FAHNESTOCK ASSET MANAGEMENT
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Dear Client,

Retirement plans are an alphanumeric soup usually named for the section of tax code that spawned them: 401k, 403b, 457, IRA, the list goes on. They are a crucial tool for savers and, if used properly, can maximize the accumulation, retirement, and generational planning phases of a financial lifecycle. Choosing the right strategy can be complicated and what's right for your neighbor, sister, or co-worker may not be the best fit for you. That is what we are here for.

Roth vs. Traditional

Dividends, interest and capital gains are not taxed in retirement accounts making them great places to save and invest. Some are employer driven, such as 401ks and 403bs, whereas IRAs are available to anyone with earned income. Participants in most plans can decide between making a **Traditional** contribution, a **Roth** contribution, or some combination of both.

Traditional contributions are tax deductible in the year they are made but withdrawals are eventually taxed as ordinary income. Roth contributions are not tax deductible but future distributions are tax free. **The most appropriate type can be boiled down to one's tax bracket today vs their projected tax bracket when withdrawn**.

Generally, a Traditional contribution is appropriate for higher earners who benefit from the deduction today and will likely be in a much lower tax bracket in retirement. A Roth is appropriate for lower earners who don't really benefit from the deduction today and will likely be in a similar tax bracket in retirement.

Roth IRA contributions are subject to income limits and phase out for high earners starting at 153k/228k for single filers/married filing jointly. The Backdoor Roth Contribution loophole makes Roth IRAs available to all through a series of conversions and tax filings, assuming they do not have any other Traditional IRAs. Most employer sponsored plans offer both Traditional and Roth structures regardless of income. **We recommend maxing out contributions but only to the extent that budgets allow since premature distributions are penalized at 10%**.

Roth Conversions

The Traditional vs Roth conversation is not just relevant to contributions since anyone can convert their Traditional to a Roth provided taxes are paid. **It may make sense to consider full or partial conversions to the extent that it does not result in a materially higher tax bracket today vs when the funds will be withdrawn**. Common scenarios include:

1) There are years of abnormally low income because of unemployment or early retirement. If someone retires early and delays social security, they may have very little income and conversions up to the lower brackets may make sense.

2) The Traditional account balance is so large that required minimum distributions at age 73 will push the owner into a materially higher tax bracket.

3) For estate planning purposes where heirs are in high tax brackets, or will be pushed into higher brackets because of the new inherited IRA 10 year distribution rule under which inherited retirement accounts must be fully distributed within ten years of passing. **If a high earner inherits a large Traditional account in their peak earning years, a sizable chunk of it could end up in Uncle Sam's pocket**. Not so much if they inherit a Roth IRA.

Gifting/The Next Generation

Gifting a retirement plan to a person is not possible while alive. **Upon passing retirement accounts transfer to the listed beneficiaries and this election supersedes your will**. We review beneficiaries during every portfolio review to be sure your most recent wishes are reflected on accounts we manage. We recommend you do the same with plans held with employers.

Gifting from a retirement plan to a charity is allowed as a Qualified Charitable Distribution. Up to $100k can be gifted annually to 501c3 nonprofits after age 70.5 and count towards the required minimum distribution. There is no deduction but the distribution is not taxable.

Now What?

Our advice may change as your circumstances evolve, so please keep us in the loop on any major life changes. We are always happy to give advice on how to invest retirement plans held at your current employer, please just share a list of the available investments. And if you are a business owner or are self-employed and do not yet have a retirement plan for yourself and/or your employees, we can help you establish one to maximize your taxes, retirement, and the success of your business. As always please let us know if you have any questions.

2024 is almost here and we are excited for the enthusiasm the turning of a calendar brings. We wish you and yours a HEALTHY, HAPPY, and PROSPEROUS New Year!

Sincerely,

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