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Client Newsletter

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To Your Future Prosperity

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WHY WAIT? THINGS YOU NEED TO KNOW ABOUT GIVING AN INHERITANCE WHILE LIVING

While many people are dedicated to leaving an inheritance after they die, a new trend has emerged over the last few years: Accelerated inheritance. This might be the right option for you, but you need to fully understand it before you decide to utilize it.

What Is An Accelerated Inheritance?

An accelerated inheritance refers to an inheritance given during your lifetime, rather than at death. It is a way for parents to provide financial support to their children while they are still around to enjoy it, rather than leaving assets and money after they pass away.

Accelerated Inheritance Strategies

An accelerated inheritance does not have to look the same as a traditional inheritance. There are many ways to share your wealth with your children during your lifetime, including:

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the peak of 9.1% in June but certainly higher than the average 2% yearly inflation numbers that have been common for years.

As the cost of goods rise, many retirees are left with a fixed amount of income for the rest of their lives. Too much of an increase in cost can quickly price retirees out of the comfortable retirement they worked so hard to build.

What Can You Do to Safeguard Your Savings?

Though inflation has continued to rear its head, thankfully there are steps you can take to minimize the impact.

1. Reassess Your Budget

The first step in overcoming inflation is to understand its impact on your overall financial plan. The unfortunate fact is that most people have unlimited wants with only limited resources. Inflation exacerbates this issue by making every dollar you earn worth less than it was worth the day before. So, a good way to cope with a high-inflation environment is to reassess your budget and adjust where you can.

For retirees, this might mean cutting back on discretionary expenses such as traveling, recreation, or going out to eat. You could even reassess your living situation and downsize to a smaller home or condo if it makes sense for your overall financial plan.

Reassessing your budget is an especially useful tactic when the market is in a downturn. The more you can avoid withdrawing from your portfolio to pay for everyday expenses, the better off you'll be in the long run.

If you are aware of upcoming costs that could place strain on your finances, you can plan and make cuts to other areas of spending in order to compensate. Even if you don't expect your lifestyle to change all that much, looking at your budget and reassessing your spending is never a bad idea.

2. Diversify Your Income

Retirees often have several sources of income, but they are usually relatively fixed in amount. If your expenses are greater than these income sources, you may be forced to draw from your investment assets. An effective way to avoid, or reduce, portfolio withdrawals is to diversify your income. Not only could this improve your portfolio longevity and provide you with more flexibility in retirement, but it can also help minimize the impact of inflation.

Diversified income streams act in much the same way that diversified investments do. They allow for less demand on any single income source so you have the flexibility to handle increased costs or unforeseen events without depleting your portfolio reserves. There are many ways to diversify your income, including:

- Use dividend-paying stocks. Often considered an annuity-like cash stream but without the fees, dividend-paying stocks give company earnings to investors, typically once a quarter. The top dividend-paying stocks even raise their payouts over time. This not only gives you an income stream, but you can also reinvest the dividends to pursue more growth.

- Review your social security benefits. If you are eligible for social security benefits and have not yet applied, now may be a suitable time to review if the benefits could offset increased retirement costs. One upside of inflation is that social security benefits also increased by an average of almost 9%; while that increase will factor into future benefits even if you continue to delay, perhaps the higher benefit available now makes sense with your long term plan.

- Invest in real estate. Owning rental properties is a great way to earn passive income without dipping into your retirement savings. Real Estate Investment Trusts (REITs) are another popular option.

- Continue to earn active income. You could also pursue a passion, become a freelancer, or work for a nonprofit. You might earn less than what you're making now, but these options may provide flexibility and a form of income diversification that could keep your retirement savings safe from inflation.

3. Consider Alternative Investments

Alternative investments are another option in the fight against inflation. Most have low correlation with standard asset classes, which can smooth portfolio volatility. Hard assets, like gold and commodities, may have an inverse relationship with stocks and bonds during periods of higher inflation. Because of these differences in behavior, including them in your portfolio may provide broader diversification, reduce risk, and increase returns. Many commodity-producing companies also have the added benefit of paying dividends if their profits are high during an inflationary period.

4. Put Idle Cash to Work

You may think that the best way to ride out the uncertainty storm is to stockpile loads of cash in the bank. While this does keep it safe from volatility, it does nothing to protect you from inflation. Each day your funds sit idle, inflation could eat away at your purchasing power. This issue can be minimized by making sure even your reserve funds are earning a competitive interest rate.

For instance, high-yield savings accounts and money market funds are currently paying upwards of 4% interest. While this is still below the 6.5% inflation rate, it is much better than the 0% interest you would earn from most checking accounts or savings accounts offered by larger institutions.

There are other options that can improve your interest rate while keeping your funds relatively safe, including money market accounts, certificates of deposit, and short-term Treasury Bills. No matter which option you choose, managing your excess cash with inflation in mind is one of the easiest ways to improve your portfolio longevity and safeguard your retirement.

Do Not Let Inflation Ruin Your Retirement

If you find yourself worried about how to safeguard your retirement plan during these uncertain times, let Windgate Wealth Management provide a tailored plan to help you mitigate the effects of inflation and have confidence in your financial future. Schedule a free, no-commitment phone call with us today and start planning for a better tomorrow.

ROTH IRA CHANGES UNDER SECURE ACT 2.0

The Roth IRA is perhaps the most attractive retirement savings vehicle for investors. Unlike Traditional IRAs which provide tax-deferred growth (you pay the tax eventually), Roth IRA assets grow tax-free. Assets with this favorable tax characteristic can provide desirable flexibility in retirement years, where the future state of tax rates is very uncertain. The Roth IRA protects you from paying future income taxes, and this protection also continues for your heirs.

Because Roth IRAs are so attractive, there are many strategies used to navigate income limits on contributions and to maximize the benefit of a Roth Conversion. In December 2022, the SECURE Act 2.0 of 2022 was revised as President Biden placed the second iteration of this retirement act into law. The law creates even more new rules and applicable strategies related to Roth accounts. The bill will impact all Roth investors, and as long as you understand it, the rules can make it easier for you to save with tax advantages.

This article will explain what the changes are, how they could affect you, and how you can make the most of them.

SECURE 2.0 also changes the rules around RMDs for Roth contributions in employer-sponsored retirement accounts. Starting in 2024, Roth accounts will no longer be subject to the RMD requirement. The act also expands Roth eligibility to SIMPLE and SEP IRAs starting in 2023..

1. Roth Contributions Now Allowed by Employers

Many 401(k) plans offer employees the option to put away money as a Roth contribution. Up until now, all employer matching or profit-sharing contributions have been made as a traditional, tax-deferred contribution. The SECURE 2.0 Act provides greater opportunities for employees by allowing them to elect employer contributions as Roth contributions.

Effective December 29, 2022, employers may allow plan participants to designate employer matching and nonelective contributions as after-tax Roth contributions. Such contributions would be included in the participant's taxable wage income for the year made. Employer contributions designated as Roth contributions must be immediately 100% vested.

Though this might take some time for employers and payroll companies to implement, this option will allow employees to choose whether their matching contributions are taxed up front (Roth) or in retirement (traditional).

2. Catch-Up Contributions Must Be Made as Roth Contributions

Starting in 2024, employees who are 50 and older with wages above $145,000 (indexed for inflation) will be required to make any catch-up contributions to a Roth account, effectively eliminating the current-year deductibility of those contributions. The 2023 catch-up contribution limit for workers age 50 and up is $7,500. Previously, this catch-up amount was allowed to be made on a traditional, tax-deferred basis. Lower-paid employees may still contribute catch-up contributions on a pre-tax basis.

The SECURE 2.0 Act adds a "special" catch-up contribution limit for employees 60 to 63 years of age starting in 2025. The special catch-up contribution maximum for these workers will be the greater of $10,000 or 150% of the "standard" catch-up contribution amount for 2024. The $10,000 amount will be adjusted for inflation each year starting in 2026.

3. Roth Contributions Now Allowed for SIMPLE and SEP IRAs

Effective for taxable years beginning after December 31, 2022, SIMPLE IRAs and SEP IRAs can accept Roth (i.e., after-tax) contributions. In addition, employers can offer employees the ability to treat employee and employer SEP contributions as Roth contributions (in whole or in part).

4. Unused 529 Funds Now Allowed to Rollover to Roth IRA

Many Americans save for college education through 529 accounts, which allow up to $17,000 in gift-tax-free contributions per year, or $85,000 if the lump-sum election is selected. Contributions grow tax-free if they are used for eligible education expenses. If they are used for an unqualified expense, the earnings are taxable, and the distribution is subject to a 10% penalty.

This is where rollovers come in. The new SECURE 2.0 provisions allow unused 529 funds to be rolled over into a Roth IRA starting in 2024, which means that they can now be used for retirement and not just college. There are some strict limitations to this new rule, including:

- There is a lifetime rollover cap of $35,000.
- Rollovers are still subject to the annual Roth contribution limit ($6,500 in 2023), so it may take multiple years to completely roll over the funds.
- The rollover must be made to the 529 beneficiary's Roth account (typically the student), not the 529 account holder's Roth (typically the parent).
- The 529 must have been open for at least 15 years.
- Contributions and earnings made in the last 5 years cannot be rolled over.

2022-2023 IRA CONTRIBUTION LIMITS

It’s not too late to make an IRA contribution for 2022 (before April 18th) or 2023. Maximum contributions are $6,000 per individual ($7,000 if you are age 50 or over). For 2023, the limits increase to $6,500 ($7,500 for over age 50). Income limits for contributing to Roth IRAs or making deductible contributions to Traditional IRAs are below. Additionally, you can still benefit from tax-deferred growth in a Traditional IRA by making non-deductible contributions should your income exceed the limits

IRA INCOME LIMITS

Filing Status	Roth IRA Can contribute if your Modified AGI is		TRADITIONAL IRA Can deduct contributions* if your Modified AGI is	
Single or Head of Household	2022	<$144,000	2022	<$78,000
	2023	<$153,000	2023	<$83,000
Married Filing Jointly	2022	<$214,,000	2022	<$129,000
	2023	<$228,,000	2023	<$136,000
Spousal IRA (Those with spouse who earns no income)	2022	N/A	2022	<$214,000
	2023	N/A	2023	<$228,000

*If you are not covered by an employer plan, you can deduct 100% of IRA contributions regardless of income.

Source: IRS.gov.

GETTING READY TO RETIRE? A 12-STEP CHECKLIST TO KEEP YOU ON TRACK

The last year of a career is filled with excitement and anxiety as you approach the end of years of dedicated hard work. It is also a time when you are most likely to speak with a financial advisor to be reassured that your financial freedom has finally arrived. During these conversations, we review critical steps you still may need to take to ensure your retirement plan sails smoothly.

We have taken the time to prepare the following checklist to enable you to think through those steps while keeping your plan on track.

Review or Create Your Retirement Plan

If you have not done so already, now is the perfect time to review or create a retirement plan. This should include everything from exactly when you will retire to how you will spend your time. Take the time to think about what you want retirement to look like for you. Will you be retiring with a spouse? Do you want to work part-time, volunteer, or travel the world? Do you want to spend any time managing your own portfolio, or perhaps you would prefer to consolidate old 401(k) accounts? The answer to these questions will inform the rest of the tasks on this list, so it is important to be both intentional and realistic about your plans.

Decide When to Claim Your Social Security Benefits

Deciding when to take Social Security benefits is one of the biggest questions you will have to answer in the year leading up to retirement. Depending on your age when you retire, you could be looking at reduced benefits (age 62), full benefits (age 67), or maximum benefits (age 70). If you decide to retire, but delay benefits until a later date, you will have to plan for an alternate income stream during that time. If you do plan to include social security benefits as part of your initial retirement income, make sure you understand how social security benefits get taxed.

Keep in mind that once you turn age 62, your benefit amount will be increased annually based on the cost-of-living adjustment. This adjustment occurs even if you do not claim your benefits until a later age. If both you and your spouse worked and contributed to the Social Security system, then you have two benefit amounts to consider. There are strategies that married couples can use to make the most of their benefits by taking one benefit early and delaying another until age 70.

Create a Realistic Retirement Budget

Once retired, you will need to turn your portfolio into a paycheck. This is one of the areas many near-retirees feel most uneasy about. As a starting point, we will want to review the 4% rule and determine is there any way you can get more out of your portfolio.

Once you have assessed your Social Security benefits and a safe withdrawal amount from your portfolio, it is time to create a realistic budget. With your newfound free time, it can be easy to overspend without realizing it. But since your income is fixed, a realistic budget that you can hold yourself accountable to is one of the best things you can do in the months leading up to the big day. Overspending, even for a short period, can shave years off the longevity of your assets.

The budget does not need to be perfect, but it should be something you can honestly stick to. Try tracking your expenses for a couple of months to get an idea of what you spend currently. Once you have all your costs outlined, consider if there are areas where you can cut back or items that will increase in retirement.

Consider Saving More in Tax-Advantaged Accounts

If you are earning more income in the year leading up to retirement and you do not necessarily need it for daily expenses, consider contributing more to a tax-advantaged retirement account like a Traditional or Roth IRA, or a 401(k) or 403(b). These accounts have increased contribution limits for taxpayers over the age of 50, and contributing more can be an effective way to boost your nest egg while reducing your taxable income just before retirement. It may be one of the last times you can take advantage of tax-deferrals.

Determine Your Withdrawal Strategy

Many retirees mistakenly assume that how and when they withdraw from their retirement accounts does not matter as long as they have a sizable amount saved. They also falsely believe that they will always be in a lower tax bracket in retirement. This can result in inefficient withdrawals that increase your tax liability unnecessarily and greatly reduce the longevity of your portfolio. The timing of withdrawals makes all the difference and it's a key component in safeguarding your retirement nest egg.

For example, a $50,000 withdrawal from a Roth IRA will have a wildly different tax impact than that same distribution from a traditional IRA. If you blindly take your money and run, you could trigger an avalanche of higher Social Security taxes, investment surtax, capital gains taxes, and even higher Medicare premiums, which will eat away at the funds that were supposed to carry you through retirement. Creating a tax-efficient withdrawal plan before retirement can help you strategically withdraw from your various retirement accounts and minimize your tax liability.

Review Your Life Insurance Needs

Many employers offer group and supplemental life insurance policies as part of a benefit package for employees. These are great during your working years, but they often expire at retirement, and retirees who only have group insurance may be left unprotected. Whether you have a mortgage and want to make sure your family is covered, or you want to provide an inheritance, be sure to review your life insurance needs, as well as any existing policies you have in place. If it makes sense, consider extending your employer's coverage or look for a private insurance policy.

Take Advantage of Employer Healthcare Benefits

Another important step to take before retiring is to utilize any healthcare benefits offered by your employer. Maintaining good physical and

mental health is a key component to a happy and fulfilling retirement. Make sure you are up to date on your physicals, check-ups, and prescriptions before retiring, especially if you have already met your deductible for the year. If you have an FSA, consider spending down the account, and if you have an HSA, consider paying for expenses out of pocket to keep the funds growing tax-deferred.

Review Your Medicare Options

Once you turn 65, you will be able to enroll in Medicare. Depending on your age at retirement, be sure to mark your calendar for this important milestone. If there is a gap between when you're retiring and your Medicare eligibility, you will have to find alternative coverage through the health insurance marketplace, COBRA, private insurers, employer retiree insurance, or your spouse's employer coverage. These options can vary dramatically in cost and level of coverage, so be sure to plan ahead.

Evaluate Your Long-Term Care Needs

It is estimated that 70% of today's 65-year-olds will need long-term care services at some point in the future. Without proper planning, these costs can quickly spiral out of control. The year before retirement is the perfect time to assess your needs and consider long-term care insurance to supplement what you can afford to spend out of pocket.

Evaluate Your Housing Needs

If you have not already, take stock of your current housing and if it will still make sense in retirement. Are you an empty-nester in a five-bedroom house? Have you always wanted to relocate? Do you have a mortgage? Would you easily be able to age-in-place or would significant accessibility modifications be required? These are all questions to ask yourself in the year leading up to retirement. Since housing is one of the largest ongoing expenses you will have during your golden years, it is important to thoroughly consider your options.

Review Your Estate Plan

It is estimated that 70% of today's 65-year-olds will need long-term care services at some point in the future. Without proper planning, these costs can quickly spiral out of control. The year before retirement is the perfect time to assess your needs and consider long-term care insurance to supplement what you can afford to spend out of pocket.

Team Up with a Trusted Professional

It is an exciting time of life as you wrap up your plans and enter the season of retirement. During the excitement, it is also possible that you may experience emotions of stress and overwhelm as you prepare to make the shift. At Windgate Wealth Management, we want to support you through that process, making it as smooth as possible as we help you plan for unexpected events.

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