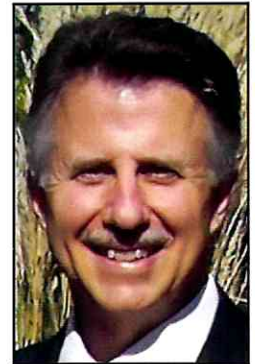


Alliance Benefit Consultants

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

Proposed IRS Regulations May Hold Surprises for IRA Heirs

By Ed Slott, CPA

The Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the rules for retirement accounts inherited after 2019, requiring that they be emptied within 10 years of the original owner's death, with some exceptions. Then in February 2022, regulations proposed by the IRS interpreted the 10-year rule in ways that were not widely anticipated.

Unless these proposals are amended, some beneficiaries could be subject to required minimum distributions (RMDs) in years 1 through 9 as well as a full distribution by the end of the 10-year period. Notably, if the account owner's adult children or grandchildren are the beneficiaries, they may be forced to take distributions much sooner than once thought — potentially resulting in higher-than-expected tax bills.

If you own a traditional IRA or participate in a retirement plan like a 401(k), you may want to familiarize yourself with the RMD rules and consider how your beneficiaries might be affected by this new interpretation.

RMD Basics

You generally must start taking RMDs from your tax-deferred retirement accounts for the year you reach age 72 (age 70½ if you were born before July 1, 1949), whether you need the money or not. Such distributions

It might be wise to review your beneficiary designations in light of these new regulations, and discuss the implications for your estate plan with your financial or tax professional.



are taxed as ordinary income. If you are still working, you may be able to wait until the year after retiring to start RMDs from your current employer's plan. Failing to take an RMD can be costly: A 50% penalty generally applies on the amount not withdrawn. No RMDs are required from a Roth IRA during your lifetime (beneficiaries are subject to inherited retirement account rules).

The required beginning date for the first year you must take a lifetime distribution is no later than April 1 of the next year. After your first distribution, annual distributions must be taken by the end of each year. (Be aware that if you wait until April 1 to take your first-year distribution, you would take and pay taxes on two distributions for that year: one by April 1 and the other by December 31.)

How the 10-Year Rule Affects Beneficiaries

The RMD rules also govern how quickly your retirement plan or IRA will need to be distributed to your

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If you have any questions about the topics in this newsletter or about your financial future, call us.

We are available to help.

PRACTICAL INSIGHTS FOR YOUR FINANCIAL GOALS

Retirement Savings in a Volatile Market

If you worry about your retirement investments during market downturns, you're not alone. Unfortunately, emotions are often the enemy of sound investing. Here are some points to help you stay clear-headed during periods of market volatility.

Markets Rebound

Historically, even the worst bear market has bounced back and eventually gone on to reach new highs. In fact, since 1970, bear markets have lasted an average of 14 months.

A Chance to Buy Low

If you're investing a set amount of money on a regular basis, such as in a retirement plan account, you're buying fewer shares when prices are high and more shares when prices are low — one of the basic tenets of investing wisely.

Systematic investing involves making continuous investments on a regular basis, regardless of fluctuating share prices. Although this strategy does not ensure a profit or prevent a loss, you

must be financially able to continue making purchases through extended periods of high and low price levels.

Retiree Strategies

The risk of experiencing poor investment returns just before or in the early years of retirement is a significant factor that can affect a nest egg's long-term sustainability. Fortunately, some strategies can help mitigate this risk.

For example, consider a tiered investment strategy, in which you divide your portfolio into tiers representing your short-, medium-, and long-term needs for income and growth.

The short-term tier(s) could contain the amount you need for about two to five years, invested in assets designed to preserve value. The medium-term tier(s) could hold investments that strive to provide income for perhaps three to 10 years, balanced with some growth potential. The longer-term tier(s) could hold higher-risk, higher-growth-potential assets that you wouldn't need for at least 10 years. Generally, this tier

is intended to feed the shorter-term tiers and fuel the strategy over the course of your retirement.

Another possible strategy is using a portion of your retirement savings to purchase an immediate annuity, which offers a predictable retirement income stream you could pair with Social Security and any other steady income sources to cover your fixed expenses.

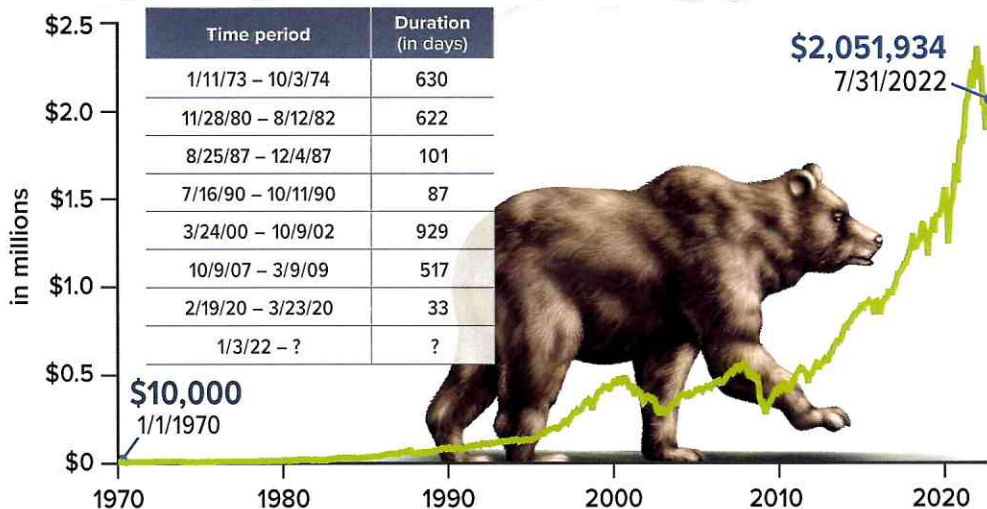
An immediate annuity is an insurance-based contract in which you pay the issuer a single lump sum in exchange for the issuer's guarantee of regular income payments for a fixed period or the rest of your life. While there are some exceptions, you typically receive fixed payments with little or no variation in the amount or timing. When purchasing an immediate annuity, you relinquish control over the amount you invest.

A Financial Professional Can Help

If volatile markets prompt you to question your retirement investing strategy, your financial professional can be an objective third party to help ease your worries and evaluate possible portfolio shifts.

Bear Markets Eventually End

A bear market is generally defined as a loss of at least 20% from a recent high. From 1970 to 2021, there were seven bear markets, the longest lasting less than three years. A new bear market began in January 2022. Despite these down periods, a hypothetical \$10,000 investment in the S&P 500 in 1970 would have grown to more than \$2 million by 2022.



Source: S&P Dow Jones Indices and Refinitiv, 2022, for the period 1/1/1970 to 7/31/2022. The S&P 500 is an unmanaged index that is considered to be representative of the U.S. stock market. The performance of an unmanaged index is not indicative of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

All investments are subject to market fluctuation, risk, and loss of principal. Shares, when sold, may be worth more or less than their original cost. Investments seeking to achieve higher returns also involve a higher degree of risk. There is no assurance that working with a financial professional will improve investment results.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% penalty. Any annuity guarantees are contingent on the financial strength and claims-paying ability of the issuing insurance company.

Charitable Giving Can Be a Family Affair

As families grow in size and overall wealth, a desire to “give back” often becomes a priority. Cultivating philanthropic values can help foster responsibility and a sense of purpose among both young and old alike, while providing financial benefits. Charitable donations may be eligible for income tax deductions (if you itemize) and can help reduce capital gains and estate taxes. Here are four ways to incorporate charitable giving into your family’s overall financial plan.

Annual Family Giving

The holidays present a perfect opportunity to help family members develop a giving mindset. To establish an annual family giving plan, first determine the total amount that you’d like to donate as a family to charity. Next, encourage all family members to research and make a case for their favorite nonprofit organization, or divide the total amount equally among your family members and have each person donate to his or her favorite cause.

When choosing a charity, consider how efficiently the contribution dollars are used — i.e., how much of the organization’s total annual budget directly supports programs and services versus overhead, administration, and marketing. For help in evaluating charities, visit the Charity Navigator website, charitynavigator.org, where you’ll find star ratings and more detailed financial and operational information.

Estate Planning

Charitable giving can also play a key role in an estate plan by helping to ensure that your philanthropic wishes are carried out and potentially reducing your estate tax burden.

The federal government taxes wealth transfers both during your lifetime and at death. In 2022, the federal gift and estate tax is imposed on lifetime transfers exceeding \$12,060,000, at a top rate of 40%. States may also impose taxes but at much lower thresholds than the federal government.

Ways to incorporate charitable giving into your estate plan include will and trust bequests; beneficiary designations for insurance policies and retirement plan accounts; and charitable lead and charitable remainder trusts. (Trusts incur upfront costs and often have ongoing administrative fees. The use of trusts involves complex tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax professionals before implementing such strategies.)

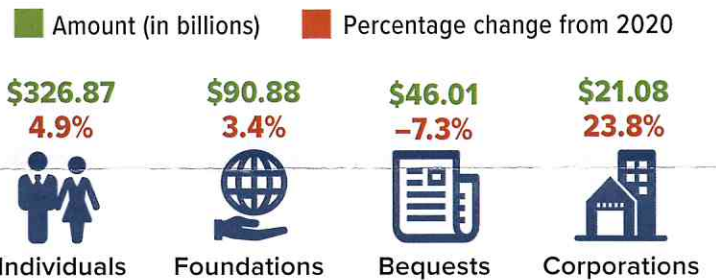
Donor-Advised Funds

Donor-advised funds offer a way to receive tax benefits now and make charitable gifts later. A donor-advised fund

Snapshot of 2021 Giving

U.S. charitable giving grew 4.0% in 2021 to reach \$484.85 billion. Adjusted for inflation, however, total giving decreased slightly (–0.7%). Giving to arts, culture, and humanities organizations, public-society benefit organizations, and environmental and animal organizations grew the most, while giving to education organizations declined.

Giving by source, 2021



Source: Giving USA, 2022

is an agreement between a donor and a host organization (the fund). Your contributions are generally tax deductible, but the organization becomes the legal owner of the assets. You (or a designee, such as a family member) then advise on how those contributions will be invested and how grants will be distributed. (Although the fund has ultimate control over the assets, the donor’s wishes are generally honored.)

Family Foundations

Private family foundations are similar to donor-advised funds, but on a more complex scale. Although you don’t necessarily need the coffers of Melinda Gates or Sam Walton to establish and maintain one, a private family foundation may be most appropriate if you have a significant level of wealth. The primary benefit (in addition to potential tax savings) is that you and your family have complete discretion over how the money is invested and which charities will receive grants. A drawback is that these separate legal entities are subject to stringent regulations.

These are just a few of the ways families can nurture a philanthropic legacy while benefiting their financial situation. For more information, contact your financial professional or an estate planning attorney.

Bear in mind that not all charitable organizations are able to use all possible gifts, so it is prudent to check first. The type of organization you select can also affect the tax benefits you receive.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



Virtual Health Care Is Here to Stay

The use of telehealth skyrocketed early in the COVID-19 pandemic, with the number of remote office visits and outpatient services 78 times higher in April 2020 than in February 2020. Usage has stabilized since that extraordinary rise, but as of early 2021 remained 38 times higher than the pre-pandemic level.¹

More recent data indicates that remote health care is here to stay. In May 2022, about one out of five adults said they had an appointment with a health professional over video or phone during the previous four weeks.²

Telehealth encompasses a broad range of remote services including virtual office visits (also called telemedicine), remote patient monitoring, patient-physician communication through secure emails and websites, and online physician-to-physician consultation. Patients have immediate access to advice and treatment any time of the day or night, while avoiding unnecessary and costly emergency room visits. But telehealth is not only for emergency or off-hours situations; it also can be a more convenient and cost-effective way to get medical care that might normally be handled in a doctor's office.

Telehealth can be used to treat minor problems such as allergies and rashes, or for an urgent condition such as a high fever. It makes it easier to access therapy for mental health issues such as depression and anxiety, and can fill gaps in the availability of specialty care.

In 2021, 28% of large employers (500+ employees) offered a virtual behavioral health-care network, 25% offered targeted virtual health solutions to address specific conditions such as diabetes and musculoskeletal problems, and 16% offered a virtual primary-care service or network.³

Original Medicare and Medicare Advantage plans also cover a wide variety of telehealth services. Some were specifically added to coverage because of the pandemic and are scheduled to expire at the end of 2023, but it's possible they will be extended.⁴

If your health plan includes telehealth services, you might take a closer look at the details, download the app, and/or register for an online account. You'll be ready to log in quickly the next time you or someone in your family faces a medical problem.

1) McKinsey & Company, July 9, 2021

2) Centers for Disease Control and Prevention, 2022

3) Mercer, December 13, 2021

4) Centers for Medicare & Medicaid Services, January 2022



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.

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account beneficiaries. Eligible designated beneficiaries (EDBs) can still "stretch" distributions over their lifetimes: they include your surviving spouse, your minor children, any individual not more than 10 years younger than you, and certain disabled or chronically ill individuals. However, once an EDB dies, or once a minor child EDB reaches age 21, any remaining funds must be distributed within 10 years.

For nonspouse EDBs, the rules differ depending on whether you pass away before or on or after your required beginning date. If you die before your required beginning date, RMDs will be based on the EDB's remaining life expectancy. Because no lifetime RMDs are required from a Roth IRA, Roth IRA owners are always treated as dying before their required beginning date.

If you die on or after your required beginning date, annual distributions after your death will be based on the greater of (a) what would have been your remaining life expectancy or (b) the beneficiary's remaining life expectancy. Also, if distributions are calculated each year based on what would have been your remaining life expectancy, the entire account must be distributed by the end of the year in which the beneficiary's remaining life expectancy would have been reduced to one or less.

There are many special rules if your spouse is your designated beneficiary. In fact, the 10-year rule generally has no effect until after the death of your spouse, or possibly until after the death of your spouse's designated beneficiary.