

Pre-Retirees: Here's How To Catch Up On Retirement Savings

If you're a pre-retiree who needs to catch up on retirement saving, or if you don't need the income from a portion of your IRA or 401(k) accounts and want to leave them to your children, here are important details for planning your future and leaving a legacy to your family: 2022 limits on contributions to federally qualified defined contribution retirement plans.

DC Basics. Defined Contribution (DC) plans are accorded tax advantages by the U.S. government to encourage Americans to save and invest for retirement. Federally qualified retirement plans include a variety of employer-sponsored 401(k), 403(b), and SEP IRA plans, as well as individually sponsored IRAs, SIMPLE IRAs, and Roth IRAs.

retirement planning to individuals. The U.S. system has been adapted by other major economies and is a model for the world, but new rules and regulation continue to refine and improve the American retirement saving system.

Investments in DC plans grow tax deferred, based on a promise from the Federal Government. You do not pay tax on the capital appreciation or dividends earned on investments in DC plans until you take withdrawals from your account. Essentially, the accounts grow tax-free until you start taking withdrawals. Planning properly enables many individuals to take withdrawals from a DC plan account only after retirement, when you are likely to be in a lower income tax bracket.

2022 Limits. The overall limit on contributions to DC plans in 2022 is \$61,000. That's up \$3,000 from 2021. For baby boomers in the workforce trying to a create a larger nest egg, DC plans may provide a way to accelerate savings in federally qualified retirement accounts.

Here's what changed in 2022:

- You can now contribute up to \$20,500 to a 401(k) plan, \$1000 more than in 2021, plus a \$6,500 catch-up for investors at least 50 years old.
- The contribution limit on SIMPLE

Ukraine, Inflation, Stock Losses And Times Of Investment Fear

Turmoil in the world, economic setbacks, and financial volatility can spark investor fear and anxiety, which we are certainly seeing today. According to Dr. Frank Murtha, of The Financial Counseling Institute, personal financial fears have the power to evoke a full spectrum of human emotions, from panic to irrational exuberance and everything in between.

"Fear is the most influential of all emotions," he says. "Financial fear and anxiety can be chronic conditions when you are paying down a large debt, caring for a family member, running out of money in retirement, or facing other uncertainties."

How you experience fear is partly dependent on your brain. The brain's fear center, the amygdala, triggers three reactions to fear – perhaps not surprisingly – all "f" words."

Fight is an instinct that might make you double down on a bad investment, which could lead to a bigger loss. Fighting was a handy skill when humans lived in caves, but is not helpful in modern day financial dealings.

Flight is an emotion that might make you sell at a market bottom. A retreat to safety always in the worst of times has been unwise in all past bear markets. While it is not instinctive, tolerating stock market risk and diversifying have been key to successful investing.

Freezing is a natural reaction in times of rising fear – literally, becoming too afraid to do anything! You are unable to make a decision and find a way out from anxiety.

Talking with a professional is a smart step toward restoring a sense of control and eliminating anxiety. financial problem and reducing your financial anxiety.

Warm regards,
The Gerstein's Brooklyn Tax Service Team

2022 Defined Contribution (DC) Plan Limits

IRA / ROTH IRA CONTRIBUTION LIMIT	\$ 6,000
IRA / ROTH IRA "CATCH UP"	\$ 1,000
401k ELECTIVE DEFERRAL	\$ 20,500
401k ELECTIVE DEFERRAL "CATCH UP"	\$ 6,500
SIMPLE IRA CONTRIBUTION LIMIT	\$ 14,000
SIMPLE IRA "CATCH UP"	\$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON DC PLAN CONTRIBUTIONS	\$ 61,000

Source: Advisors4Advisors, Jan 13, 2022

In the 1980s, as the U.S. grew more prosperous and litigious, corporations sought to shift responsibility of retirement planning from company-sponsored pension plans to individuals. No longer would most workers be guaranteed a pension. DC plans enabled companies to shift the responsibility of

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Rebalancing Helped Since Covid Struck

The 12-month returns for stocks for the quarters beginning in January 2020 and ending September 2021, illustrate why a portfolio rebalanced once a year by a professional is so important to investor success.

During the pandemic, the Standard & Poor's tech sector index was a big winner because shopping online was safer health-wise. So was watching Netflix. Google ads suddenly were attracting more eyeballs. Apple and Microsoft earnings growth was four times the earnings growth on the average S&P 500 stock, according to Fritz Meyer, an independent

economist. The stellar performance of tech stocks was an outlier, however.

The tech sector was the only one of the 11 industry sectors that make up the S&P 500 index to show a gain (10%) in the first quarter of 2020, when Covid hit. That was just the start. For the next three quarters, tech sector 12-month returns came in at an astonishing 37%, 47%, and 44%, respectively. Indeed, tech stocks kicked off a historic bull market fueled by government transfer payments to consumers. But by mid-2021 tech stocks were not so dominating. They returned to the middle of the pack of the 12-month 11-sector

index performance.

Successive quarters of outperformance would have allowed your tech stock position to grow unchecked and dominate your portfolio results. With leadership shifting, a rebalanced portfolio is better able to benefit from the change in leadership in the past two quarters through the end of 2021.

The six quarters in this study poignantly illustrate why periodic balancing is so important to investor success.

Automated calculators for rebalancing may get the math right, but getting an investor to use a calculator to rebalance once a year requires a commitment of time and an interest in personal finance that he or she may not have, as well as behavioral change, since rebalancing means buying more of what's unpopular (but rich in return potential) and trimming the latest market stars. Working with a qualified professional who knows your financial goals and risk-tolerance, thus, came in handy in the period since Covid hit the U.S.

There are many ways to rebalance a portfolio. Rebalancing based on a portfolio's industry sector weightings is shown for illustration purposes. ●



2022 Estate & Gift Tax Planning

The federal exemption from gift and estate taxes doubled from \$5.5 million in 2017 to a whopping \$11.2 million in 2018! and under current law, the exemption has been continuing to rise annually. Here's what you need to know if you have a multimillion-dollar estate.

In 2022, the exemption from paying gift, estate, and generation skipping taxes, is \$12.1 million, and, under current law, it is scheduled to rise to almost \$12.9 million in 2025! At the end of 2025, the exemption will be slashed in half! and individuals will only be entitled to a \$6.5 million exemption from estate

and gift taxes. To be clear, individuals with an estate of \$6.5 million estate or more are going to be subject to tax on what they leave their children, according to the current Internal Revenue Code.

With real estate, stocks, and other capital-gain investments appreciating highly in recent years and the after-inflation yield on a 10 Year Treasury bond negative, it's vitally important for individuals with multimillion-dollar estates to take full advantage of the current exemption rules.

The exemption from estate tax could be lowered in 2022, but

Congress could also leave it intact through 2025. Either way, if you want to reduce taxes on the wealth you leave to your family and protect those assets from creditor risk for decades to come, you need to plan it out now, while you have this chance.

To protect your six-year-old granddaughter in a divorce from her future ex-husband 35 or 45 years from now, or to shield your children's assets from professional liability- or business-lawsuits they may face as a doctor or landlord in the decades ahead, years after you're gone, planning right now is wise, while this opportunity is open to you. ●

Making A Life-Changing Difference To Loved Ones

Tax law and estate planning might bore you to death, but this brief tip could make a life-changing financial difference to your surviving spouse, and other loved ones, including disabled and chronically ill family or friends, as well as any minor children in your life.

These individuals are among the five exceptions to the usual distribution rules on the inheritance of assets in IRA, 401(k), or other federally qualified retirement plans.

New rules, which went into effect on January 1, 2020, with the enactment of the SECURE Act, require the beneficiary of inherited IRA or 401(k) accounts to deplete the money in those accounts within 10 years. It was a technical change that many individuals overlooked in the rush of tax law changes that occurred in 2020 during the pandemic, particularly since required minimum distributions were not required in 2020 due to



the pandemic. But it can make a significant difference in tax planning, and it is worth wading through the technical details to ensure the new

rules are understood. To be clear, until 2020, beneficiaries of an inherited IRA or 401(k) were not required to liquidate an inherited account within 10 years. That had left open a major tax break to heirs of retirement accounts. They had the option to stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a much longer period.

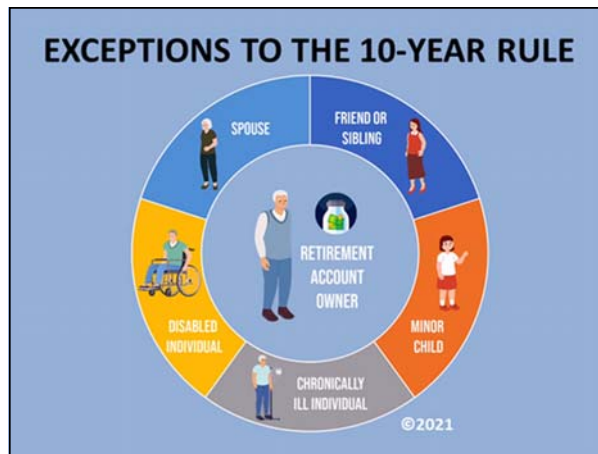
However, the 10-year mandatory distribution rules in the SECURE Act carved out some key exceptions for certain individuals that now require consideration by those who intend to pass on assets in their retirement plan, IRA, or other qualified plan assets to a spouse, chronically ill or disabled individual, or minor child.

For a disabled individual, who inherits federally qualified retirement assets, for instance, stretching out distributions over decades could transform the inheritance into an income stream for life. The same is true for a widower, chronically ill

individual, or minor child that inherits your retirement account.

In addition, a fifth exception to the usual distribution rules applies to a beneficiary who is less than 11 years younger than the retirement account owner. A sibling or friend who is 10 years or less your junior, who inherits qualified retirement account assets, also may use their life expectancy -- instead of taking required distributions over 10 years.

If you own a sizable IRA, 401(k), or other qualified account, and your beneficiary is a person in one of the five "exception" categories to the 10-year rule, seek out personalized investment and estate advice from a professional; as you can see, the laws are complicated. ●



New IRS Rules Make It Much Easier To Retire Early

Newly released rules in IRS Notice 2022-6 sharply hike distribution amounts permitted from qualified plans before age 59½. Yes, you can withdraw before that age without penalty, if you take “substantially equal periodic payments,” or SEPPs,” from an IRA or many other retirement plans.

The rules, which were released in January 2022, will allow many more individuals to take substantially equal periodic payments (SEPPs) from their IRAs or 401(k)s in their 50s. With The “The Great Resignation” under way, this is one of the most important personal financial planning strategies of 2022.

The new rules put a 5% floor on the maximum interest rate that may be used to calculate payments from an IRA or 401(k) using substantially equal periodic payments (SEPPs). For the past decade, the maximum rate was much lower.

Since the early 1980s, powerful tax advantages

are accorded IRA, 401(k), and 403(b) plans under federal law. While rules on federally qualified accounts encourage retirement saving and investing by Americans, they impose a 10% penalty on withdrawals before age 59½. The new rules spelled out in IRS Notice 2022-6 update 20-year-old IRS rules.

Notice 2022-6 addresses a complex part of the Internal Revenue Code, Section 72(t), which specifies a formula for calculating the maximum amount you may withdraw penalty-free annually in SEPPs. It’s largely based on your age. Without getting into the technicalities, the net effect is that

Notice 2022-6 will allow individuals under the age of 59½ to take much larger payments from federally qualified retirement plan accounts penalty-free.

The timing of the rule change is lousy. More Americans have left the workforce than had been expected in the pandemic-inspired Great Resignation. The shift is widely believed to be caused largely by individuals in their 60s deciding to retire. As a result, the participation rate of Americans aged 16 to 65 in the labor force has declined more than expected.

At a time when the supply of workers is forcing employers to offer higher wages, Notice 2022-6 will give more older workers reason to retire.

If you have diligently invested by maximizing contributions to a federally qualified retirement plan, you may be able to retire earlier than you expected – if that’s what you want. ●



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IRAs is \$500 higher than in 2021, rising to \$14,000 in 2022.

Maximizing contributions to DC plans is a fundamental of financial planning for architects, engineers, physicians, lawyers, dentists, and other professionals and business owners, not only because it allows tax-advantaged growth but also because of professional liability.

An LLC or corporate entity does not limit a professional’s exposure. But federally qualified DC plans do protect those assets from creditors, including lawsuit judgments resulting from a malpractice lawsuit. The protection from liability lawsuits and other creditors generally begins a

year after you make a contribution to the plan. So, it is best to make DC plan contributions as early in the year as is feasible.

Maximizing contributions to a federally qualified retirement plan for a far-off retirement is hard behaviorally. We can coach you on this. ●

