NORTHSTAR
FINANCIAL PLANNERS INC.

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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

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REQUIRED MINIMUM DISTRIBUTIONS: A PRIMER

When we are younger, we are always excited for the big birthday milestones when we get new perks like 16 and driving, 18 and voting, and of course, 21 and being allowed to order a drink. After that, it's pretty smooth sailing until hitting the big 40 or becoming eligible for Social Security. As seniors, an important birthday milestone to be aware of is the beginning of required minimum distributions (RMDs).

That's the point you must begin taking distributions from your IRAs, 401(k)s, and other pre-tax retirement accounts. However, that birthday milestone has been a bit of a moving target recently. Before the Secure Act in 2019, the RMD age was 70½. Then, with the Secure Act that year, the age was changed to 72. After the expansion of the Secure Act in 2022 (aka "Secure Act 2.0"), the RMD age was raised to 73 years old—unless you were born in 1960 or later, in which case your RMD will not start until you reach 75.

A little more in-depth on required minimum distributions: Remember that IRA or 401(k) account you funded with all pre-tax money? The IRS says they have waited long enough and want to start taking their little slice of that money now. RMDs require you to begin withdrawing money from pre-tax accounts, and the distribution is taxable income to you, similar to earning a wage.

The withdrawal amount varies each year because it is based on the December 31 value of the previous year's balance divided by a life expectancy factor that the IRS has developed. The life expectancy factor drops yearly, requiring you to take out a larger slice each year. The idea is that every year, you will be forced to take out more money from your account and pay a little more in taxes.

What if you don't take out your RMD? The IRS levies a penalty against all or any portion of your RMD you don't take. The penalty used to be 50% of your RMD amount, which could be quite expensive. After Secure Act 2.0, they lowered the penalty to 25%. However, if you correct the situation on your own within two years, the penalty is reduced to 10%.

No one wants to pay a penalty, so it's necessary to take out the entire RMD amount in a timely manner. The first calendar year you turn 73 will be the first year you have to take out an RMD. For your first RMD, you are allowed to wait until April 1 of the following year to take it, but remember: You will have another RMD that same year, which means you would have two distributions in one year, increasing your tax liability that year.

An important distinction is that if you have a Roth IRA, you do not have to worry about taking an RMD because you have already paid taxes on the money inside the Roth account. That is a small advantage of a Roth conversion—moving IRA assets into a Roth IRA—but proceed with caution, as the strategy will increase your taxes in the year of the conversion.

Questions about your RMD? Drop a line to your Northstar advisor, and we'll be happy to discuss it with you.

—Charles Thomas, CFP®, MBA

HELPING YOUR ADULT CHILD BUY A HOME: STRATEGIES FOR SUPPORT

Buying a home is a significant step in anyone's life, and seeing your child ready to take that step can fill you with pride. The desire to help your adult child achieve this important moment is a natural part of wanting the best for them—but is lending a hand the best decision for you and them?

This article walks you through some potential pros and cons of financial assistance and various ways you can help. We also share tips for making informed decisions, emphasizing a balanced approach to helping them out.

THE BENEFITS OF FINANCIAL ASSISTANCE

1. **A helping hand in a tough market:** In today's competitive real estate market, your support could be crucial in helping your child secure a home, making a challenging process easier. Whether co-signing or helping with closing costs, you can help make homeownership more attainable and less stressful for your child.

2. **Investing in their future:** Your help is not just about the present. It's about supporting your child's financial well-being and future stability. By reducing their debt burden from the outset, you may help them build a stronger financial future, possibly enabling them to invest in other areas sooner.

3. **Bringing the family closer:** This process can strengthen your relationship, creating lasting memories and a sense of shared achievement. It's a shared project that, managed well, could enhance your relationship, making it stronger and more resilient.

CONSIDERATIONS TO KEEP IN MIND

1. **Your financial well-being:** While your heart may be set on giving, it's crucial to ensure that your financial security isn't compromised. Offering help should come from a place of financial strength, not sacrifice, particularly when it comes to your retirement.

2. **Promoting independence:** It's important to ensure that your help fosters independence, not dependence. Your assistance should empower your child, encouraging them to take responsibility and make wise financial decisions on their own.

3. **Potential for strain:** Money matters can be sensitive. Approach these conversations with empathy and clarity. Setting clear expectations and boundaries from the beginning can help avoid any future financial misunderstandings or familial tensions.

WAYS TO OFFER SUPPORT

1. **Gifting a down payment:** A popular form of help is contributing to the down payment, which can make a significant difference. It's important to document this gift properly to satisfy lenders and to understand how it might affect your taxes. Consider speaking with a tax advisor to ensure that this generous act doesn't have unintended consequences.

2. **Co-signing the mortgage:** This option can dramatically improve your child's ability to secure a mortgage. However, it's a significant commitment. You're not just endorsing their ability to manage the loan—you're legally committing to pay if they cannot. It's a decision you do not want to take lightly, as it could affect your financial future and credit score.

3. **Providing a loan:** If gifting isn't feasible, a loan could serve as a middle ground. This approach can maintain financial boundaries and emphasize the importance of repayment and fiscal responsibility. Drafting a formal agreement that outlines the loan terms with

an attorney's assistance can help preserve your relationship and ensure clarity on both sides.

Each method of support comes with its risks. Whether it's the financial impact on you, the risk to your credit score, or the potential for relationship strain, it's crucial to proceed thoughtfully. Do your research to understand the potential pitfalls, and consider talking with a professional, such as an attorney or financial advisor.

MAKING THE RIGHT CHOICE

Helping your child buy a home is a big decision requiring careful consideration. Here are some guiding principles:

- **Evaluate your finances:** Start with a thorough review to ensure helping out won't put you at risk. Make sure your generosity doesn't jeopardize your financial health.
- **Keep communication open:** Transparent conversations about expectations, responsibilities, and the realities of homeownership can set the stage for a successful venture together.
- **Look at the big picture:** Consider how this assistance fits into the broader picture of your family's financial goals and your child's journey to financial maturity.
- **Seek objective advice:** Consulting with a fiduciary financial advisor can provide clarity and confidence in your decision-making process. This step can help you feel confident that your plan to assist is grounded in your financial reality.

Supporting your adult child as they buy a home is a meaningful gesture that can have lasting benefits. By approaching this decision with care, you can help your child embark on the path to homeownership while making sure your financial well-being, including retirement, remains secure.

—Northstar Financial Planners

This material was written in collaboration with artificial intelligence (ChatGPT) derived from sources believed to be accurate. This information should not be construed as investment, tax, or legal advice.

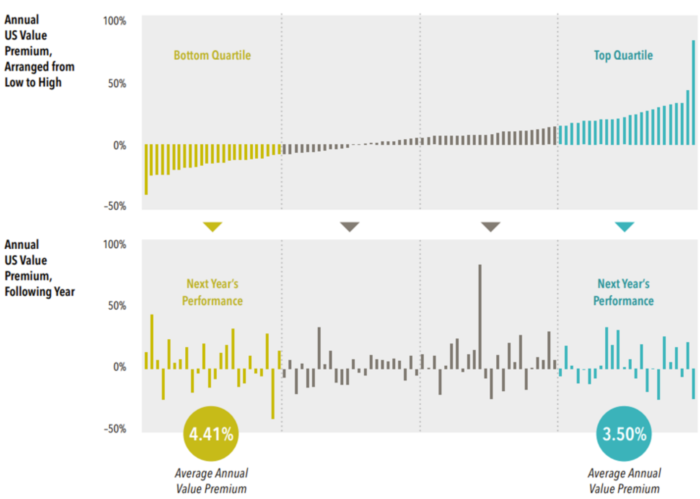
STAYING THE COURSE WITH VALUE STOCKS

Investors often wonder about what a strong or a weak year for value stocks might suggest about value's performance against growth the next year.

Value stocks are expected to perform better than growth stocks every day because a lower relative price is associated with a higher expected return.

To evaluate value's performance from one year to the next, we arranged years based on the annual value premium and then looked at the next year's performance.

ANNUAL VALUE PREMIUM AND FOLLOWING-YEAR VALUE PREMIUM
US Market, 1927–2023



The bottom-quartile years—those with the weakest value performance—were followed by an average annual value premium of 4.41%. The top-quartile years were followed by an average annual value premium of 3.50%.

Value's average relative performance has been positive after the strongest and weakest years for the premium. Having consistent exposure can help capture long-term returns.

—Dimensional Fund Advisors

Past performance is not a guarantee of future results. Actual returns may be lower. Investing risks include loss of principal and fluctuating value. There is no guarantee an investment strategy will be successful.

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In USD. Annual value premium is the return difference between the Fama/French US Value Research Index and the Fama/French US Growth Research Index. Source: CRSP and Compustat data calculated by Dimensional. Fama/French data provided by Fama/French.

Yearly premiums in top chart are arranged from low to high rather than chronologically, covering 1927–2023. Premiums in bottom chart are arranged in the order of the top chart, but one year later in each instance, to show next-year performance.

Fama/French US Value Research Index: Provided by Fama/French from CRSP securities data. Includes the lower 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

Fama/French US Growth Research Index: Provided by Fama/French from CRSP securities data. Includes the higher 30% in price-to-book of NYSE securities (plus NYSE Amex equivalents since July 1962 and Nasdaq equivalents since 1973).

The Fama/French indices represent academic concepts that may be used in portfolio construction and are not available for direct investment or for use as a benchmark. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment.

Results shown during periods prior to each index's inception date do not represent actual returns of the respective index. Other periods selected may have different results, including losses. Backtested index performance is hypothetical and is provided for informational purposes only to indicate historical performance had the index been calculated over the relevant time periods. Backtested performance results assume the reinvestment of dividends and capital gains.

Eugene Fama and Ken French are members of the Board of Directors of the general partner of, and provide consulting services to, Dimensional Fund Advisors LP.

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