NORTHSTAR
FINANCIAL PLANNERS INC.

APRIL 2024

FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

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LONGEVITY: EQUITIES ARE THE ANSWER

At Northstar, we help our clients plan retirements—hopefully, long retirements. To that end, we put a great deal of thought into life expectancies and how money will hold up over that time frame. Evaluating various risks becomes important: The risk that inflation will be higher than expected. The risk that markets will be worse than expected. And the risk that our health will be better than expected.

At first glance, that last one hardly seems like a negative impact. Wouldn't that be a good thing? That we live longer and healthier than the average? Isn't that kind of the goal?

When it comes to retirement planning, "longevity risk" is the threat that we'll live longer than our money lasts. It's a risk that I believe is often overlooked and misunderstood. Because in long retirements, the cost of living doesn't just drift upward on a nice gentle slope. It compounds. And the dramatic effect of that compounding in our later years is something most people just don't see coming.

The risk is perhaps more threatening for our clients by virtue of their education and experience. The truth is, and with the possibility of sounding a bit elitist, those in the investor class tend to have higher education levels and better lifestyles. They tend to take care of themselves better, go to the gym more, get regular medical checkups, do what their doctors recommend, and take their meds. They live healthier and longer. They tend to crowd over to the right side of the life expectancy bell curve.

In client meetings, it can often be a struggle to shift our focus from the short-term randomness of economies and capital markets to this much more impactful threat to a long retirement—longevity and inflation. And for those who consider legacy one of their most important goals, this threat becomes even more significant.

Once we realize that longevity sits at the top of the list of potential dangers, equities become a more important component of our investment plan. Because it's equities that have proven themselves to be the inflation beater that can provide the income and capital appreciation we need for long retirements.

I'll venture a guess that I know what you're thinking. Equities come with a downside: volatility. And that volatility is why we get paid more over the long term for being there. We just need a way to deal with the volatility over the relatively short periods that it becomes most bothersome. A globally diversified portfolio containing multiple asset classes with less-than-perfect correlation to one another is a big step in the right direction. A portfolio centered on equities but containing enough fixed income can help get us over those rough patches that equity markets inevitably produce.

Rather than viewing equities as "aggressive," we need to look at them as being the most compelling solution we have toward growing our investment portfolio at a pace better than inflation. Over the past 100 years or so, equities have grown at roughly three times the rate of inflation. They can give us the opportunity for a lifelong stream of income that will grow over the years at a pace matching (or preferably beating) inflation.

We're goals-based investors at Northstar. Pre-retirement, the goal is typically a target-date, dollar-specific accumulation plan that will provide enough capital at retirement to provide a constantly increasing stream of income that can be drawn on for 30 years or more. Post-retirement, that goal often becomes a plan that contains enough equities to maximize the probability that our clients can withdraw an inflation-adjusted income for the rest of their lives without running out of money. In both cases, equities play the most important role.

Focusing our client meeting agendas on variables we can't control is a waste of time. Forecasting economies and markets, which we have no control over, instead becomes about figuring out what you'll be living on when you're in your 80s or 90s. That's what should concern you the most, and fortunately, it's something we can have a lot of control over if we keep our focus on it.

—Allen Giese, CLU®, ChFC®, ChSNC®

QCD'S: A GREAT WAY TO SATISFY YOUR RMD AND GET A TAX BREAK

Ah, April! Spring showers and flowers, looking ahead toward summer, Earth Day, and … taxes. Seems only fitting to write an article this month about one of my favorite tax breaks—qualified charitable distributions (QCDs)!

A discussion around QCDs starts with a discussion around required minimum distributions (RMDs) from your individual retirement accounts (IRAs). RMDs are distributions we're all required to begin taking from our IRAs in our 70s (currently age 73 or 75, depending on your birth year).

The IRS has been looking at your IRA for a lot of years and is very excited about the prospect of you finally paying some taxes against those dollars. I imagine them over there in their IRS building cheering you on to get to 73 (or 75) so they can finally start collecting some revenue from your IRA. It's a party over there!

But over at YOUR house, you may be thinking, "I really don't want to take an RMD. Maybe I don't NEED an RMD and am doing just fine without it. But if I don't take the RMD, there's a BIG penalty. If I TAKE an RMD (that I don't need), it's treated like ordinary income, and I have to pay income taxes on it. And if I take the RMD, not only do I have to pay taxes, but it INFLATES my AGI (adjusted gross income), which can mess with my medical deductions and could prevent me from taking other deductions against losses as well. **It's NOT a party over here!"**

If there were only a great way to satisfy your RMD requirement without getting caught in these tax traps. **In steps the QCD.**

Here's how it works:

- Assume Daniel is 75 and has an RMD due this year of $25,000 from his traditional IRA.
- Daniel, who is charitably inclined, decides to send $25,000 to his favorite charity this year.
- That $25,000 could be a QCD, satisfying the RMD requirement of $25,000 while avoiding the 25% penalty the IRS would levy for not making the RMD.
- Daniel doesn't get the tax deduction for the charitable donation, but he does get to bypass including that $25,000 distribution in his AGI, giving him potentially multiple tax-saving benefits.

One slice of the American demographic clearly benefiting from QCDs is seniors who (1) have a traditional IRA and (2) take the standard deduction each year, which means they aren't deducting charitable contributions. These people don't get any tax benefit from donating to charity, so they might as well make those donations from their IRA, avoiding the taxable income from distributions.

What do you need to know about how to take a QCD? For starters, you have to be at least 70 ½ years old as of the date you transfer the money to a qualified charitable organization.

While a QCD can count as your RMD, you are not limited to your RMD amount for your QCD. If your charitable inclinations are greater than your RMD, that's fine—go ahead and give more (up to the annual limit). The charitable organization certainly won't mind. You can even do a QCD in those earlier years (between 70 ½ and 73 or 75) when an RMD isn't due.

The annual limit for a QCD is $100,000 per donor. So, a couple in that age range can donate up to $100,000 each from their respective IRAs, or $200,000 total. It's important that your IRA custodian makes the payment directly to the charity—not to you. Also make sure they include your name and address so the charitable organization can send you the required acknowledgment. This letter should state that the charitable organization received the money and did not provide you with any benefit in return.

Would you like to talk more about this? Contact your Northstar advisor today and see if a QCD should be part of your financial plan.

—Allen Giese, CLU®, ChFC®, ChSNC®

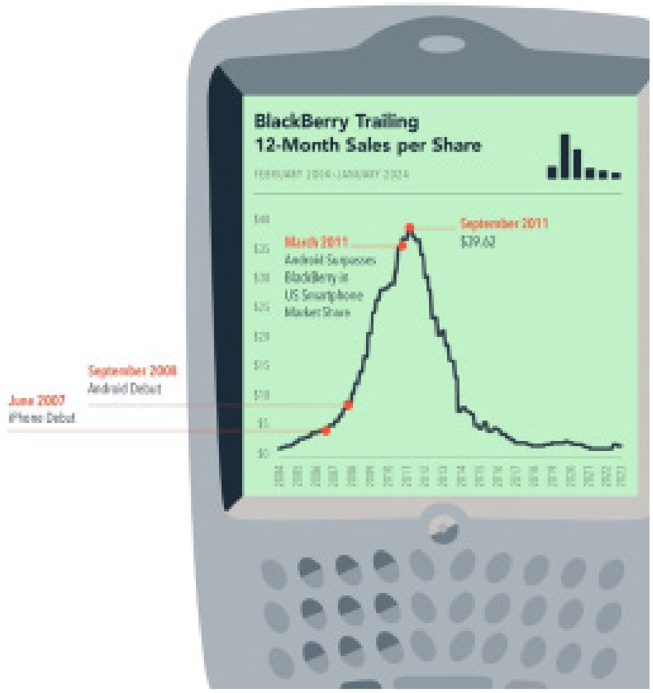
THE NEXT BLACKBERRY?

Some investors attribute the Magnificent 7 stocks' dominance to a "winner take all" environment in which a handful of companies achieve sufficient market share to hinder competition.[1] In businesses where gaining users drives success, establishing a strong market share may be like building a moat around profitability. But that doesn't guarantee these companies can stay on top.

Think about the state of mobile phones 15 years ago. In all likelihood, you would have been reading this on a BlackBerry, such was that device's entrenchment for mobile business communication. Then, along came iPhones and Androids, and suddenly BlackBerry's foothold was eroded.

EXHIBIT 1

BlackBerry Trailing 12-Month Sales per Share



Past performance is not a guarantee of future results.
In USD. Source: FactSet.

History is littered with examples of household names that were usurped by the Next Big Thing. Remember, Sears was a top 10-sized stock in the U.S. once upon a time. AOL was synonymous with internet access in the 1990s. And in 2003, the most popular social media network starting with the letter F was Friendster.

Even the biggest companies have uncertain futures, highlighting the need for broadly diversified investments. And even if these companies stay at the top of the market, that's no assurance higher returns will continue if their success is expected.

—Wes Crill, PhD, Senior Investment Director and Vice President, Dimensional Fund Advisors

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FOOTNOTES

1. The Magnificent 7 includes Alphabet, Amazon, Apple, Meta, Microsoft, Nvidia, and Tesla. Named securities may be held in accounts managed by Dimensional.

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