

# The Retirement Minefield

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April 13, 2023



# Housekeeping

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- The chat feature is disabled for this webinar. If you have any questions, you may always reach out via email.
- We will not be able to provide a copy of the slides or a copy of the recording at this time.

# About

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## Mueller Financial Services, Inc.

- Mueller Financial Services is a financial advisory firm that has served clients for over 30 years, expanding its guidance from the regional to the national level through growth and acquisitions. We offer a broad range of services for corporations, business owners, executives, independent professionals, and high-net-worth individuals.

# About (Cont'd)

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## Transamerica

- Transamerica has been helping people feel better about the future for more than 100 years. They provide investment, retirement, and life insurance solutions to more than 11 million customers throughout the U.S. The way they see it, their responsibility goes beyond our clients' accounts. They're in the business of helping people live well and empowering them to create a better tomorrow through the financial and health-related habits they form today. They help people prepare by providing solutions that consider the whole picture. That's the power of the Wealth + HealthSM connection.

# THE RETIREMENT

# MINEFIELD

AN OVERVIEW TO HELP AVOID  
COMMON IRA MISTAKES

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- NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, THE BANK OR ANY OF ITS AFFILIATES
- SUBJECT TO INVESTMENT RISKS, INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED



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# LOOKING AHEAD TO BUILD WEALTH



# PREPARING FOR RETIREMENT

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## THE KEYS TO WEALTH IN RETIREMENT MAY BE IN YOUR HANDS

### ACTIVE RETIREMENT

Sixty-five percent of workers cite traveling as their top retirement dream. Followed by spending time with family and friends (fifty-nine percent) and pursuing hobbies (fifty-one percent).<sup>1</sup>

### CONCERNS ABOUT HEALTH IN RETIREMENT

Sixty-six percent of workers are very or somewhat concerned about their health in retirement.<sup>1</sup>

### RETIREMENT AGE AND WORKING IN RETIREMENT

Forty-nine percent of workers expect to work past age sixty-five.<sup>1</sup> And fifty-seven percent of workers plan to work after they retire.<sup>1</sup>

### EXPECTED PRIMARY SOURCE OF RETIREMENT INCOME

Fifty-three percent of workers expect self-funded savings to be their primary source of retirement income (401(k)s, 403(b)s, IRAs, and other savings and investments)<sup>1</sup>

<sup>1</sup> “21st Annual Transamerica Retirement Survey of Workers,” nonprofit Transamerica Center for Retirement Studies, November 2021



# PREPARING FOR RETIREMENT

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## MANAGE THE UNEXPECTED



### INFLATION

As prices rise, your savings and purchasing power shrinks.



### MARKET VOLATILITY

Portfolio returns may not be as predictable as you thought.



### SPENDING ASSETS

It is possible to outlive your savings.



### THE UNEXPECTED

You never know how events may affect your property, your income, or your savings.

A woman with blonde hair tied up is sitting on a dark grey windowsill. She is wearing a light blue long-sleeved shirt and dark grey leggings. She is looking down at a book she is holding in her lap. The room is brightly lit by natural light coming from a large window behind her. The window has white frames and gold-colored handles. A rolled-up newspaper or magazine is lying on the windowsill to her right.

# **TIME TO TALK IRAs**



# IRAs: AVOIDING COSTLY MISTAKES

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## FOCUS ON ISSUES YOU CAN CONTROL

### EMOTIONAL INVESTING

Don't fall into the trap of investment decisions based on emotions and not strategy.

### OVERLOOKING PERSONAL CIRCUMSTANCES

Avoid relying on rules of thumb instead of rules for you.

### IRS TAXES AND PENALTIES

Most additional taxes and penalties can be avoided.

Neither Transamerica nor any of its financial professionals provide tax or legal advice. You should consult a qualified tax advisor for questions regarding your particular situation.

# IRAs: AVOIDING COSTLY MISTAKES

“I was surprised at how complicated the [IRA] process was for me – and I’m an expert.”

-Lawyer Natalie Choate in *the Wall Street Journal* on 02/05/2017<sup>1</sup>

“Opening an IRA is a pretty straightforward matter...Yet, there are plenty of ways investors can stub their toes along the way.”

-Director of Personal Finance Christine Benz in *Morningstar* on 02/23/2016<sup>2</sup>

“The Investment Company Institute (ICI) estimated that roughly 88 percent of all eligible taxpayers skipped IRA contributions...Then again, IRAs can be confusing.”

-Dan Moisand in *Financial Advisor Magazine* on 03/23/2017<sup>3</sup>

<sup>1</sup> Wall Street Journal, “Everything You Need to Know About Required 401(k) and IRA Withdrawals”, February 2017

<sup>2</sup> Morningstar, “20 IRA Mistakes to Avoid”, February 2016

<sup>3</sup> Financial Advisor Magazine, “Making IRA Season Less Confusing and Taxing”, March 2017



# IRAs: AVOIDING COSTLY MISTAKES

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## MANY DIFFERENT RULES IMPACT IRA TRANSACTIONS

- Age 59½ rule
- 10% additional tax
- 60-day period for rollovers
- Partial rollovers
- Early distributions
- Inherited IRAs
- Age 72 rule
- 20% withholding
- Required beginning date
- Penalties
- Transfers
- Form 8606
- Conversions
- Beneficiaries
- Form 1040
- Spousal IRA
- Two-year rule
- Form 5329

### IRS PUBLICATIONS 590-A AND 590-B:

The IRA Rule Books. These two volumes have more than 120 pages and are updated annually.



# IRAs: AVOIDING COSTLY MISTAKES

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## SOME MISTAKES ARE MORE COMMON THAN OTHERS

### IRA ROLLOVERS

Discover the pros, cons, and what's right for you.

### WITHDRAWING INCOME

Understand your taxes, penalties, and deadlines.

### BENEFICIARY PLANNING

Consider all options for you and your beneficiaries.





# THE ROLLOVER OPTION

# WHAT IS A ROLLOVER?

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## A “ROLLOVER” IS A TRANSFER OF RETIREMENT ASSETS FROM ONE RETIREMENT PLAN TO ANOTHER RETIREMENT PLAN

### EMPLOYER SPONSORED PLAN TO IRA

You must be eligible to withdraw assets from the employer sponsored plan.<sup>1</sup> Triggering events make participants eligible to withdrawal assets from qualified plans.

### IRA TO IRA

You can roll over between IRAs without needing a triggering event.<sup>2</sup>

### PERSONAL CIRCUMSTANCES

Consult your retirement plan document and tax advisor regarding your situation.

<sup>1</sup> 401(k)(2)(B); 403(b)(11)

<sup>2</sup> Only one indirect IRA rollover per 12 months is permitted.

\* Rollovers and transfers may be subject to differences in features and expenses. Indirect transfers may be subject to taxation and penalties.

# WHEN CAN YOU ROLL OVER TO AN IRA?

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## MANY EVENTS CAN TRIGGER A ROLLOVER FOR EMPLOYER-SPONSORED PLANS<sup>1</sup>

### SEPARATION OF SERVICE

Applies when you no longer work for the employer. Many employer-sponsored plans allow you to roll over your 401(k) assets while you're still employed. Request your employer's Summary Plan Description for additional information.

### TURNING 59½

May be required for "in-service" rollovers.

### DISABILITY

You must qualify as disabled.

### DEATH

This applies to your beneficiary(ies).



You can roll over between IRAs without needing a triggering event.<sup>2</sup>

<sup>1</sup> Treas. Regs. 1.401-1(b), 1.401(a)-14, 1.403(b)-6

<sup>2</sup> Only one indirect IRA rollover per 12 months is permitted.



# IS AN IRA ROLLOVER RIGHT FOR YOU?

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## THERE ARE A NUMBER OF REASONS TO CONSIDER

### YOU HAVE MORE THAN ONE RETIREMENT ACCOUNT

Consolidation of accounts can be easier than managing multiple accounts.

### YOUR PLAN HAS LIMITED INVESTMENT OPTIONS

You can expand your investment options to include alternative investments or annuities.

### YOUR PLAN DOES NOT OFFER A RETIREMENT INCOME PROGRAM

IRAs can provide guaranteed lifetime income, bond laddering, and bucketing options.

A vertical photograph on the left side of the page shows a man with a beard and glasses, smiling and talking on a mobile phone. He is wearing a dark jacket over a light blue shirt. The background is slightly blurred, suggesting an office or indoor setting.

# IS AN IRA ROLLOVER RIGHT FOR YOU?

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## THERE ARE A NUMBER OF REASONS TO CONSIDER

### YOUR PLAN HAS LIMITED BENEFICIARY PLANNING OPTIONS

IRAs can offer customized, pre-selected, or “stretch” beneficiary options.

### YOU MAY NEED OR WANT TO ACCESS YOUR RETIREMENT ASSETS PRIOR TO 59½

IRAs offer additional exceptions to the 10% additional federal tax including but not limited to health insurance premiums if unemployed, qualified higher education expenses, and first-time home buyers.<sup>1</sup>

\* Consolidation does not guarantee a profit or guard against a loss. All guarantees are backed by the claims-paying ability of the issuing insurance company.

<sup>1</sup> IRC Section 72(t)

# COMMON IRA ROLLOVER MISTAKES

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## MOVING MONEY INTO AN IRA DOES NOT ALWAYS MAKE SENSE

### YOU ARE ELECTING AN INDIRECT OVER A DIRECT ROLLOVER

Ensure you do it the right way. Remember, if you opt to handle this yourself, you could end up with a taxable event, a penalty for early withdrawal, and the loss of tax deferral on part of your rollover.

### YOU ARE PAYING THE 10% ADDITIONAL FEDERAL TAX ON PRE-59½ WITHDRAWALS

While it may be unavoidable, it is important for you to consider the exceptions to the 10% additional federal tax on early withdrawals.

### YOU FAIL TO MANAGE REQUIRED MINIMUM DISTRIBUTIONS (RMD) AT 72

Because a missed RMD payment can be subject to an additional 50% tax, you'll want to avoid this mistake.



# COMMON IRA ROLLOVER MISTAKES

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## MOVING MONEY INTO AN IRA DOES NOT ALWAYS MAKE SENSE

### YOU ARE OVERLOOKING DEATH BENEFIT DISTRIBUTION OPTIONS

Like many, you may be unaware of the death benefit distribution options available from your IRA and the tax ramifications of each.

### YOU ARE NOT SEEKING PROFESSIONAL GUIDANCE

Don't believe everything you watch or read. Sometimes, retirement planning is more complicated than it seems initially.

### YOU ARE OVERLOOKING PERSONAL CIRCUMSTANCES BEFORE ROLLING MONEY OVER TO AN IRA

Considering your situation, ask yourself if an IRA rollover is best for you right now.

# DON'T OVERLOOK PERSONAL CIRCUMSTANCES

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## DETERMINE IF AN IRA ROLLOVER IS THE RIGHT MOVE

### WILL YOU NEED A LOAN?

- By rolling assets to your new company's plan, you may have the ability to access your money with a new loan feature<sup>1</sup>
- Loans are not permitted from IRAs<sup>2</sup>

### DID YOU SEPARATE FROM SERVICE AT OR AFTER AGE 55?

- There is an exception to the 10% additional federal tax for distributions from a qualified plan for employees who separate from service during or after the year in which they turn 55<sup>3</sup>

<sup>1</sup> IRC Sec. 72(p)(2)

<sup>2</sup> IRC Sec. 4975(c)(1)(B); 408(e)(2)(A)

<sup>3</sup> IRC Sec 72(t)(2)(A)(v); 72(t)(3)

A woman with blonde hair, wearing a white lace top and a striped apron, is looking down at a tablet computer in her hands. She is standing in a kitchen with a white countertop. On the counter, there is a plate of food, a glass of orange juice, and a small bowl. A light fixture with a single bulb is visible in the upper left corner.

# DON'T OVERLOOK PERSONAL CIRCUMSTANCES

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## DETERMINE IF AN IRA ROLLOVER IS THE RIGHT MOVE

### DO YOU PLAN ON WORKING PAST AGE 72?

- If you continue to work past 72 you may be eligible to defer RMDs on qualified plan assets attributable to the current employer's plan<sup>1</sup>

### WERE THE PLAN ASSETS AWARDED THROUGH DIVORCE?

- There is an exception to the 10% additional federal tax for an ex-spouse who received qualified plan assets as an alternate payee under a Qualified Domestic Relations Order (QDRO)<sup>2</sup>

<sup>1</sup> IRC Sec. 401(a)(9)(c)

<sup>2</sup> IRC Sec. 72(t)(2)(c)

# MOVING YOUR RETIREMENT ASSETS

**IF YOU FIND THAT A ROLLOVER TO AN IRA IS BEST FOR YOU, BE SURE TO DO IT RIGHT**

## **PROCEDURAL DETAILS**

Ensuring the transaction is processed properly by all three parties involved (the old plan, the new IRA provider, and you) is critically important.

## **THE COMMON MISTAKE WHEN MOVING RETIREMENT ASSETS**

People often elect an indirect rollover instead of a direct rollover.



# MOVING YOUR RETIREMENT ASSETS

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## THERE ARE THREE METHODS OF TAX-FREE TRANSFERS

### INDIRECT ROLLOVER

The distribution from a retirement plan is made payable to you in cash. You then have 60 days to deposit the proceeds into another retirement plan or IRA.

### DIRECT ROLLOVER

The distribution is made directly to your new retirement plan or IRA. Employer-sponsored retirement plans are required to offer this option.<sup>1</sup>

### TRUSTEE TO TRUSTEE TRANSFERS

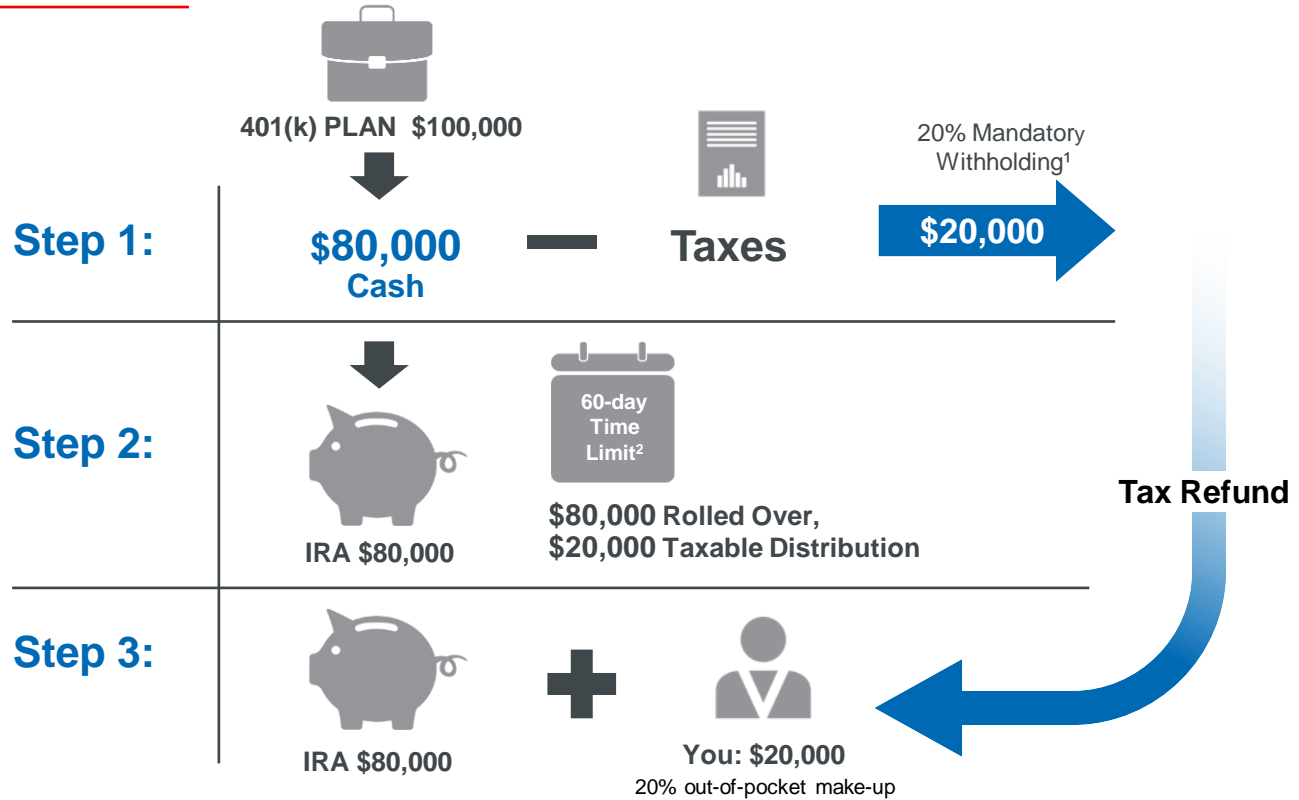
The funds in an IRA are transferred from one trustee directly to another trustee. This is the only method available to non-spouse beneficiaries when transferring assets to an inherited IRA.<sup>2</sup>

<sup>1</sup> IRC Sec. 401(a)(31), 403(b)(10), 457(d)(1)(C)

<sup>2</sup> IRC Sec. 402(c)(11).

# INDIRECT ROLLOVER

This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. The chart is shown for illustrative purposes only.



<sup>1</sup> IRC Sec. 3405(c)(1)

<sup>2</sup> IRC Sec. 402(c)(3); Treas. Reg. 1.402(c)-2, A-11



# IRA ROLLOVERS: IMPORTANT DIFFERENCES

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Process	Indirect Rollover
Deadline	60-day time limit <sup>1</sup>
Qualified Plan to IRA	20% mandatory withholding <sup>2</sup> Amount withheld must be added to avoid taxable distribution and potential 10% additional tax
IRA to IRA	Only one tax-free rollover during one-year period is permitted, applicable to all of the owner's non-Roth IRAs <sup>3</sup>

<sup>1</sup> IRC Sec. 408(d)(3)(A)

<sup>2</sup> IRC Sec. 3405(c)

<sup>3</sup> IRC Sec. 408(d)(3)(B)

# DIRECT ROLLOVER

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**401(k) PLAN**  
**\$100,000**



**NO 20% withholding**  
**NO 60-day time limit**  
**NO 20% out-of-pocket make-up**  
**NO waiting for tax refund**



**IRA**  
**\$100,000**

This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. The chart is shown for illustrative purposes only.

# IRA ROLLOVERS: IMPORTANT DIFFERENCES

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Process	Indirect Rollover	Direct Rollover
Deadline	60-day time limit <sup>1</sup>	No 60-day time limit
Qualified Plan to IRA	20% mandatory withholding <sup>2</sup> Amount withheld must be added to avoid taxable distribution and potential 10% additional tax	No withholding Fewer tax concerns
IRA to IRA	Only one tax-free rollover during one-year period is permitted, applicable to all of the owner's non-Roth IRAs <sup>3</sup>	No once-per-year limit

<sup>1</sup> IRC Sec. 408(d)(3)(A)

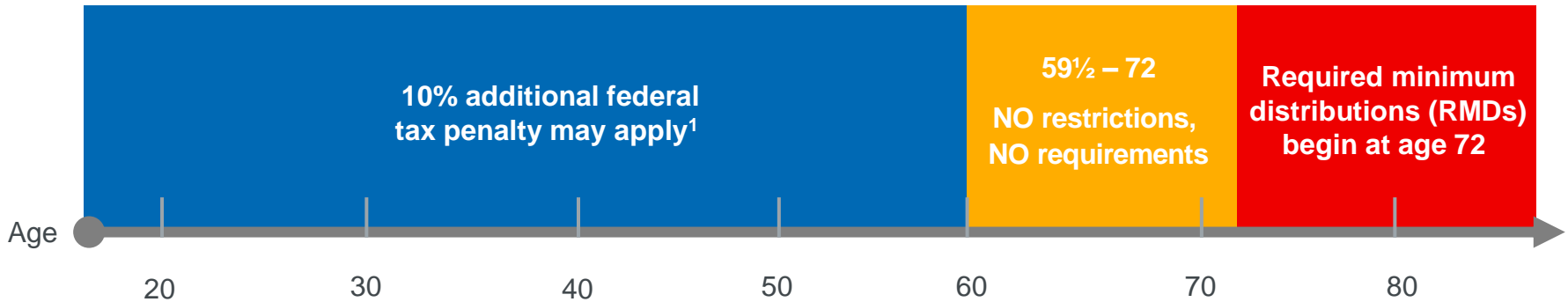
<sup>2</sup> IRC Sec. 3405(c)

<sup>3</sup> IRC Sec. 408(d)(3)(B)

# IRA WITHDRAWALS - IMPORTANT MILESTONES

## KNOWING YOUR IRA WITHDRAWAL MILESTONES IS CRITICAL TO YOUR FINANCIAL HEALTH

- Withdrawals prior to age 59½ may be subject to an additional 10% tax<sup>1</sup>
- Failure to take a minimum amount after age 72 might result in a 50% tax<sup>2</sup>

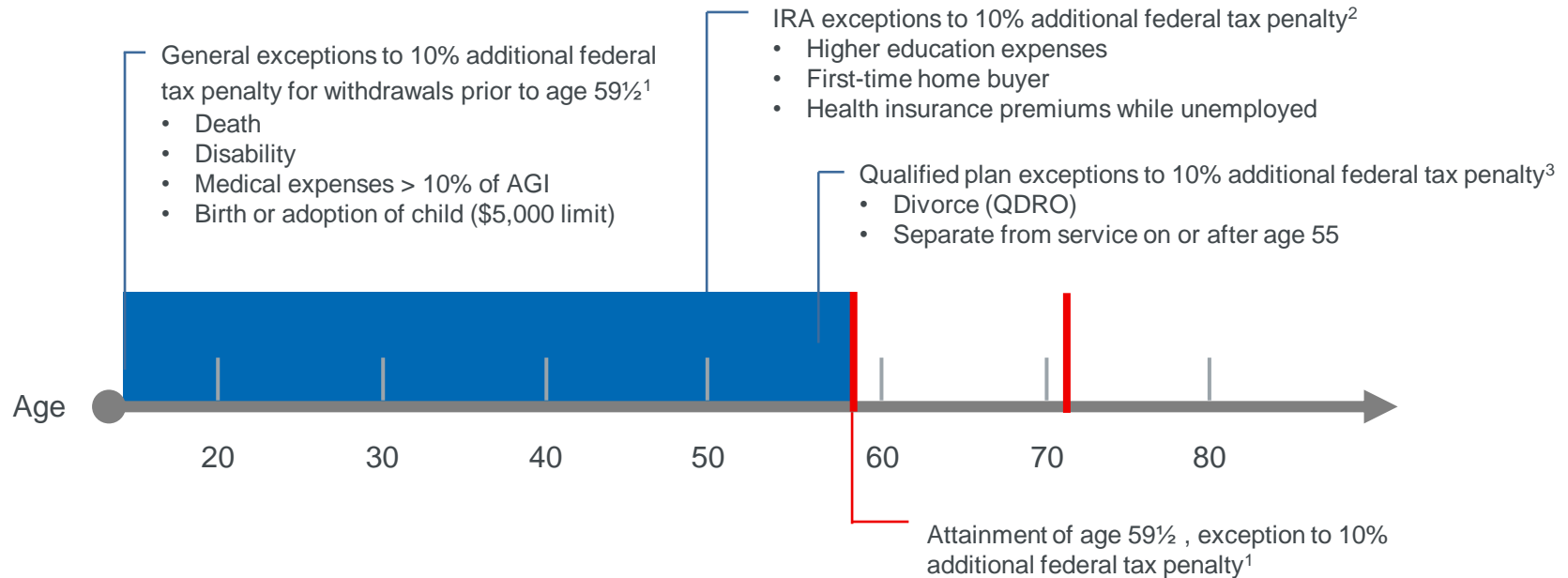


<sup>1</sup> 72(t)(1) and 72(t)(2)(A)(i)

<sup>2</sup> IRC Sec. 4974(a)

# WITHDRAWALS MADE PRIOR TO AGE 59½

## SOME PENALTY EXCEPTIONS APPLY TO EMPLOYER-SPONSORED RETIREMENT PLANS AND IRAs



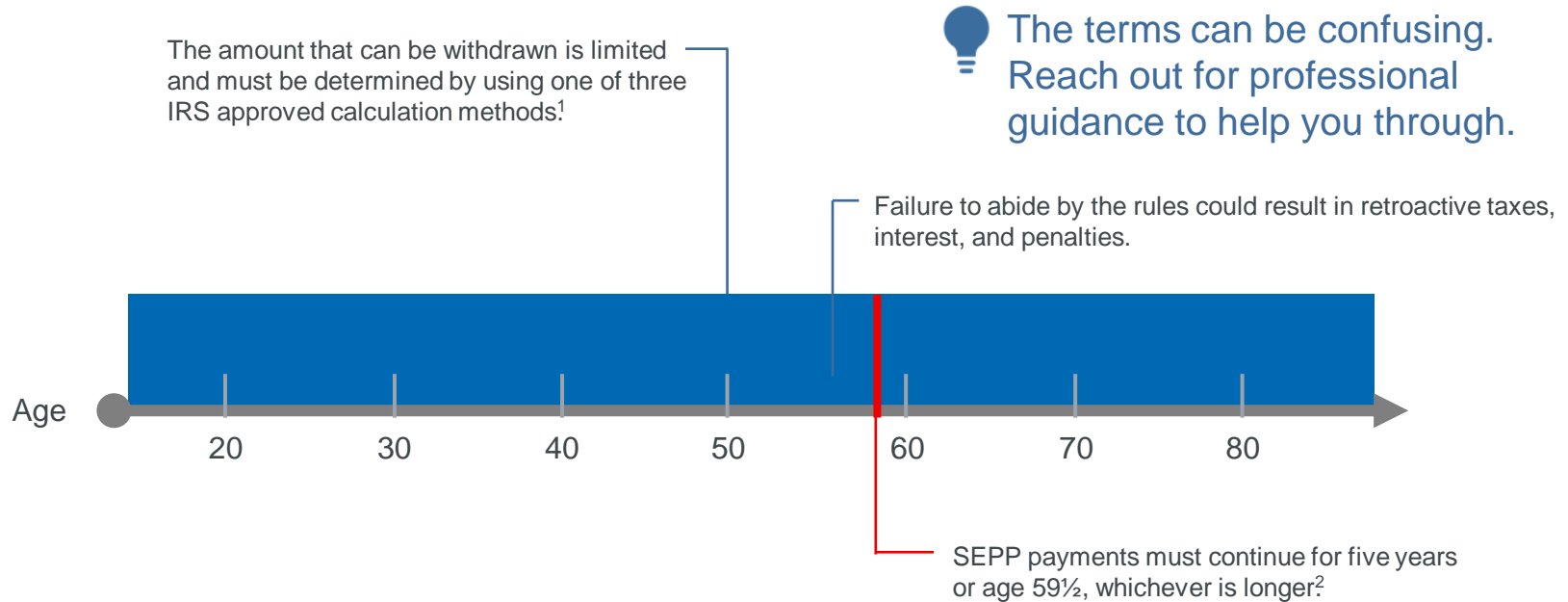
<sup>1</sup> IRC Sec. 72(t)(2)(A)(i)

<sup>2</sup> IRC Sections 72(t)(2)(D), (E), and (F)

<sup>3</sup> IRC Sec. 72(t)(3); 72(t)(2)(A)(v); 72(t)(2)(C)

# WITHDRAWALS MADE PRIOR TO AGE 59½

**THE SEPP EXCEPTION TO THE 10% ADDITIONAL FEDERAL TAX IS THE ONE EXCEPTION AVAILABLE TO EVERYONE AT ANY AGE<sup>1</sup>**

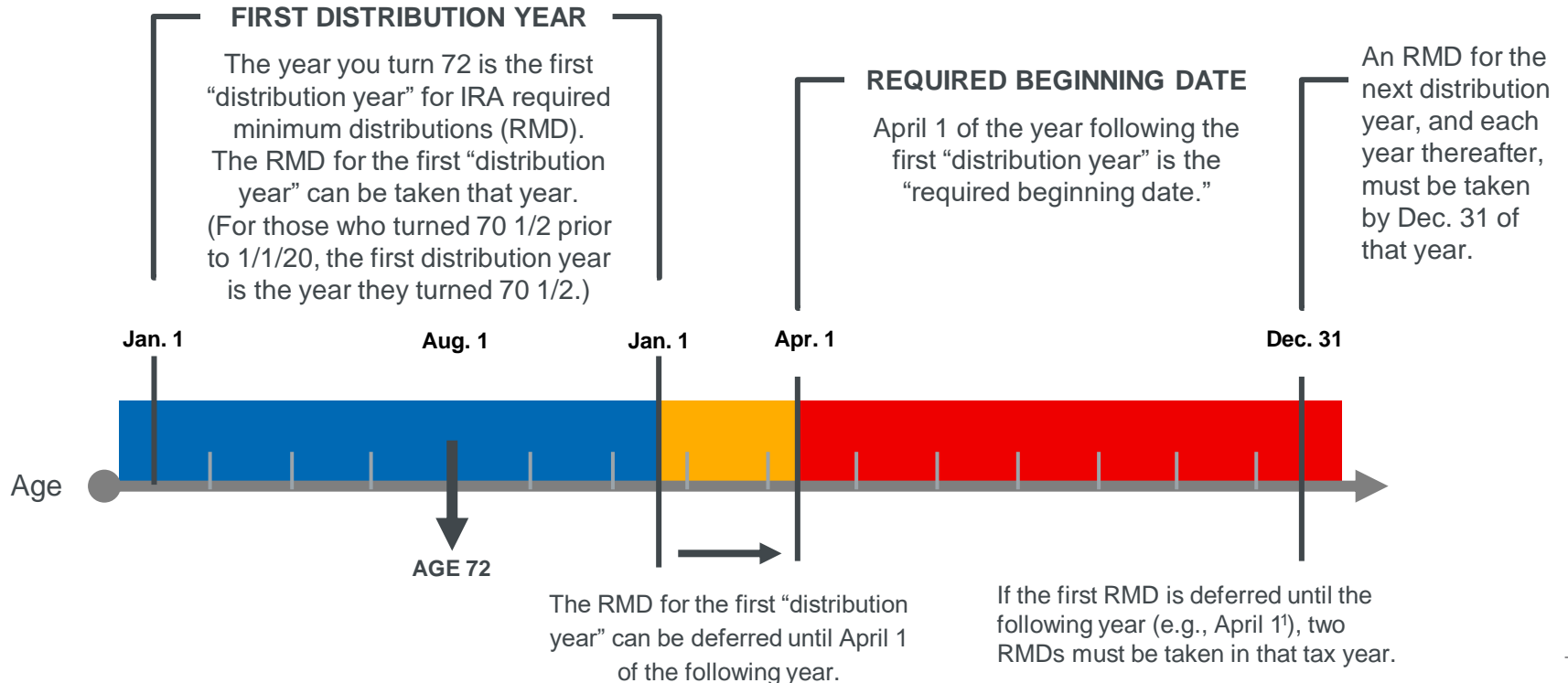


<sup>1</sup> IRC Sec. 72(t)(2)(A)(iv); Rev. Ruling 2002-62

<sup>2</sup> IRC Sec. 72(t)(4)(A); Rev. Ruling 2002-62

# REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

## HOW RMDs WORK



<sup>1</sup> Source: IRS Publication 590B





# REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

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## CONSIDER THESE TIPS FOR RMD PLANNING

### AVOID IRA PENALTIES

- A 50% tax applies to amounts that should have been withdrawn<sup>1</sup>

### AUTOMATE YOUR WITHDRAWALS

- Ensures you won't miss a payment
- The percentage that needs to be withdrawn increases each year

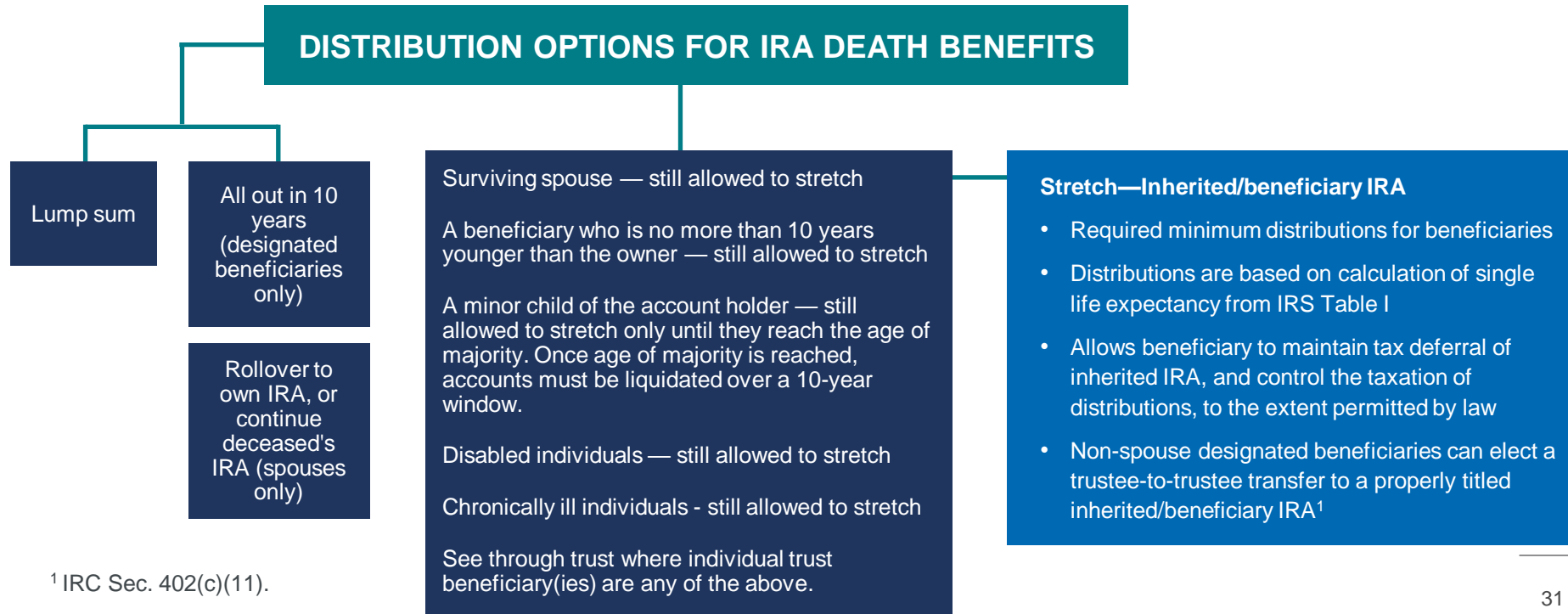
### CREATE A PLAN

- If you don't need your RMD, how will you reinvest it?
- Gift it to a loved one or trust
- Talk to your financial professional about Qualified Charitable Distributions
- Understand how it fits into your retirement income and estate plan

<sup>1</sup> Source: IRS Publication 497(a)

# IRA BENEFICIARY PLANNING

THE IMPORTANCE OF BENEFICIARY DESIGNATIONS IS SOMETHING THAT MANY PEOPLE FREQUENTLY OVERLOOK.



<sup>1</sup> IRC Sec. 402(c)(11).



# THE STRETCH DEATH BENEFIT OPTION

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## STRETCHING MAINTAINS TAX DEFERRAL FOR INHERITED IRAs AND CONTROLS TAXATION OF DISTRIBUTIONS

### Non-Spouse Beneficiary:

- Age 54-years

### IRS Table I:

- Single Life

### Table Divisor =

- 32.5 (year following death)

- First distribution must be taken by December 31 of year following the IRA owner's death
- Divisor reduced by one each year (e.g. 32.5, 31.5, 30.5, etc.)
- Beneficiary can always take a lump sum
- Allows beneficiary to maintain tax deferral of inherited IRA and control the taxation of distributions, to the extent permitted by law

This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of any fees or expenses. The chart is shown for illustrative purposes only.



# CONSIDERATIONS TO FIT YOUR NEEDS

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## IRA PLANNING – HELPING TO AVOID MISTAKES

- What are your personal circumstances?
- What are your personal needs?
- What are your personal concerns?

## SOME STEPS YOU CAN TAKE

- Complete the IRA rollover questionnaire
- Obtain a copy of your employer's summary plan description
- Gather your beneficiary information
- Schedule an appointment, can start planning today





# THANK YOU!

Get in touch

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# Contact Us

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