

Financial Issues in Retirement

2023 Update

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Issues we will cover

- Status of Financial Markets
- Investment Scene
- 2022 Tax Returns
- Using Internet in Managing Finances
- Review of Wealth Transfer Process

Status of Financial Markets

- Covid and Stimulatory Responses
 - Quick drop to 0% Federal Funds Rate
 - In about 3 months, Federal Reserve Balance Sheet jumped from \$4 trillion to \$7 trillion
 - By early 2022, Federal Reserve Balance Sheet jumped to \$9 trillion – bought more than \$1 trillion in Mortgage-Backed Securities
 - Stimulus spending - \$5 trillion

Status of Financial Markets

- Inflation arrives
 - Inflation perks up in 2021
 - Initial Fed reaction was disbelief and wrote it off as “transitory”
 - Hot asset markets – S&P 500 at 4800, Bitcoin at \$68,000, Seller’s market in Real Estate
 - As of Feb. 2022, inflation at 8%

Status of Financial Markets

- Fed forced to raise interest rates
 - Starting at +0.25% in March 2022
 - Federal Funds Rate now stands at 4.50%-4.75%
 - 10-Year US Treasury bond yield at 3.80% (was only 3.50% at end of Jan. 2023)
 - Latest reported annual inflation at 6.4%

Status of Financial Markets

- Where are interest rates headed?
 - Fed says they will need to raise interest rates further and hold them at higher level for a while
 - Stock and bond markets don't seem to believe - they believe Fed will be reducing interest rates by the end of 2023
 - Markets are counting on Fed's historical behavior
 - Ultimately, the inflation numbers going forward will be the most important determinant
 - Politics of election year will complicate it as 2024 rolls in

Status of Financial Markets

- Asset Markets are impacted differently
 - Real Estate - prices vs. activity - The locked-in mortgage rate effect
 - Commodities, eg., gasoline, wheat, and Lithium - the Ukraine war-related spikes have been managed, but remain elevated compared to pre-covid
 - US stocks - expect lower interest rates soon
 - Bonds - long-term bonds are also pricing lower interest rates

Investment Scene

- Short-Medium Term Fixed Income Investment
 - Directly impacted by increasing Federal Funds rate
 - 6-month T-Bill issued last week yielded 5.03%
 - Short-medium term CDs yielding more than 5% are also around
 - Recent 5-year TIPS auction yielded inflation+1.625%

Investment Scene

- Stock market
 - Current level is relatively expensive
 - Primary risk is interest rates go further up and stay up much longer
 - Secondary risk is interest rates do not go up, or even go down, but economy has a significant recession
 - Upside is harder to imagine since prices already reflect a “perfect” future
 - Politics of presidential election year (2024), however, could bring positive surprises

Investment Scene

- To repeat my past advice
 - Keep financial affairs simple
 - Stay with broad-based US index funds for exposure to stock market.
 - Have someone trustworthy aware of your investments and financial picture
 - Take only those risks that do not disturb your sleep
 - Be very careful about who you trust for financial advice

2022 Tax Returns

- Federal tax Return
 - Choice of Form 1040 vs. 1040-SR (not much different)
 - Additional standard deduction for 65+ age - \$1,750 for Single and \$1,400/person(65+) for married

2022 Tax Return

- NJ Tax Return
 - Additional standard deduction for 65+ age - \$1,000/person(65+)
 - Retirement income exclusion (Age 62+) is now available up to \$150,000 income

2022 Tax Returns

NJ Retirement Income Exclusion

- This benefit starts when you, or your spouse if filing jointly, reach age 62
- To qualify, total income on the return, including the income to be excluded, can not exceed \$150K
- Retirement income includes withdrawals from regular IRA
- The income to be excluded must belong to the spouse who has reached age 62

2022 Tax Returns

NJ Retirement Income Exclusion

- For total income up to \$100K, maximum exclusion amount is \$100K for Married, \$75K for Single and \$50K for Married filing Separately
- If total income \$100K+ to \$125K, maximum exclusion is reduced to 50% of retirement income for Married, 37.5% of retirement income for Single, and 25% of retirement income for Married filing Separately
- If total income \$125K+ to \$150K, maximum exclusion is reduced to 25% of retirement income for Married, 18.75% of retirement income for Single, and 12.5% of retirement income for Married filing Separately

2022 Tax Returns

NJ Unclaimed Pension Exclusion

- This benefit starts when you, or your spouse if filing jointly, reach age 62
- To qualify, total income on the return, including the income to be excluded, can not exceed \$150K and total earned income on the return (wages/business profit/partnership income/ S Corp income) can not exceed \$3K
- The income to be excluded must belong to the spouse who has reached age 62
- Then the unused portion of the maximum retirement income exclusion [substitute "total income" for "retirement income" in the previous slide] can be used to exclude other income (wages, interest, etc.) from taxable income

2022 Tax Returns

Free Tax Return Filing Options

- Tax Counseling for the Elderly (TCE) program
 - Most run by AARP and located at libraries
 - Volunteers prepare and file both federal and state tax returns
- For federal returns
 - IRS Free File if AGI is not over \$73K
 - Free File Fillable Forms
- For NJ state returns
 - NJ Online Filing

Using Internet for Financial Transaction

- For information – stick to official or reliable sources
- For government filings
- For banking
- For brokerage transactions
- For insurance
- For credit cards, personal transactions, etc.
- Mobile phones have many of these functions

Examples of Online Transactions

- File tax returns
- Open bank/brokerage/credit card accounts
- Move money between bank accounts
- Pay bills, taxes
- Buy/sell stocks
- Buy car insurance and print/download documents
- Deposit checks
- Check status of tax refunds

Wealth Transfer 9-8-16

- Who do you trust and how much?
 - you need trustworthy representative(s) to act on your behalf when you can't
- Communication with people you trust is very important
- What is right for you depends on your circumstances

Why is wealth transfer an issue 9-8-16

- Ownership and control of your assets does not automatically transfer to your spouse and children as you would wish, unless you and your heirs take certain actions
- Governments want their cut when such transfers take place through gift, estate, inheritance, and GST taxes—which we would like to minimize

If you do nothing 9-8-16

- Probate court arbitrates and guides the process of transfer of assets
 - The process can be simple if the estate subject to probate is small or there are no conflicting claims
 - Probate court will appoint the administrator or co-administrators

If you do nothing 9-8-16

- Who gets how much is dictated by the state law. In New Jersey,
 - In a typical Indian family (only one marriage & no stepchildren), the spouse will inherit the entire estate
 - If no spouse, children (& grandchildren of deceased children) share equally

If you leave a will 9-8-16

- You can control who gets which part of your estate, who administers the process of distributing your estate, etc.
- Probate court will still supervise the administration/distribution process

Transfers outside of Probate Process 9-8-16

- Gifts during lifetime
- Payable on Death (POD) & Transfer on Death (TOD) Beneficiaries
- Joint Ownership
- Revocable Trusts
- Irrevocable Trusts could be appropriate in special situations, such as when protection from creditors is important or when a special-needs child is involved who relies on government benefits
- Reminder – make sure you inform relevant persons of your POD, TOD and Trust Arrangements