

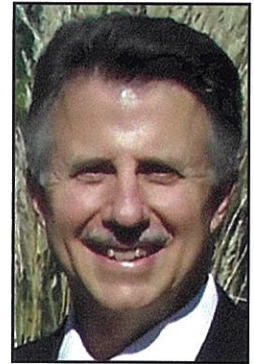


Alliance Benefit Consultants

For All Your Insurance Needs

1820 Ridge Road, Suite 201
Homewood, IL 60430
(708) 922-9450
Bob@rs-abc.com

www.alliancebenefitconsultants.com



Bob Scott
Broker

Mega Backdoor Roth: Is This Retirement Strategy Open to You?

By Ed Slott, CPA

Contributing to a traditional 401(k) or IRA can reduce your current tax bill, but you may run into some drawbacks in retirement. Withdrawals are taxed as ordinary income, and you must take required minimum distributions (RMDs) once you reach age 73. On the other hand, qualified Roth distributions are tax-free after age 59½, as long as you've held the account for at least five years.* Plus, Roth accounts are not subject to RMDs during your lifetime.

If your employer offers a Roth 401(k) option, you can contribute regardless of your income. But unfortunately, you can't contribute to a Roth IRA if your income exceeds certain limits.

However, if you make too much money to contribute to a Roth IRA directly, it might be possible to make large after-tax contributions to your traditional 401(k), and then move (or convert) the funds to a Roth IRA or a Roth 401(k). This strategy — called the mega backdoor Roth — only works for some people under limited circumstances.

Saving to the max

If you have plenty of extra income that you would like to save in a Roth account, you may want to find out if your employer's 401(k) plan allows both after-tax contributions and in-service withdrawals, which provide the opportunity to take money out of your retirement account while you are still working for the company.

In 2024, you can contribute up to \$23,000 combined to your traditional and/or Roth 401(k) accounts, or

If you have plenty of extra income that you would like to save in a Roth account, you may want to find out if your employer's 401(k) plan allows both after-tax contributions and in-service withdrawals.



\$30,500 if you're age 50 or older. However, the overall additions limit, which includes salary deferrals, employer contributions, and employee after-tax contributions, is \$69,000 (\$76,500 for those age 50 or older) or 100% of compensation, whichever is less. You generally must max out salary deferrals to traditional and/or Roth 401(k) accounts before you can make additional after-tax contributions. For example, if you are age 50 or older, and you contribute \$30,500 on a pre-tax basis, and your employer contributes an additional \$15,000 to your traditional 401(k), you may also be able to make a sizable after-tax contribution of \$31,000.

Fast-track your Roth

Your after-tax contributions are not taxable, but any converted earnings would be taxed as ordinary income. Thus, if in-service withdrawals are permitted, it makes sense to transfer your after-tax contributions to a Roth account as soon as possible to minimize the amount of investment growth and the resulting tax burden.

Continued on page 4

If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.

Will You Work Beyond Traditional Retirement Age?

More than seven out of 10 current workers in a recent survey said they expect a paycheck to play a role in their income strategy beyond traditional retirement age. In fact, 33% expect to retire at age 70 or older, or not at all.¹

If you expect to continue working during your 60s, 70s, or beyond, consider the advantages and disadvantages carefully. Although working can enhance your retirement years in many ways, you may also face unexpected consequences, particularly when it comes to Social Security.

Advantages

There are many reasons why you may want to work during retirement. First and perhaps most obvious, a job offers a predictable source of income that can help pay for basic necessities, such as food, housing, and utilities.

Working may also allow you to continue saving on a tax-deferred basis through a work-based retirement savings plan or IRA. Traditional retirement accounts generally require you to take minimum distributions (RMDs) after you reach age 73 or 75, depending on your year of birth; however, if you continue working past RMD age, you can typically delay RMDs from a current employer's plan until after you retire, as long as you don't own more than 5% of the company. (Roth IRAs and, beginning in 2024, work-based Roth accounts do not impose RMDs during the account owner's lifetime.)

Moreover, employment can benefit your overall well-being through social engagement with colleagues, intellectual stimulation, and, if you're employed in a field that requires exertion and movement, mobility and fitness.

Working may also provide access to valuable health insurance coverage, which can supplement Medicare after the age of 65. Keep in mind that balancing work-sponsored health insurance and Medicare can be complicated, so be sure to seek guidance from a qualified professional.

A paycheck might also allow you to delay receiving Social Security benefits up to age 70. This will not only increase your monthly benefit amount beyond what you'd receive at early or full retirement age, it will add years of earnings

to your Social Security record, which could further enhance your future payments.

If one of your financial goals is to leave a legacy, working longer can help you continue to build your net worth and preserve assets for future generations and causes.

Disadvantages

There are some possible drawbacks to working during retirement, especially regarding Social Security. For instance, if you earn a paycheck and receive Social Security retirement benefits before reaching your full retirement age (66–67, depending on your year of birth), part of your Social Security benefit will be withheld if you earn more than the annual Social Security earnings limit. However, the reduction is not permanent; in fact, you'll likely receive a higher monthly benefit later. That's because the Social Security Administration recalculates your benefit when you reach full retirement age and omits the months in which your benefit was reduced.

After reaching full retirement age, your paycheck will no longer affect your benefit amount. But if your combined income (as defined by Social Security) exceeds certain limits, it could result in federal taxation of up to 85% of your Social Security benefits.

Perhaps the biggest disadvantage to working during retirement is... working during retirement. In other words, you're not completely free to do whatever you want, whenever you want, which is often what people most look forward to at this stage of life.

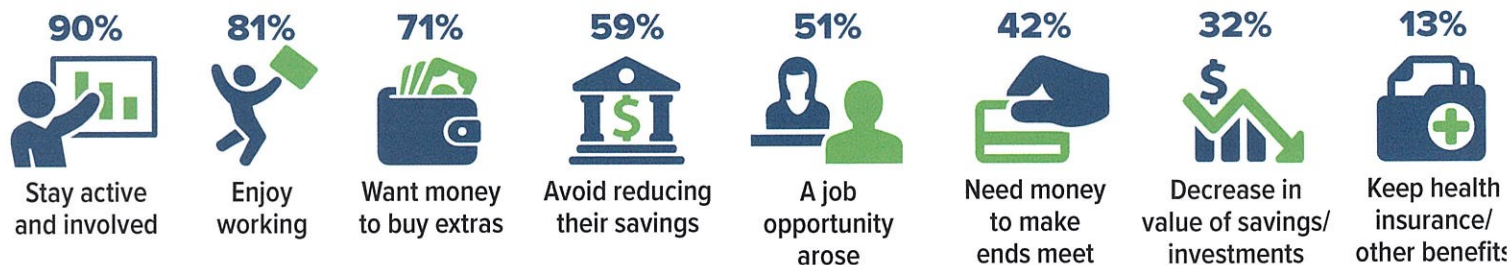
Finally, a word of caution: Despite your best planning and efforts, you may find that you're unable to work even if you want to. Consider that nearly half of today's retirees left the workforce earlier than planned, with two-thirds saying they did so because of a health problem or other hardship (35%) or changes at their company (31%).²

For these reasons, it may be best to focus on accumulating assets as you plan for retirement, viewing work as a possible option rather than a viable source of income.

1–2) Employee Benefit Research Institute, 2023

Why Retirees Work

When asked why they continue to work for pay, retirees often cited positive reasons.



Source: Employee Benefit Research Institute, 2023 (multiple responses allowed)

What's Required of the Executor of an Estate?

Being named as the executor of a friend's or family member's estate is generally an honor, but settling an estate can be a difficult and time-consuming job. Each state has specific laws detailing an executor's responsibilities.

If you are asked to serve as an executor, you may want to research the legal requirements, the complexity of the estate, and the potential time commitment. You should also consider seeking the counsel of experienced legal and tax professionals. An executor generally has the right to be compensated for services and reimbursed for expenses; fees vary depending on the situation.

Typical duties

The executor of an estate (referred to as a personal representative in some states) is named in the deceased's legal will. An executor typically must file a petition for probate, the legal process for establishing the validity of the will. Some estates may not require probate, depending on size, types of assets, and state laws. If there is no will, there is technically no executor, but the probate court will appoint an administrator or personal representative to carry out the same duties.

If the deceased created a letter of instruction, it should include much of the information needed to close out an estate, such as a list of documents and their locations, contacts for legal and financial professionals, a list of bills and creditors, login information for important online sites, and final wishes for burial or cremation and funeral or memorial services. Here are some duties you might take on as an executor.

Arrange for funeral and burial costs to be paid from the estate. Collect multiple copies of the death certificate from the funeral home or coroner. They may be needed to fulfill official obligations, such as presenting the will to the court for probate, claiming life insurance proceeds, reporting the death to government agencies, and transferring ownership of financial accounts or property to the beneficiaries.

Handle any government benefits and file tax returns. The funeral home will typically notify the Social Security Administration. Federal benefits received after the date of death must be returned. However, Social Security benefits are paid a month behind, so a payment in the month of death for the previous month would not have to be returned. You may have to file final personal income tax returns for the deceased, estate income tax returns, and estate tax and gift tax returns if applicable.

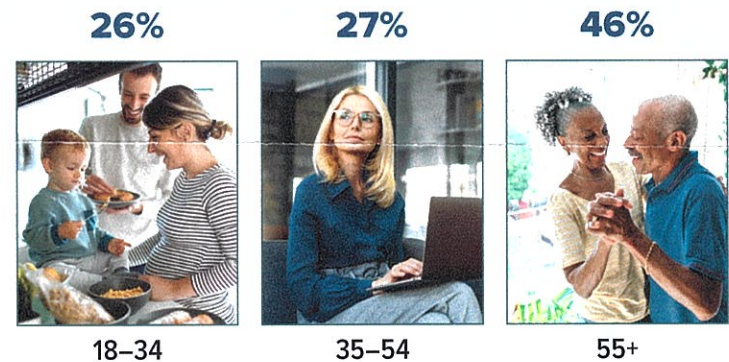
Protect assets while the estate is being closed out.

This might involve securing a vacant property; paying the mortgage, utility, and maintenance costs; changing the

Where There's a Will...

Almost two out of three Americans think it's important to have an estate plan, but only one out of three actually has a will or other estate planning document. The most common reason for not having a will is simple procrastination. Not having a will can make it much more difficult to settle an estate.

Percentage of Americans with a will, by age group



Source: Caring.com, 2023

name of the insured on home and auto policies to the estate; and tracking investments.

Inventory, appraise, and liquidate valuable property.

You may need to sort through a lifetime's worth of personal belongings and list a home for sale.

Notify potential creditors and pay any debts or taxes.

You may have to publish a notice to potential creditors, as directed by the probate court and state law. Debts such as medical bills, credit card balances, and taxes due should be paid out of the estate. The executor and/or heirs are not personally responsible for the debts of the deceased that exceed the value of the estate.

Distribute assets according to the estate documents.

Proceeds from life insurance policies and retirement accounts generally go directly to named beneficiaries. You typically must wait until the end of the probate process to distribute remaining assets. Trust assets can usually be disbursed right away without court approval.

The executor has a fiduciary duty to act in the best interests of the estate and its beneficiaries. This means you could be held liable if estate funds are mismanaged and the beneficiaries suffer losses.

If for any reason you are not willing or able to perform the executor's duties, you have a right to refuse the position.

If no alternate is named in the will, an administrator will be appointed by the court.



Don't Forget About Credit When Planning for Retirement

As you plan for retirement, you might not give credit a second thought, especially if your plan includes paying off your mortgage and other debts, and relying more on cash than credit. But retirement could last many years, and your need for credit doesn't necessarily disappear on your last day of work. At some point you may want to buy a second home, move to a retirement community, take out a home equity loan, or buy a vehicle; it's also possible you will face an unexpected expense. Keeping your credit healthy may help you qualify for a lower interest rate or better terms on a loan or credit card, or if a credit check is involved, even help you land a part-time job or obtain a better deal on auto insurance.

When it comes to getting credit, it's not growing older that matters — lenders can't deny a credit application based solely on age. The factors that affect your ability to get credit are the same as for younger people and include your debt-to-income ratio (DTI) and your credit score.

Lenders use your DTI to measure your ability to repay money you borrow. This ratio is calculated by totaling your monthly debt payments then dividing that figure by your gross monthly income. For example, if your retirement income totals \$6,000 and your debt payments total \$2,000, your DTI is 33%. What's considered a good DTI will vary, depending on lender requirements and loan type, but lenders generally look for a DTI of 43% or less.¹

If there's a reasonable chance you'll be applying for credit after you retire, consider what your DTI might be as you evaluate your retirement income needs or decide which debts to pay off. And think carefully about taking on new debt obligations, including co-signing a loan for a family member.

Another major factor lenders consider is your credit score. Retirement doesn't automatically affect your score, because credit reports only reflect your history of borrowing and repaying money, not your employment status or your salary. The three things that count the most toward your score are your payment history, the amount you owe on credit cards (including the percentage of available credit you're using), and the length of your credit history.² So continue to make credit card or loan payments on time (consider setting up autopay or reminders), aim to use no more than 10% to 30% of your credit limits, and consider the possible negative impact of closing accounts that you've had for years but no longer use. Another way to help keep your credit healthy is to check your credit report regularly to spot errors or fraudulent transactions. You can order free copies of your credit report at [AnnualCreditReport.com](https://www.annualcreditreport.com).

1-2) Experian, 2023



Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb... And How to Defuse It* and many other books about IRA planning.

Mega Backdoor Roth: Is This Retirement Strategy Open to You?

(Continued from page 1)

Bear in mind that 401(k) distributions are subject to the pro-rata rule, which requires you to withdraw proportional amounts of pre-tax and after-tax amounts if your account balance contains both types of contributions. So if your 401(k) balance is \$100,000 (\$80,000 in pre-tax money and \$20,000 in after-tax money) any distribution, including a conversion, must also consist of 80% pre-tax dollars and 20% after-tax dollars. In this case, you might avoid triggering taxes on the distribution by moving your pre-tax dollars to a traditional IRA at the same time your after-tax dollars are transferred to a Roth account.

Otherwise, if your employer accounts for pre-tax and post-tax contribution amounts and associated earnings separately, you might be able to withdraw your entire after-tax balance (including the taxable earnings) and leave your pre-tax account balance in the 401(k). Again, the tax bill may be minimal if the conversion is completed soon after making the after-tax contribution (or you roll the earnings portion into a traditional IRA).

You might consider yourself lucky if your plan allows after-tax contributions, because it's not very common, especially at smaller companies. The IRS limits how much money highly compensated employees can contribute to a 401(k) based on the contribution rates of other employees, and many plans would not pass non-discrimination tests if after-tax contributions were allowed. If your workplace plan allows after-tax contributions but doesn't permit in-service withdrawals, this strategy might still be worthwhile if you expect to retire or leave your employer in the near future.

*Distributions from traditional or Roth accounts taken prior to age 59½ may be subject to a 10% federal tax penalty, with certain exceptions.

The information in this newsletter is not intended as tax, legal, investment, or retirement advice or recommendations, and it may not be relied on for the purpose of avoiding any federal tax penalties. You are encouraged to seek guidance from an independent tax or legal professional. The content is derived from sources believed to be accurate. Neither the information presented nor any opinion expressed constitutes a solicitation for the purchase or sale of any security. This material was written and prepared by Broadridge Advisor Solutions. Copyright © 2024 Broadridge Financial Solutions, Inc.