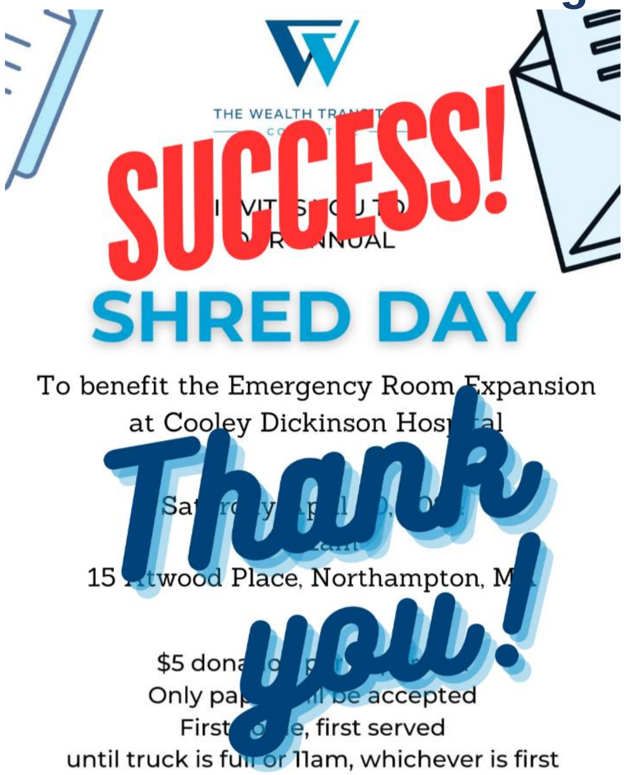
Welcome to Transition Insights!



The Wealth Transition Collective is thrilled to share the exciting news that our 2024 Shred Event was a tremendous success! Thanks to the support from our wonderful clients, friends, and the community, we were able to raise an impressive $3,000 for Cooley Dickinson's Emergency Room expansion.

But that's not all! We have even more fantastic news to share. The Harold Grinspoon Foundation has generously agreed to match 50% of our donation, bringing the total amount to an incredible $4,500 for the hospital! This contribution will make a significant impact on the expansion project and the quality of care provided to our community.

We couldn't have achieved this without your participation and support. Your presence at the event and your generous contributions made all the difference. We are truly grateful for your commitment to making a positive impact on our community's healthcare.

Once again, thank you for being a part of our successful Shred Event. We look forward to continuing our partnership in future endeavors that benefit our community.

Annuity Awareness Month

Given that June is Annuity Awareness Month and that annuities have been even more prominent in recent months, we thought now would be a great time to provide an overview of this investment type. Take a look at some key information below.

What Is An Annuity?
An annuity is a financial product designed to provide a stream of income for a specific period or for the lifetime of the annuitant (i.e., the person who purchased the annuity). In simple terms, it's a contract between an individual and a financial institution where the individual invests a lump sum or makes periodic payments. In return, the insurance company promises to make regular payments to the individual in the future.

Benefits

- Guaranteed Income: Annuities provide a guaranteed income stream, which can be crucial for those looking for a stable source of income in retirement.
- Tax-Deferred Growth: Earnings within an annuity grow tax-deferred until withdrawals are made, allowing for potentially higher growth over time compared to taxable accounts. In fact, annuities are known for their “triple-tax” benefit, which we are happy to explain in more detail if you’re curious.
- Lifetime Income Options: Many annuities offer options for lifetime income, providing protection against outliving your savings, which is a significant concern for retirees.
- Legacy Planning: Annuities can be structured to include death benefits, ensuring that any remaining assets can be passed on to beneficiaries.

Potential Drawbacks

- Fees and Expenses: Annuities often come with high fees and expenses, including sales charges, administrative fees, and investment management fees.
- Lack of Liquidity: Annuities have limited liquidity compared to other investments. Early withdrawals may be subject to surrender charges or other fees and penalties.
- Interest Rate and Inflation Risk: Fixed annuities are sensitive to interest rate changes. If interest rates rise after purchasing a fixed annuity, the returns may be lower compared to prevailing market rates. Additionally, unless specifically designed to adjust for inflation, annuity payments may lose purchasing power over time due to inflation.
- Tax Implications: Withdrawals from annuities are taxed as ordinary income, which could result in higher tax rates compared to capital gains tax rates for investments held in taxable accounts.
- Default Risk: Annuities are backed by the financial strength of the company issuing them. If the insurer becomes insolvent, there is a risk of losing all or part of the investment.

Annuities can be complex financial products with various features, riders, and terms, so it’s important to discuss your specific situation with a professional before making any decisions.

Annuities are long-term, tax-deferred investment vehicles designed for retirement purposes. Variable annuities are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained from a financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

Benefits of After-Tax 401(k) Contributions

How do after-tax 401(k) contributions work?
After-tax contributions allow you to save beyond the standard 401(k) limits by contributing money for which you have already paid taxes. As with a Roth IRA or Roth 401(k), withdrawals on contributions are tax and penalty-free. However, unlike Roth IRAs, there are no income limits for making after-tax 401(k) contributions, making this a great option for anyone who has maxed out a Roth IRA.

Do they work with my 401(k) plan?
Unfortunately, only about one in five 401(k) plans allows for after-tax contributions, but it's certainly worth contacting your 401(k) provider to determine eligibility if you are interested. Just 10% of Americans with the option of making after-tax contributions did so in 2022, so it's possible some of the other 90% were simply not aware it was an option.

What are the other key limits and conditions?
In 2024, the regular 401(k) contribution limit is $23,000, with an additional $7,500 catch-up for those 50 and older. You can put an additional $46,000 of after-tax dollars and employer match contributions (if applicable) into your 401(k) account. The maximum total contribution (employee plus employer) is $69,000, or $76,500 for those 50+. This is significantly higher than the Roth IRA contribution, which, this year, is $7,000 or $8,000 if you are 50+.

Why to Move After-Tax Contributions
As mentioned earlier, 401(k) after-tax contributions can be withdrawn tax and penalty-free. However, *earnings* on those contributions are tax-deferred, meaning taxes are due upon withdrawal, and early withdrawals (before age 59½) may incur a 10% penalty. By rolling those contributions into a Roth IRA, you can avoid paying taxes upon withdrawal in retirement.
Other reasons you may consider rolling your after-tax contributions into a Roth IRA include:

- Unlike traditional IRAs and 401(k)s, Roth IRAs do not require minimum distributions during the account holder's lifetime, offering more flexibility in retirement planning.
- Since Roth IRAs do not have RMDs for the original owner, they can be a strategic tool for passing wealth to heirs more efficiently, potentially tax-free.

Rolling into a Roth
There are two primary methods for transferring after-tax 401(k) contribution dollars into a Roth account:

- <u>In-Plan Conversion</u>: This option allows you to convert all or a portion of your 401k into a Roth within the same plan. When you opt for an in-plan conversion, you need to pay taxes on the converted amount. However, like a Roth IRA, your future withdrawals from the Roth will be tax-free. Some plans even include an auto-convert feature that automatically transitions your after-tax contributions into your Roth account.
- <u>In-Service Withdrawal</u>: If your employer offers in-service distributions or withdrawals, you have the opportunity to perform a mega backdoor Roth. This involves rolling your after-tax contributions into a Roth IRA that is outside of your current retirement plan.

If you have any questions or would like to discuss how this strategy might fit into your financial plan, please don't hesitate to reach out. We are here to help you navigate these options and make the best decisions for your financial future.

MEET THE TEAM

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