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AAFMAA Wealth Management & Trust LLC

**Don't Let Your IRA Slip Away-
Get the Most Out of Your Retirement Savings Now**

Presented by John Sledgianowski, Relationship Manager

Our Mission

Our Mission: to be the premier provider of financial planning, investment management, and trust services to the American Armed Forces community.

AAFMAA Wealth Management & Trust LLC

A Wholly Owned Subsidiary of the American Armed Forces Mutual Aid Association

- Proudly serving America's Armed Forces since 1879
- Non-profit, Tax Exempt (501[c](23)), Member Owned Mutual Aid Association offering Life Insurance
- Open to all branches of the U.S. Armed Forces and their families (children age 23 and under)
- Two fully owned subsidiaries:
 - AAFMAA Wealth Management & Trust: Financial Planning, Investment Management, and Trust Services
 - AAFMAA Mortgage Services: Mortgages, Home Construction and Financing



DISCLAIMER

- Not specific investment or tax advice, we provide innovative, personalized, and lifestyle-appropriate financial services.
- Bound by a **fiduciary standard** - any advice or service we offer must always be in the best interest of the client.
- Serving U.S. Armed Forces community



Agenda

The facts about IRAs

- What is an IRA?
- Who can participate in an IRA?
- What causes an IRA to decrease in value?
- How can I maximize my IRAs value?
- How do recent law changes impact IRAs?

What is an IRA?

Individual Retirement Account

- Assigned to an INDIVIDUAL (no joint ownership)
 - Special tax considerations for contributions and growth
 - Specific contribution limits and income limits for participants



What is an IRA? (cont'd)

Individual Retirement Account

Two types: Traditional and Roth

- Traditional – annual contributions tax free (deduction)
 - withdrawals taxed
- Roth – annual contributions are not deductible
 - withdrawals are tax-free



Who can participate in an IRA?



Contribution limits:

- Must have earned income
- For 2020, contribution limits for either Traditional or Roth
 - \$6,000 (plus \$1,000 'catch up' contribution for those 50 or older)
- Traditional and Roth IRAs have contribution thresholds.

Deductions may be limited if:

- You or your spouse are covered by an employer provided retirement plan
- Modified Adjusted Gross Income (MAGI) exceeds threshold

What causes an IRA to decrease in value?

Pitfalls to avoid

Penalties

IRA rules dictate when money can be taken from an IRA

Early Withdrawal

10% penalty if distributions taken prior to age 59 ½
- There are some exceptions to this rule

For Traditional IRA, failure to take Required Minimum Distribution (RMD)

50% penalty on portion of RMD not taken in a given year

What causes an IRA to decrease in value? (cont'd)

Pitfalls to avoid - Taxes

- **Withdrawals (distributions)** from Traditional IRA are taxed at your marginal tax rate - Treated as ordinary income on tax return
- **Traditional IRA distributions** may bump your retirement income into a higher marginal tax rate - May trigger more of Social Security benefit being taxed

Tip:

Distributions from a Roth IRA not counted as income after age 59 ½ on an account held more than 5 years from Roth IRA establishment

What causes an IRA to decrease in value? (cont'd)

Pitfalls to avoid - Fees

A bank or
broker / dealer
may charge a
variety of fees

Annual
account fee

Fee just to have an IRA
with their company

Transaction
fees

Charged each time an
equity is bought or sold
within the account

Assets Under
Management
(AUM) fee

A percentage charged
periodically based on the
value of the account

What causes an IRA to decrease in value? (cont'd)

Pitfalls to avoid

Missing a year's contribution

- Must make annual contribution by April 15th of the following tax year
- If you miss the deadline, can't contribute retroactively

Withdrawals

- For a Roth IRA you can withdraw contributed amount (not growth) without tax or penalty (after Roth in place for 5 years)
- However, once withdrawn, you can't change your mind and retroactively contribute for a previous tax year - Can't use your IRA as a loan

What causes an IRA to decrease in value? (cont'd)

Pitfalls to avoid

A blue speech bubble icon containing the text "Market Performance".

Market
Performance

- Investing in the stock market is not a sure thing
- Wide fluctuations in the value of any stock, mutual fund, bond or other investment products

A red speech bubble icon containing the text "Wrong Investment Products".

Wrong
Investment
Products

- Holding an annuity within an IRA (can't tax-defer twice)
- Too liquid or not liquid enough
 - Not keeping up with inflation (lost purchasing power)
 - Can't get funds when needed

How can I maximize my IRAs value?

Tips to grow your nest-egg

- Start investing early
 - Time in market will allow stable long-term growth
- Contribute every year eligible
 - Can't go back if you miss a year
- Contribute to a spousal IRA
 - Doubles contribution – even if spouse has no income
- Avoid penalties – early withdrawal and missed RMDs



How can I maximize my IRA's value? (cont'd)

Tips to grow your nest-egg

Invest wisely

- Understand your risk tolerance - Can you weather a market downturn?
- Invest in the correct asset classes
 - Asset allocation accounts for ~90% of performance

Have a tax strategy

- Paying taxes on distributions in retirement will decrease your IRA's purchasing power
- Qualified Charitable Distribution (QCD) when taking an RMD



How do recent law changes impact IRAs?

Major impacts of the SECURE Act

SECURE Act effective Jan. 1, 2020

- Changes some retirement account rules and strategies

RMDs

- Changed from 70 ½ to 72 years old

Eliminates the “Stretch IRA”

- Heirs of an IRA other than the surviving spouse are required to completely withdraw all funds from an inherited IRA within 10 years
 - Increases tax-burden on non-spousal beneficiaries
 - Impacts generational planning through “pass through” trusts

Conclusions

Planning can maximize your IRA's value

- IRAs can be an essential part of your retirement resources
 - Each has unique characteristics, benefits, and limitations
 - Understanding your IRA will help you avoid the pitfalls
- Avoid unnecessary penalties, taxes and fees
 - These can dwindle your IRA's value
- Get professional help
 - Sound financial planning will help prepare you for retirement
 - Asset allocation is the primary driver of your account's long-term growth

Questions?

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