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MONEY AT WORK

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How to Be Strategic With Your Retirement Withdrawals

To make your savings last, you need to know how to draw from the right investment … at the right moment.

Consider, for a moment, your approach to investments.

Are you an active investor, adjusting your strategy as the market tides shift? Or are you passive, going with the flow even when the flow carries you into a precarious situation?

In retirement, it pays to have a plan that allows you to adapt to new conditions, making decisions that best align with the particulars of the present. This doesn't mean you need to be a day trader, constantly monitoring the S&P 500 and buying and selling by the hour.

Since retirement is when you begin to spend the money you devoted decades to saving, you want to draw on that money in a strategic manner so you stretch your dollars as far as possible. After all, retirement should be a happy time of traveling, taking up new hobbies or spending more time with grandchildren. For too many, though, retirement can be a time of anxiety as they struggle to make their finances line up with their vision. Too often, it seems, bringing the two into alignment is a challenge.

One way to keep your retirement on track is to be an active participant — not just when creating a retirement plan, but also when implementing it. When you're engaged with your plan, you can align your decisions to the market conditions of the moment.

Get tactical with your withdrawals

Sometimes people take a "set it and forget it" approach to their retirement finances. The market churns along with its ups and downs, and they pay no attention to what those ups and downs mean to them — or to their precious savings and investments.

This inattentiveness is a bad idea. When it comes to investments, what you don't know definitely can hurt you.

If you monitor the market, though, you give yourself the opportunity to be strategic when you make withdrawals from particular accounts because the timing for your withdrawals can make a difference.

Keep some money in the market where the potential for strong gains is possible. Invest another portion in an annuity that is not susceptible to the lowest lows of market volatility. If the market is strong, you can draw on your burgeoning brokerage account to help with your monthly retirement income needs. In a down market, you can turn to your annuity.

Make decisions from a position of strength

Generally, when people think of annuities, they think of something that provides a lifetime income. You pay a lump sum to an insurance company, and in return, they make regular monthly payments to you, much like a pension.

That is one way an annuity works. But it's not the only way.

Some annuities can also be liquid. In other words, you can have access to at least a certain portion of your money, making withdrawals to help with your income needs. You can get a guaranteed stream of income while still allowing your principal to be invested for growth. If you add an enhanced liquidity rider, if you don't draw from the annuity one year, you can take more from it the next. Another great thing about these annuities is while they have growth potential, they are also guaranteed against loss, so they don't carry the same risk as investing in the stock market.

Of course, there are limits to the gains you can make as well. This is why you want some of your money in the market, where there is potential for greater growth. Then you can be intentional with when and from where to make withdrawals.

If the market is on an uptick, you should peel off money from some of the stock investments that have provided a good return. A down market, when selling a stock could result in a loss, is a good time to draw from the annuity.

With such a back-and-forth strategy, you are always drawing on your savings from a position of strength rather than a position of weakness.

This approach also gives you a chance to stay active in the market. When the market drops, that's an opportunity to take advantage of the liquidity of your annuity and buy stocks at low prices. Then, when the market rebounds and the value of those stocks grows, you can capitalize on your gains and draw on those, rather than from the annuity. (If that sounds like the classic "buy low and sell high" concept, that's because it is.)

Making the right move at the right time can get tricky. But a financial professional who has a good understanding of this approach will be able to give you proper guidance, so you can make decisions with confidence and get back to turning your retirement vision into your retirement reality.

Four Money Mistakes Even Good Grandparents Make With Grandkids

Of course you want to spoil your grandchildren. Who doesn't? You can do it in ways that won't teach them bad habits or set unrealistic expectations, though.

As a grandparent, I know that there is no greater joy than to experience the phenomenon of being one. The thrill increases as we become more and more significant to our grandchildren.

Now more than ever, grandparents are an incredibly important part of their grandchildren's lives. The U.S. Census Bureau reported that 6.7 million grandparents are living with their grandchildren, and about 33% of grandparents who live with grandchildren under the age of 18 are responsible for their grandchildren's care.

Even if you are not raising your grandchildren, you could have a real impact on them. You can use this influence for good or, frankly, for bad. I'm going to discuss the impact you can have on your grandkids' money habits. Your grandchildren are watching you and learning from you. Let's explore if you are the money role model you want to be.

1. Not encouraging grandkids to earn and save money

Remember when you were a kid and you picked out something that you really wanted and you worked hard for that? You saved your money and finally bought that bike or Barbie or special gift for Mom. I bet you really took care of that bike, and you may still have that Barbie. Why take that empowerment and joy away from your grandkids?

Help your grandchildren set a goal to save for something they want (not too expensive). Suggest odd jobs that the kids can do around your home so they can earn extra money to reach their goal. This fosters the work-for-pay ethics of how money works. Celebrate when they finally get to buy the item they have been saving for. Do not preempt their work and saving and just buy the gift for them — allow them to feel pride in what they have achieved.

2. Spoiling the grandkids

Many grandparents feel that "spoiling the grandkids" is part of the job description, but it's not. You don't want to foster the "I want, I want syndrome." In fact, you may be the first one to comment on your kids' parenting, citing that you think that the grandkids are too materialistic and are frankly always asking for things.

This may be no surprise, because you may have contributed to this patterning, Pavlovian response. Do you always show up with a gift for the grandkids? You may think that this is the role of a grandparent, but it also fosters "entitlement". You know how it works — when Grandma or Grandpa show up, the grandkids are entitled to receive a gift.

They want your time. You can do an activity with them. Do you cook or play golf? Those are great activities to do with the grandkids. You can turn all of these into learning activities as well. With cooking, for instance, this involves reading a recipe or following Grandma's, taking a trip to the store to buy the ingredients on a budget and then explaining the science and art of cooking.

3. Not preparing your grandkids for their inheritance

By all estimates, it appears that Baby Boomers are going to pass along more than $70 trillion in inheritance to the next generations, according to Cerulli Associates. Because many Baby Boomers feel that their children have blown it when it comes to money, much of the inheritance may actually skip a generation and go to the grandchildren.

When considering inheritance, money should not just magically transfer upon your death. This is not the secret you want to keep; it sends the wrong message. You are not your money; you are your values. Let your kids and grandkids know what is important to you and why you have left them this incredible gift.

Tell your kids and grandkids what your dreams are for them. It may be to pay for college, or to pay for their first home, or for travel. Let the kids also know about your favorite charities and get them involved with those while you are alive. It's way more powerful sharing your passions while you are there to explain why this is important to you.

4. Setting up competition with other grandparents

You may have to take a look in the mirror for this one. Here is the scene: You find out that the other set of grandparents bought iPads for the grandkids, and the grandkids were so excited. Your hackles were raised, and so is the ante. Your inner dark self may feel that you have somehow been outdone, and you decide that you want to be the most important grandparent and decide that you will buy the kids a pony. The gauntlet has been thrown.

Don't be that person. Resist this reaction. It doesn't enhance your role, and it sets up an unhealthy "keeping up with the Joneses syndrome." Be excited with the kids when they receive another gift from someone other than you. Make sure you are helping your little ones to collect memories, not stuff.

Enjoy being a grandparent. As the late author Ruth Goode noted, "Our grandchildren accept us for ourselves, without rebuke or effort to change us, as no one in our entire lives has ever done, not our parents, siblings, spouses, friends — and hardly ever our own grown children."

Three Key Ways You Can Help a Child or Grandchild Pay for College

As college costs continue to rise, it's becoming increasingly difficult for students to pay for it themselves. The total student loan debt in the United States has risen to a staggering $1.75 trillion. This has led many parents and grandparents to want to help carry a portion of their child's or grandchild's college debt. They shouldn't jeopardize their own financial future by entering retirement with someone else's student loan debt, though.

Even so, the number of adults over the age of 62 with student loan debt has reached a startling 2.4 million borrowers. If parents and grandparents plan on helping to pay for college, they need to plan ahead to stay debt-free in their golden years. There are many ways they can start planning now to help with college costs while still saving for their retirement.

1. 529 plans offer tax advantages

529 plans are investment accounts that can be used to pay for education for a specific beneficiary. Choosing a 529 plan also comes with tax benefits. It will grow federal tax-free and will not be taxed when the money is taken out. It's important to note that you can use a 529 plan from any state to help cover education expenses in any other state. However, depending on the state you live in, you may qualify for even more tax deductions with a 529 plan. There are seven states that provide a state income-tax break for any contributions to a 529 plan: Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana and Pennsylvania. There are no contribution limits for 529 plans, but there are limits for the tax deductions. These plans can be used for more than just college tuition.

For example, they can help cover student loan repayments and college expenses such as books or meal plans. You can even use them to help pay for K-12 tuition costs. While a good option, 529 plans do come with a few disadvantages. If you are looking into financial aid for college, 529 plans can work against you. You can also run into higher fees with these plans. These downfalls could be why many are hesitant to use these plans for college.

2. Educational savings accounts are a little different than 529 plans

A Coverdell education savings account (ESA) is very similar to a 529 plan. The earnings in this account can grow tax-deferred, and withdrawals are tax-free when used for educational purposes, as they are in a 529 plan. However, the beneficiary will have to pay taxes on any distributions that exceed their qualified educational expenses. You can contribute only $2,000 per year, per beneficiary, so if you exceed that amount, the rest will be taxed. While very similar, there are a few differences between an ESA and a 529 plan. Contributors must earn less than $110,000 annually, they cannot contribute to the account after the child turns 18, and the money is automatically distributed when the beneficiary turns 30. An ESA may be a better option than a 529 plan if the contributor wants to give the account over to the beneficiary as they grow older.

3. Tax-free gifts are an easy way to go

Grandparents can also simply give cash directly to either the child or parents. To avoid the federal gift tax, you can make a tax-free cash gift of up to $16,000 per recipient in 2022. This means if you give away anything less than $16,000 to an individual, you and your beneficiary do not have to report that to the IRS. If you decide to go this route, make sure you discuss the exact tuition and any other college expenses with your grandchild or child, and then form a detailed plan on where exactly the money will go. This will help make sure that the money you are giving is going toward college expenses, such as tuition, rather than something else.

Here's How to Foster Good Financial Habits in Your Children

One of the best ways parents can secure their children's future is to teach good money habits from a young age. By helping them understand the value of money, the value of saving and the importance of eventually achieving financial independence, parents can properly prepare their children to take on their finances in a proactive and responsible manner.

Since kids are naturally eager to learn and emulate their parents, you can take advantage of that to educate them about money and personal finance. In time, doing this will not only benefit our children individually but will also help to change the financial trajectory for their generation.

By including kids in the larger conversation about family financing, they can actively learn while also being supported and having access to an expert who can answer their questions as they arise.

Capitalizing on Kids' Curiosity

It is natural for your kids and grandkids to wonder about money. They don't always understand how it works, where it comes from, and the relationship between work, money and gratification.

Parents can help kids understand how money works at any age by making it applicable to their own lives. They can ask their kids what kinds of things they want to save up for and use that as motivation to encourage good saving and spending habits. In addition, they can tell their kids how they saved up for a purchase themselves, such as a car or a vacation.

After all, when parents keep money matters private, they do their children a disservice. Kids want to learn about and understand the world around them, and by teaching them about money early on in terms they understand, parents can set their children up for success as they take on new responsibilities.

Educate Kids About Short Vs. Long-Term Goals

Teaching kids about money must start with the basics of saving, spending and giving. One approach to this is to help kids understand the difference between short- and long-term goals in terms that are relevant to them. For example, parents can teach their kids how they use investing to work toward long-term goals, such as retirement or a home, and saving to help afford short-term or current goals. Then, kids can emulate this in their own lives and practice saving for their own purchases.

The No. 1 money habit children pick up from their parents is spending, which affords an opportunity to teach them about budgeting for needs (such as food, books and school trips) and wants (such as toys and video games). At the same time, parents can also teach kids to budget wisely and live below their means.

Parents can encourage their kids to think critically about their finances and foster a healthy mindset about money, which can counteract the often-consumerist mentality that is perpetuated in popular culture. For example, you can implement a reoccurring chore list. In exchange for help around the house, offer a monetary incentive. This helps teach your children a strong work ethic and provides them with the chance to learn how to manage money.

As these kids grow up and take on new responsibilities, their financial goals will grow and change. Helping them adapt and learn about making critical financial decisions will empower them and help them create a secure foundation for their future.

Educate Children about Compounding

Children may find it hard to understand abstract concepts, such as saving now for later, the effect of compounding and delayed gratification. It is a skill that takes time and patience to master, and parents should be willing to help their kids along this journey.

For example, if kids want something expensive, such as a $200 toy, parents can teach them about saving a portion of their allowance on the way to achieve this goal. They can also teach them about the effects of compounding in plain language to help them understand the benefits of saving now for a greater return later. One way to do that could be providing the opportunity to accumulate more money with a healthy monthly interest rate. Offering between 5% to 10% interest to children's savings will help spark their interest to continue saving.

This approach lets children experience how disciplined saving allows them to achieve goals that weren't possible before. Teaching kids to resist the impulse to spend will help them understand the value money holds, and this skill can later translate to healthy spending and saving habits, which could help them avoid accumulating debt as they get older.

Be an Open Book: Make the Learning Process a Family Affair

Kids will learn far more from you than you can teach. How you approach money, your attitude and habits will rub off on them in one way or another. The first step you should take as a parent is to turn yourself into a resource for your children. You can start by cultivating healthy money habits so that your children can emulate you. Showing kids how money works is effective. Let them observe you making purchases with cash. If you pay with a credit or debit card, explain to your kids that you are using your own money to make purchases and show them receipts with the prices.

At the same time, create an environment where they can ask you questions about money from a young age and involve them in making family decisions about money, such as investing, buying groceries and so on. To start teaching your kids about investing in the stock market start with the basics of risk versus reward. If you own stocks, you can also explain why you decided to invest in those companies.

Introduce Your Kids to Your Financial Adviser

Starting a conversation about money within the home at a young age is important, but it can also be helpful to introduce your children to your family's financial adviser and give them the opportunity to ask an expert their hard-hitting money questions.

Doing this encourages kids to take an active role in their financial lives and will help them build a relationship with someone who will be there to guide their finances as they get older and begin to branch out.

By making managing finances something the entire family is part of, your children will see and experience how money plays a role in their lives and will be better prepared to handle money when they become independent adults.

Three Ways to Give to Your Kids Tax-Free While You're Still Alive

Parents can see the positive impact of their giving through tax arbitrage, giving cash (within limits) or directly paying for school or medical expenses.

The days of inheriting utility stocks from your Depression-era parents via a will are gone. Most of the affluent Baby Boomers we work with would rather give during life. They would rather help their kids with a down payment in an impossible market. They'd rather help fund their grandkids' education. Simply, they like seeing a positive impact.

The problem? It's often less tax-efficient to give during life. You may be able to solve this problem with the following strategies:

1. Take advantage of tax arbitrage

The main reason it is often more efficient to give at death is because capital assets "step up." That means if I buy a stock for $10 and it goes to $90, my kids can inherit that stock at $90, sell it for $90 and pay no taxes. That is not the case for assets given during life.

If you give someone a stock during your life, that $10 basis will be carried over. So, if the recipient sells it for $90, there is an $80 capital gain. Here's the catch: If your kids have taxable income under $47,025 (single), or $94,050 (married), their capital gains tax rate is 0%.

If they're early in their career or are students, or their income falls below those thresholds for any reason, they can turn around and sell that stock without gain. Be careful here that the sale doesn't push them into a taxable position.

2. Give cash (check, bank transfer, etc.) above or below the annual gift limit

The gift tax exclusion is essentially the amount you can give without it counting against your lifetime gift allowance. And you don't have to report it. That amount in 2024 is $18,000.

If you're feeling charitable toward your kids, you can also go over the gift limits. If you do this, you do need to report the gift on 709. No tax will be paid, but any amount over the annual limit will count against your lifetime exclusion. The lifetime federal exclusion in 2024 is $13.61 million (per person) so it impacts a small fraction of the folks that it used to.

3. Make direct payments

Your oldest grandkid is heading off to college. Hard to believe! You have decided to help and give your daughter a check for the first semester's tuition at Boston University. Big mistake! You have just crossed the annual gift threshold unnecessarily. You are allowed to give money directly to educational institutions or for medical expenses without it counting against your annual gift limit or lifetime exclusion. Those two categories account for some pretty major expenditures.

The most important part of giving money to your kids is not the tax ramifications, though they should not be overlooked. Most important, you need to figure out the impact. A gift to a child can either be quicksand or a rope. If you've determined that it will actually help your kids in the long run, you need to ensure you can afford it.