

GFG Monthly

November 2018

Distributions from Traditional IRAs: After Age 70 1/2

The Gassman Financial Group

9 East 40th Street
New York, NY 10016
212-221-7067
www.gassmanfg.com

Introduction

A withdrawal from an IRA is generally referred to as a distribution. Ideally, you would have complete control over the timing of distributions from your traditional IRAs. Then you could leave your funds in your traditional IRAs for as long as you wished, and withdraw the funds only if you really needed them. This would enable you to maximize the funds' tax-deferred growth in the IRA, and minimize your annual income tax liability. Unfortunately, it doesn't work this way. Eventually, you must take what are known as required minimum distributions from your traditional IRAs.

What are required minimum distributions (RMDs)?

Required minimum distributions (RMDs), sometimes referred to as minimum required distributions (MRDs), are withdrawals that the federal government requires you to take annually from your traditional IRAs after you reach age 70½. You can always withdraw more than the required minimum from your IRA in any year if you wish, but if you withdraw less than required, you will be subject to a federal penalty tax. These RMDs are calculated to dispose of your entire interest in the IRA over a specified period of time. The purpose of this federal rule is to ensure that people use their IRAs to fund their retirement, and not simply as a vehicle of wealth accumulation and transfer.

When must RMDs be taken?

Your first RMD from your traditional IRA represents your distribution for the year in which you reach age 70 1/2. However, you have some flexibility in terms of when you actually have to take this first-year distribution. You can take it during the year you reach age 70½, or you can delay it until April 1 of the following year. Since your first distribution generally must be taken no later than April 1 following the year you reach age 70½, this date is known as your required beginning date (RBD). Required distributions for subsequent years must be taken no later than December 31 of each calendar year until you die or your balance is reduced to zero. This means that if you opt to delay your first distribution until the following year, you will be required to take two distributions during that year — your first-year required distribution and your second-year required distribution.

Should you delay your first RMD?

Your first decision is when to take your first RMD. Remember, you have the option of delaying your first distribution until April 1 following the calendar year in which you reach age 70½. You might delay taking your first distribution if you expect to be in a lower income tax bracket in the following year, perhaps because you're no longer working or will have less income from other sources. However, if you wait until the following year to take your first distribution, your second distribution must be made on or by December 31 of that same year.

Receiving your first and second RMDs in the same year may not be in your best interest. Since this "double" distribution will increase your taxable income for the year, it will probably cause you to pay more in federal and state income taxes. It could even push you into a higher federal income tax bracket for the year. In addition, the increased income may cause you to lose the benefit of certain tax exemptions and deductions that might otherwise be available to you. So the decision of whether or not to delay your first required distribution can be crucial, and should be based on your personal tax situation.

How are RMDs calculated?

RMDs are calculated by dividing your traditional IRA account balance by the applicable distribution period. Your account balance is calculated as of December 31 of the year preceding the calendar year for which the distribution is required to be made.

What if you fail to take RMDs as required?

If you fail to take at least your RMD amount for any year (or if you take it too late), you will be subject to a federal penalty tax. The penalty tax is a 50% excise tax on the amount by which the required amount exceeds the amount actually distributed to you during the taxable year.

November 2018

Distributions from Traditional IRAs: After Age 70 1/2

Medicare Open Enrollment Begins October 15

Ten Year-End Tax Tips for 2018



GASSMAN
FINANCIAL GROUP

Understanding Long-Term Care Insurance

It's a fact: People today are living longer. Although that's good news, the odds of requiring some sort of long-term care increase as you get older. And as the costs of home care, nursing homes, and assisted living escalate, you probably wonder how you're ever going to be able to afford long-term care. One solution that is gaining in popularity is long-term care insurance (LTCI).

What is long-term care?

Most people associate long-term care with the elderly. But it applies to the ongoing care of individuals of all ages who can no longer independently perform basic activities of daily living (ADLs)--such as bathing, dressing, or eating--due to an illness, injury, or cognitive disorder. This care can be provided in a number of settings, including private homes, assisted-living facilities, adult day-care centers, hospices, and nursing homes.

Why you need long-term care insurance (LTCI)

Even though you may never need long-term care, you'll want to be prepared in case you ever do, because long-term care is often very expensive. Although Medicaid does cover some of the costs of long-term care, it has strict financial eligibility requirements--you would have to exhaust a large portion of your life savings to become eligible for it. And since HMOs, Medicare, and Medigap don't pay for most long-term care expenses, you're going to need to find alternative ways to pay for long-term care. One option you have is to purchase an LTCI policy.

However, LTCI is not for everyone. Whether or not you should buy it depends on a number of factors, such as your age and financial circumstances. Consider purchasing an LTCI policy if some or all of the following apply:

- You are between the ages of 40 and 84.
- You have significant assets that you would like to protect.
- You can afford to pay the premiums now and in the future.
- You are in good health and are insurable.

How does LTCI work?

Typically, an LTCI policy works like this: You pay a premium, and when benefits are triggered, the policy pays a selected dollar amount per day (for a set period of time) for the type of long-term care outlined in the policy. Most policies provide that certain physical and/or mental impairments trigger benefits. The most common method for determining when benefits are payable is based on your inability to perform certain activities of daily living (ADLs), such as eating, bathing, dressing, continence, toileting (moving on and off the toilet), and transferring (moving in and out of bed). Typically, benefits are payable when you're unable to perform a certain number of ADLs (e.g., two or three). Some policies, however, will begin paying benefits only if your doctor certifies that the care is medically necessary. Others will also offer benefits for cognitive or mental incapacity, demonstrated by your inability to pass certain tests.

What's it going to cost?

There's no doubt about it: LTCI is often expensive. Still, the cost of LTCI depends on many factors, including the type of policy that you purchase (e.g., size of benefit, length of benefit period, care options, optional riders). Premium cost is also based in large part on your age at the time you purchase the policy. The younger you are when you purchase a policy, the lower your premiums will be.



The Gassman Financial Group

9 East 40th Street
New York, NY 10016
212-221-7067
www.gassmanfg.com

IMPORTANT DISCLOSURES

Broadridge Investor Communication Solutions, Inc. does not provide investment, tax, or legal advice. The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.

Ten Year-End Tax Tips for 2018

Here are 10 things to consider as you weigh potential tax moves between now and the end of the year.

1. Set aside time to plan

Effective planning requires that you have a good understanding of your current tax situation, as well as a reasonable estimate of how your circumstances might change next year. There's a real opportunity for tax savings if you'll be paying taxes at a lower rate in one year than in the other. However, the window for most tax-saving moves closes on December 31, so don't procrastinate.

2. Defer income to next year

Consider opportunities to defer income to 2019, particularly if you think you may be in a lower tax bracket then. For example, you may be able to defer a year-end bonus or delay the collection of business debts, rents, and payments for services. Doing so may enable you to postpone payment of tax on the income until next year.

3. Accelerate deductions

You might also look for opportunities to accelerate deductions into the current tax year. If you itemize deductions, making payments for deductible expenses such as medical expenses, qualifying interest, and state taxes before the end of the year, instead of paying them in early 2019, could make a difference on your 2018 return.

4. Factor in the AMT

If you're subject to the alternative minimum tax (AMT), traditional year-end maneuvers such as deferring income and accelerating deductions can have a negative effect. Essentially a separate federal income tax system with its own rates and rules, the AMT effectively disallows a number of itemized deductions. For example, if you're subject to the AMT in 2018, prepaying 2019 state and local taxes probably won't help your 2018 tax situation, but could hurt your 2019 bottom line. Taking the time to determine whether you may be subject to the AMT before you make any year-end moves could help save you from making a costly mistake.

5. Bump up withholding to cover a tax shortfall

If it looks as though you're going to owe federal income tax for the year, especially if you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest

advantage in doing so is that withholding is considered as having been paid evenly through the year instead of when the dollars are actually taken from your paycheck. This strategy can also be used to make up for low or missing quarterly estimated tax payments. With all the recent tax changes, it may be especially important to review your withholding in 2018.

6. Maximize retirement savings

Deductible contributions to a traditional IRA and pre-tax contributions to an employer-sponsored retirement plan such as a 401(k) can reduce your 2018 taxable income. If you haven't already contributed up to the maximum amount allowed, consider doing so by year-end.

7. Take any required distributions

Once you reach age 70½, you generally must start taking required minimum distributions (RMDs) from traditional IRAs and employer-sponsored retirement plans (an exception may apply if you're still working for the employer sponsoring the plan). Take any distributions by the date required — the end of the year for most individuals. The penalty for failing to do so is substantial: 50% of any amount that you failed to distribute as required.

8. Weigh year-end investment moves

You shouldn't let tax considerations drive your investment decisions. However, it's worth considering the tax implications of any year-end investment moves that you make. For example, if you have realized net capital gains from selling securities at a profit, you might avoid being taxed on some or all of those gains by selling losing positions. Any losses over and above the amount of your gains can be used to offset up to \$3,000 of ordinary income (\$1,500 if your filing status is married filing separately) or carried forward to reduce your taxes in future years.

9. Beware the net investment income tax

Don't forget to account for the 3.8% net investment income tax. This additional tax may apply to some or all of your net investment income if your modified adjusted gross income (AGI) exceeds \$200,000 (\$250,000 if married filing jointly, \$125,000 if married filing separately, \$200,000 if head of household).

10. Get help if you need it

There's a lot to think about when it comes to tax planning. That's why it often makes sense to talk to a tax professional who is able to evaluate your situation and help you determine if any year-end moves make sense for you.



GASSMAN
FINANCIAL GROUP