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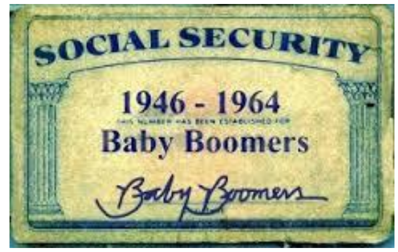
UNDERSTANDING REQUIRED MINIMUM DISTRIBUTIONS

The objective of the required minimum distribution rule is to ensure that the entire value of a traditional IRA or employer-sponsored qualified retirement plan account will be distributed over the IRA owner's/retired employee's life expectancy.

When do Required Minimum Distributions Begin? In the case of traditional IRAs, required minimum distributions must begin no later than April 1 of the year following the year in which you reach age 70-1/2 and must continue each year thereafter. In the case of employer-sponsored qualified retirement plans, required minimum distributions must begin by April 1 of the year that follows the later of (1) the calendar year in which you reach age 70-1/2 or (2) the calendar year in which you retire from employment with the employer maintaining the plan (unless the plan requires that you begin receiving distributions by April 1 of the year that follows the year in which you reach age 70-1/2). If you wait until the year following the year in which you reach age 70-1/2 or, in the case of a qualified retirement plan, retire from employment, you must receive a minimum distribution on behalf of the previous year by April 1 of the current year, and a minimum distribution on behalf of the current year by December 31 of that year.

The above discussion does not apply to non-deductible Roth IRAs, which are not subject to minimum distribution requirements



BOOMER RETIREMENT – SOME STATISTICS

A Primer on Changing Expectations

The election season is upon us. Every day we are bombarded by messages political and otherwise. Yet, I have been listening for discussion of a current and looming crisis; the unpreparedness of most 'Boomers' (those born between 1946 and 1964) for retirement. The reason for this lack of preparedness is rooted in demographic and economic changes that have occurred since the onset of the 'boomer' generation.

Studies have shown there is a triple threat to 'Boomers' hopes of a 'normal' retirement. The first major threat is a lack of savings. The second major threat is the projected insolvency of social security. The third major threat is a lack of economic growth.

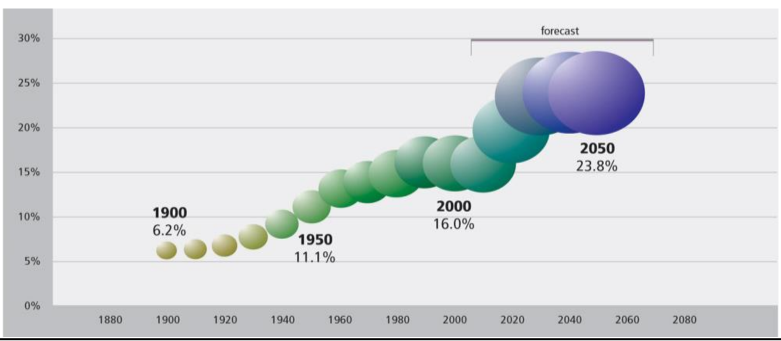
One vexing statistic is the change in the percentage of boomers who are increasingly reliant on social security as a greater percentage of their retirement income. This is a critical change. In 2000, only 25% of boomers planned on social security being more than 80% of their retirement income. Today that statistic is 51%. This means that since 2000, the number of people expecting social security to cover their living expenses has more than doubled. While 49% of the boomers studied are planning on social security to be LESS than 80% of their retirement income, that doesn't mean that future benefit cuts will not affect their lifestyles.

Enter the 'lack of savings' statistics, and you have a 'lifestyle meltdown'. As noted in a recent study by the McKinsey Global Institute, the savings rate collapsed from 10% in the 1980s to less than 2% by 2010. The study cited the over reliance on stocks and mutual funds, access to debt.

Boomer – (cont'd) (2)

The study discovered that due to this phenomenon, 70% of boomers would be unable to sustain income enough to support 80% of their preretirement lifestyle.

The other statistic that remains troubling is the fact that since 2008 the labor participation rate has dropped to its lowest level since 1977. With 90 million people out of the workforce, many of them boomers, these people are missing higher savings rates based on what should have been their peak earning years. The strain on income also will reflect itself by the sheer numbers of people claiming both social security and Medicare benefits. What confounds the solvency of those programs is the unprecedented percentage of people of retirement age, versus the numbers of people left in the workforce.



The figure above illustrates that in 1900, on 6.2% of the population was of retirement age, but that by 2050 almost 25% of the entire population will be drawing benefits. The current date of insolvency has moved closer, 2031 versus the 2037 projected in 2005. The 'earnings desert' of 2008-present is crushing the solvency of these programs, along with the sheer numbers of people drawing benefits and living longer than expected. These two conditions, an anemic savings rate, and the mathematical insolvency of social security and Medicare are direct threats to the ability of most boomers to retire with the lifestyle they had when they were working, with a reasonable expectation their situations would be secure.

All of this is occurring while our politicians are promising more expensive open-ended social programs. When it comes to a real discussion about a clear and present threat to the economic well-being of 91 Million citizens, we get crickets.

Boomer – (cont'd) (3)

The third major threat to Boomer's secure retirement is the fact we have been in an 'earnings desert' since 1998. In real terms, wages have not outpaced inflation and taxes. Since 2008, wages have actually ***DECLINED***, not keeping pace with inflation, taxes, and the artificial hyper-inflation of health care costs. The key to all of these problems is simply one thing: economic growth. Since the 'recovery ' of 2009, our economy has managed 1.75% GDP growth. This is the worst economic record in our nations' history, and is a direct threat to the solvency and security of 91 Million citizens. All of our previous recoveries have had sustained GDP growth of at least 5% over 12 quarters. Forget Isis. If we don't have economic growth Isis will be the least of our problems.

There are many experts giving advice to fit this phenomenon. Some say 'work longer.' Some say 'delay social security.' None of that really matters. Right now 15 Billion a year is being drained from 401k and other retirement plans to offset the income deficit of Boomers and other Retirees. While lately the stock market has been kind to some investors, to others it has been a vexing experience.
In my opinion there are two things that need to happen.

One. *This is directly in our control. Get a crystal clear picture of your social security income. Discount that projection by 21%. Then get as much money as you can into guaranteed lifetime income instruments that eschew the stock market and provide 'guaranteed' income and the potential for increases.*

Two. *This is not directly in our control. We need to seek out and vote for candidates in this election who know something about private markets and capital, and how to put them to work to generate jobs and wealth for all, not just a few dialed in cronies.*

The best action we can take for ourselves is to protect our retirement assets from stock market devaluation, and artificially low interest rates. The bet tool for Boomers and Pre-Retirees is to place some of their retirement assets into an Indexed Annuity.

No losses = Income insurance.

Estate Taxes in Minnesota! Be Aware of this Requirement!

For many years, the Federal Estate tax was a source of argument. People who were for this tax on estates promoted an exclusion (deductible) as low as $645,00, with the remainder of the estate taxed at a 45% rate.

People who didn't believe in this 'double-taxation' of assets thought it incorrect the government collect taxes ***again*** on estates that had paid taxes on their operations, income and earnings.

In 2001 a bill was passed that repealed the federal estate tax in 2011.In a subsequent tax bill, the estate tax came back in 2012, but with very high thresholds.

However, the state of Minnesota did not join the movement to repeal its estate tax. In fact, the Minnesota estate tax is more progressive and at a higher rate than the current Federal estate tax.

Under Federal rules, you have to have a net estate worth 5 Million. Under Minnesota's estate tax laws, in 2016, the threshold of net estate is only $1,600,000. Many farmers and small business people get caught in this Tax Trap.

This is a pernicious tax.

UPCOMING EVENTS:

1. September 13,15,19, Social Security Education Workshops, Chanhassen Community Center, 630pm
2. September 27, 29 Retirement Planning Workshop, Buca's, Eden Prairie, 5pm
3. October 4th and 6th, Retirement Planning Workshop, Pier 500, Hudson WI, 5PM.
4. October 11th and 13th, Retirement Planning Workshop, Weiderholts, Miesville, MN 5pm

Contact us through our website at www.srins.com to register.

COMMENTARY.

The other day I was talking to one of my mentors. He has a mind like a steel trap; grasping the words you use, cutting to the heart of the matter, and forming opinions and solutions on the fly. In many ways, this talent has made him the success that he is. Each time I talk to him, I learn something about him, and in turn, about myself.

During my association with this person, I have been able to reconstruct my advising efforts and deconstruct habits and opinions that were benefitting neither me nor my clients.

In this instance, he pointed out something I knew would benefit my clients. He told me that 'there is no substitute for absolute commitment to what you are doing.' After fleshing out his experience and reasons for why he does what he does, he told me 'You have the job of leading your potential and current clients, no one else can lead them'.

This rang a warning klaxon in my brain. I was somewhat taken aback; all of my previous training was to be 'consultative', 'informing' as a professional sales person. I had to think about what my mentor said: ''they don't know what they need, that's why they are there!'

After processing this discussion, I figured out what he was saying: 'don't be an advice giver, be a clear leader with answers and direction'.

"After all," he said, "anyone can give advice. You are paid to lead." *Game On.*

Minnesota Estate Tax (cont'd)

One of the great misperceptions of this tax is that 'only the rich' have to file this tax return. This is patently untrue. Given the value of land, homes, retirement accounts, life insurance policies, vacation homes, cabins, hunting land, businesses and farms, it doesn't take much to qualify for having to pay this tax.

Up through 2015 there was a credit if you had to file a federal estate tax. That credit was eliminated in 2016. So, people who have to pay a federal estate tax no longer qualify for a credit on their Minnesota estate tax!

This means that every remainder of an estate over $1.8m will pay an additional tax on top of all taxes included in the final tax return for the estate. Simply put, land that has had property taxes paid, will pay again. Machinery that has had sales tax and excise tax and gas tax, and registration fees will pay again. Investments that have been taxed as capital gains and income will be taxed again.

There are solutions to these problems. At Scheiber & Associates, we offer solutions that will protect the estate from this tax. Contact us and let us help!

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