The Dollar Gazette

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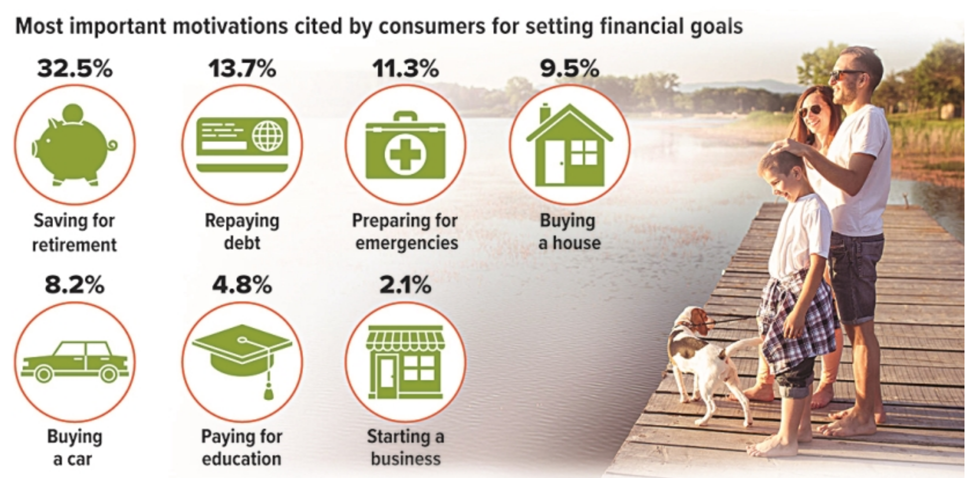
Financial Life Designs LLC
Your personalized guide to security and peacefulness

"The best view comes after the hardest climb." - JenniHulburt

Remember to enjoy the holiday views with family and friends. I am honored in serving all of you this year and look forward to the same in 2024.

Motivation and Money Goals

According to a survey taken in late 2022, almost 40% of consumers have set "very" or "extremely" clear long-term financial goals — though for different reasons.



Source: PYMNTS, December 2022

How Taxes Impact Your Retirement-Income Strategy

Retirees face several unique challenges when managing their income, particularly when it comes to taxes. From understanding how taxes relate to Social Security and Medicare to determining when to tap taxable and tax-advantaged accounts, individuals must juggle a complicated mix of factors.

Social Security and Medicare

People are sometimes surprised to learn that a portion of Social Security income becomes federally taxable when combined income exceeds $25,000 for single taxpayers and $32,000 for married couples filing jointly. The taxable portion is up to 85% of benefits, depending on income and filing status.[1]

In addition, the amount retirees pay in Medicare premiums each year is based on the modified adjusted gross income (MAGI) from *two years earlier.* In other words, the cost retirees pay for Medicare in 2023 is based on the MAGI reported on their 2021 returns.

Taxable, Tax-Deferred, or Tax-Free?

Maintaining a mix of taxable, tax-deferred, and tax-free accounts offers flexibility in managing income each year. However, determining when and how to tap each type of account and asset can be tricky. Consider the following points:

Taxable accounts. Income from most dividends and fixed-income investments and gains from the sale of securities held 12 months or less are generally taxed at federal rates as high as 37%. By contrast, qualified dividends and gains from the sale of securities held longer than 12 months are generally taxed at lower capital gains rates, which max out at 20%.

Tax-deferred accounts. Distributions from traditional IRAs, traditional work-sponsored plans, and annuities are also generally subject to federal income tax. On the other hand, company stock held in a qualified work-sponsored plan is typically treated differently. Provided certain rules are followed, a portion of the stock's value is generally taxed at the capital gains rate, no matter when it's sold; however, if the stock is rolled into a traditional IRA, it loses this special tax treatment.[2]

Tax-free accounts. Qualified distributions from Roth accounts and Health Savings Accounts (HSAs) are tax-free and therefore will not affect Social Security taxability and Medicare premiums. Moreover, some types of fixed-income investments offer tax-free income at the federal and/or state levels.[3]

The Impact of RMDs

One income-management strategy retirees often follow is to tap taxable accounts in the earlier years of retirement in order to allow the other accounts to continue benefiting from tax-deferred growth. However, traditional IRAs and workplace plans cannot grow indefinitely. Account holders must begin taking minimum distributions after they reach age 73 (for those who reach age 72 after December 31, 2022). Depending on an account's total value, an RMD could bump an individual or couple into a higher tax bracket. (RMDs are not required from Roth IRAs and, beginning in 2024, work-based plan Roth accounts during the primary account holder's lifetime.)

Don't Forget State Taxes

State taxes are also a factor. Currently, seven states impose no income taxes, while New Hampshire taxes dividend and interest income and Washington taxes the capital gains of high earners. Twelve states tax at least a portion of a retiree's Social Security benefits.

Eye on Washington

Finally, both current and future retirees will want to monitor congressional actions over the next few years. That's because today's historically low marginal tax rates are scheduled to revert to higher levels in 2026, unless legislation is enacted (see table).

Help Is Available

Putting together a retirement-income strategy that strives to manage taxes is a complex task indeed. Investors may want to seek the help of a qualified tax or financial professional before making any final decisions.[4]

Tax Rates Scheduled to Rise

Unless legislation is enacted, federal marginal income tax rates are scheduled to rise in 2026.

Current rate	2026
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

1) Combined income is the sum of adjusted gross income, tax-exempt interest, and 50% of any Social Security benefits received.

2) Distributions from tax-deferred accounts and annuities prior to age 59½ are subject to a 10% penalty, unless an exception applies.

3) A qualified distribution from a Roth account is one that is made after the account has been held for at least five years and the account holder reaches age 59½, dies, or becomes disabled. A distribution from an HSA is qualified provided it is used to pay for covered medical expenses (see IRS publication 502). Nonqualified distributions will be subject to regular income taxes and penalties.

4) There is no guarantee that working with a financial professional will improve investment results.

Put Your Money Where Your Values Are

Financial worries are often cited as a major source of stress. For example, a 2021 study found that even before the pandemic and subsequent economic downturn, a majority of Americans said they felt stressed or anxious about their finances.[1] Similarly, in 2022, research revealed that more than seven out of 10 financial planning clients experienced financial anxiety more than half the time.[2]

What causes financial stress? Lack of assets and/or income is certainly one reason. Another might be the flood of financial information Americans can access on a daily basis: reports about the markets, economy, and financial institutions, as well as conflicting advice about what people should and should not do with their money. One way to avoid becoming distracted and anxious amid scary headlines is by having a sturdy framework to help guide your spending, saving, and investment decisions.

The Why of It

In one of the most viewed TED Talks of all time, motivational speaker Simon Sinek identified what he calls "The Golden Circle," which is actually a series of three concentric circles. He labels the extreme outside circle "What," the middle circle "How," and the core "Why." He uses this image to illustrate how the most successful leaders and organizations are able to inspire so many people to support their causes or buy their products. Essentially, it's not what they do or how they do it; it's why they do it.

"By 'why' I don't mean to make a profit," Sinek explains. "That's a result ... By 'why,' I mean: What's your purpose? What's your cause? What's your belief? Why does your organization exist? Why do you get out of bed in the morning?"[3]

Certified financial planner, author, and creator of *The New York Times'* "The Sketch Guy" column, Carl Richards, says Sinek's principle can also apply to an individual's or family's financial plan. Having a clear vision of *why* you earn a paycheck, save, invest, and spend your money is critical to avoiding distractions and questionable or rash financial decisions.[4]

Taking Stock of What Matters

The key to identifying your *why* is taking inventory of your most important values, many of which may have little or nothing to do with money. To do this, set aside some time when you're feeling at ease and simply jot down what matters most to you. Some examples might include family, achievement, security, faith, knowledge, creativity, generosity, and independence. Try to narrow down your list to 10 or fewer.

Next, think about how your values relate to your financial situation. For example, if faith and generosity are high on your list, how might they influence your estate plan? Or if independence, creativity, and achievement make the final cut, how might those values affect your career choices? Perhaps family and knowledge are important — what might that indicate about your dreams for your children, from primary school to college and beyond?

Working with your financial professional, you can use this list of core values as a framework for your financial goals, strategies, and tactics. Whenever you're tempted to make a decision that could derail your overall strategy — such as chasing the latest hot investment tip or taking a loan from your 401(k) plan — your core values can serve as an important guidepost and prevent you from making a costly mistake.

Your list can also help you make spending decisions. For example, if adventure and education are among your key values, taking your family on a trip to explore a new culture can bring intangible returns in the form of a lifetime of tolerance for differences as well as happy memories.

Adapting as Your Life Changes

A values-oriented financial plan is as personal and unique as each individual or family. It's also flexible. As you progress through various stages of life, your hopes, desires, needs, and beliefs may change as well. Your financial professional can help you ensure your financial goals and strategies continue to reflect what matters most to you.

There is no guarantee that working with a financial professional will improve investment results.

This is just a selection from the "List of Values" by researcher and motivational speaker Brené Brown. For the full list, visit brenébrown.com/.

1) FINRA Investor Education Foundation and Global Financial Literacy Excellence Center, 2021

2) Financial Planning Association, 2022

3) TED. (2009, September). *How great leaders inspire action* /Simon Sinek [Video]. YouTube. https://www.ted.com/talks/

4) Morningstar's The Long View podcast, "Carl Richards: It Should Be Ok to Relax Out Loud," July 27, 2021 https:/www.morningstar.com/podcasts/the-long-view

As Your Parents Age, Help Them Protect Their Finances

It's heartbreaking to hear stories of people losing money (even their life savings) as a result of fraud or financial exploitation, especially if they are older and financially vulnerable. In fact, it's quite common. People age 70 and older reported losses of $567 million in 2022.[1] You know your parents could be at risk, and you want to protect them, but how?

One place to start is by looking for warning signs that your parents have been victimized, or are at risk of being influenced, manipulated, or coerced by a stranger or someone they know.

- Unusual bank account activity, including large or unexplained withdrawals, and nonsufficient fund notices
- Missing checks, credit cards, or financial statements
- Unpaid bills
- Lost money or valuables that can't be located after a thorough search
- Relationships with people who seem to have undue influence
- Unexplained changes to legal documents
- Declining memory and decision-making skills

Regularly checking in with your parents may help you spot issues that need to be addressed. If your parents have fallen victim to a financial scam or are being pressured for money from someone they know, they may be embarrassed or reluctant to tell you, even if you ask. Do your best to remain objective and nonjudgmental, and patiently listen to their views while expressing your own concern for their well-being.

Laying some groundwork to help prevent future incidents is also important. For example, talk to your parents about how they might handle common scams. Let them know it's a good idea to get a second opinion from you before acting on any request for information or money, even if it seems to come from their financial institution, a well-known company, law enforcement, a government agency such as the IRS or Social Security Administration, or even a grandchild in trouble.

Encourage them to set up appointments with their elder law attorney or financial professional to talk about concerns and legal and financial safeguards. They might also want to add layers of protection to their financial accounts, such as naming a trusted contact or setting up account alerts.

People are often reluctant to report financial fraud or exploitation, either out of embarrassment or fear of being wrong. But if you suspect your parents have been victimized, you can get help from many sources, including the National Elder Fraud Hotline, sponsored by the U.S. Department of Justice. You can call (833) 372-8311 to be connected with case managers who will assist you and direct you to additional resources.

1) Federal Trade Commission, 2022

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