLS.gov, 2024

ROTH IRA FOR KIDS

Small business owners may find it challenging to find ways to provide additional benefits to their children who work for the company. One often overlooked choice is including a Roth individual retirement account (IRA) as part of their compensation, a strategy that offers the potential to benefit both the children and the business.

Small businesses play a significant role in labor markets. They employ 61.7 million Americans, 46.4 percent of all private-sector employees. Over the period from 1995 to the present, small businesses have been responsible for generating 17.3 million net new jobs, which accounts for an impressive 62.7 percent of all jobs created since 1995.[1]

The Basics of a Roth IRA

A Roth IRA is a tax-advantaged investment account that allows individuals to contribute after-tax income. Unlike in traditional IRAs, contributions to a Roth IRA are not tax deductible, as their advantage lies in the tax-free growth potential and tax-free withdrawals in retirement.

Roth IRA contributions are phased out for taxpayers with adjusted gross incomes (AGIs) above a certain amount. To qualify for the tax-free and penalty-free withdrawal of earnings, Roth IRA distributions must meet a five-year holding requirement and occur after age 59½. Tax-free and penalty-free withdrawals can also be taken under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.

Utilizing a Roth IRA for Compensation

To contribute to a Roth IRA, the working family member must have earned income. This requirement creates a unique opportunity for small business owners to include their children as employees and compensate them accordingly. In this scenario, the fact that the child is likely in a very low tax bracket is an advantage, meaning that a smaller percentage is paid up front.

Building a Foundation for the Future

Not everyone knows that Roth IRA funds can be used for various purposes before the age of 59½, such as purchasing a first home, covering educational expenses, and even paying medical costs. Consistent contributions from a young age can accumulate into a substantial account. Imagine that a child starts working at 8 and continues until 16, and the small business contributes to a Roth IRA. Upon reaching adulthood, the child could have a sizable sum saved for milestones such as purchasing a house or funding a college education.

RETURNS (AS OF 01/31/24)

ASSET CLASS	INDEX	4 WEEK	YTD	1 YEAR	3 YEAR
US Large Cap	S&P 500 TR	1.59%	1.59%	18.86%	9.27%
US Large Cap	Dow Jones TR	1.22%	1.22%	11.92%	8.36%
US Small Cap	Russell 2000 TR	-3.93%	-3.93%	0.80%	-2.07%
International	MSCI EAFE NR USD	0.54%	0.54%	7.04%	1.91%
Taxable Bonds	Barclays US Agg Bond TR	-0.15%	-0.15%	2.09%	-3.16%

Seeding Financial Success

Although the initial contributions may seem small, the long-term benefits of including a Roth IRA in a child's compensation package are significant. It not only establishes a solid financial foundation but also instills valuable lessons about saving, investing, and preparing for the future. By involving a financial professional, parents can ensure that their children receive guidance as they transition into adulthood.

Preparing for the Next Generation

Managing money for the next generation has gained considerable attention in recent years. As businesses and families prepare their financial legacies, strategies such as including a Roth IRA in compensation packages are becoming increasingly popular. By working with a financial professional, families can navigate the complexities of wealth management. If you own a small business, including a Roth IRA in your children's compensation package could be a game-changer. With the potential for tax-free growth and a range of permitted uses, this strategy can provide numerous benefits and potentially greater financial success.

Citations

1. Advocacy.sba.gov, March 7, 2023

FIVE MOST OVERLOOKED TAX DEDUCTIONS

Who among us wants to pay the IRS more taxes than we have to?

While few may raise their hands, Americans regularly overpay because they fail to take tax deductions for which they are eligible. Let's take a quick look at the five most overlooked opportunities to manage your tax bill.

1. **Reinvested Dividends:** When your mutual fund pays you a dividend or capital gains distribution, that income is a taxable event (unless the fund is held in a tax-deferred account, like an IRA). If you're like most fund owners, you reinvest these payments in additional shares of the fund. The tax trap lurks when you sell your mutual fund. If you fail to add the reinvested amounts back into the investment's cost basis, it can result in double taxation of those dividends.[1]

   Mutual funds are sold only by prospectus. Please consider the charges, risks, expenses, and investment objectives carefully before investing. A prospectus containing this and other information about the investment company can be obtained from your financial professional. Read it carefully before you invest or send money.

2. **Out-of-Pocket Charity:** It's not just cash donations that are deductible. If you donate goods or use your personal car for charitable work, these are potential tax deductions. Just be sure to get a receipt for any amount over $250.[2]

3. **State Taxes:** Did you owe state taxes when you filed your previous year's tax returns? If you did, don't forget to include this payment as a tax deduction on your current year's tax return. There is currently a $10,000 cap on the state and local tax deduction.[3]

4. **Medicare Premiums:** You may be able to deduct unreimbursed medical and dental premiums, co-payments, deductibles, and other medical expenses to the extent that the costs exceed 7.5% of your adjusted gross income. This includes most Medicare premiums.[4]

5. **Income in Respect of a Decedent:** If you've inherited an IRA or pension, you may be able to deduct any estate tax paid by the IRA owner from the taxes due on the withdrawals you take from the inherited account.[5]

Citations

1. Investopedia.com, January 11, 2024
2. IRS.gov, 2024
3. IRS.gov, 2024
4. IRS.gov, 2024
5. IRS.gov, 2024. In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a Traditional Individual Retirement Account (IRA). Withdrawals from Traditional IRAs are taxed as ordinary income and, if taken before age 59½, may be subject to a 10% federal income tax penalty. You may continue to contribute to a Traditional IRA past age 70½ as long as you meet the earned-income requirement.

FOUR REALLY GOOD REASONS TO INVEST

Thirty-nine percent of Americans do not own any stocks or stock-related investments, according to a recent Gallup poll.[1]

Individuals may cite different reasons for not investing, but with important long-term financial goals, such as retirement, in the balance, the reasons may not be good enough.

Why Invest?

- **Make Money on Your Money:** You might not have a hundred million dollars to invest, but that doesn't mean your money can't share in the same opportunities available to others. You work hard for your money; make sure your money works hard for you.
- **Achieve Self-Determination and Independence:** When you build wealth, you may be in a better position to pursue the lifestyle you want. Your life can become one of possibilities rather than one of limitations.
- **Leave a Legacy to Your Heirs:** The wealth you pass to the next generation can have a profound impact on your heirs, providing educational opportunities, the capital to start a business, or financial support to your grandchildren.
- **Support Causes Important to You:** Wealth can be an important tool for impacting the world in a meaningful way. So whether your passion is the environment, the arts, or human welfare, you can use your wealth to affect positive changes in your community or around the world.

A Framework for Investing

The decision to invest is an acknowledgment that it comes with certain risks. Not all investments will do well, and some may lose money. However, without risk, there would be no opportunity to potentially earn the higher returns that can help you grow your wealth.

To manage investment risk, consider maintaining a broad diversification of your investments that reflects your personal risk tolerance, time horizon, and the nature of your financial goal. Remember, diversification is an approach to help manage investment risk. It does not eliminate the risk of loss if security prices decline.

Because investing can be complicated, consider working with a financial professional to help guide you on your wealth-building journey.

Citations

1. Gallup.com, May 24, 2023

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