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LET'S ROLL ... OR MAYBE NOT: THE PROS AND CONS OF ROLLING OVER YOUR 401(K)

Rolling over a 401(k) refers to the process of moving your retirement savings from a 401(k) plan, typically offered by an employer, to another retirement account, such as an individual retirement account (IRA) or a new employer's 401(k) plan. This strategy would typically be considered when you leave a job where you've contributed to a retirement plan or upon reaching retirement age but are still employed with the company sponsoring the plan. There are several advantages and disadvantages to consider when deciding whether to roll over your 401(k). Here are some key points to consider:

ADVANTAGES OF ROLLING OVER A 401(K)

1. **More investment options:** 401(k) plans often have a limited selection of investment options. By rolling over to an IRA, you gain access to a wider range of investment choices, including stocks, bonds, mutual funds, and exchange-traded funds (ETFs). This increased flexibility allows you to tailor your investment strategy to your goals and risk tolerance.
2. **Consolidation and simplification:** If you have multiple 401(k) accounts from previous employers, rolling them over into a single IRA can streamline your retirement savings and make it easier to manage. It simplifies tracking your investments, monitoring performance, and keeping your retirement strategy organized.
3. **Lower costs:** Some 401(k) plans have high administrative fees and expense ratios for investment options. By rolling over to an IRA, you can choose low-cost investment options, potentially reducing your overall investment expenses and increasing your returns.
4. **Avoiding penalties and taxes:** Rolling over your 401(k) directly to an IRA allows you to maintain the tax-deferred status of your retirement savings. If done correctly, there are no immediate tax consequences or penalties for the rollover. You can continue to enjoy tax advantages until you withdraw the funds in retirement.

DISADVANTAGES OF ROLLING OVER A 401(K)

1. **Loss of creditor protection:** 401(k) plans have specific legal protections against creditors, which may vary depending on your state's laws. In some cases, IRAs may not have the same level of creditor protection. If you're concerned about creditor protection, you should carefully research and understand the laws in your specific jurisdiction.
2. **Employer-specific perks:** Some 401(k) plans offer unique features like employer matching contributions, profit-sharing, or company stock options. If your employer's plan has attractive benefits that are not available with an IRA, you might want to consider keeping your funds in the 401(k) to take advantage of those perks.

3. **Timing and withdrawal penalties:** If you plan to retire early and need to access your retirement funds before age 59½, a 401(k) might be more advantageous. With a 401(k), you can generally make penalty-free withdrawals from the age of 55 if you separate from your employer, whereas with an IRA, you generally need to wait until age 59½ to avoid the early withdrawal penalty.
4. **Required minimum distributions (RMDs):** Traditional IRAs are subject to RMDs starting at age 72, which means you must withdraw a certain amount each year and pay taxes on the distributions. If you're still working at age 72 and participating in an employer's 401(k) plan, you can delay RMDs until you retire. This flexibility might be advantageous depending on your retirement goals and tax planning strategies.

It's essential to evaluate your individual circumstances, goals, and the terms of your 401(k) plan before making a decision, and an independent fee-only financial advisor can help.

While some professionals may have a financial incentive to steer you toward the rollover option, a recent Department of Labor ruling requires advisors to thoroughly and objectively review all the advantages and disadvantages of a rollover based on your unique circumstances, inform you of all the alternatives, and offer advice that is in your best interest, not his or hers.

What's more, an independent, fee-only financial advisor will receive no commissions or have ties to third parties, such as banks. This helps minimize conflicts of interest and increase objectivity so you can make an informed decision about rolling over your 401(k).

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SAVING FOR RETIREMENT IN A SECOND MARRIAGE: STRATEGIES FOR MEETING YOUR GOALS

Second marriages start an exciting new chapter in life but also bring financial challenges. When saving for retirement, couples in a second marriage may have unique considerations, such as different financial backgrounds, blended families, and pre-existing financial commitments.

With thoughtful planning and open communication, you can work together to achieve a comfortable retirement. This blog discusses 10 strategies for meeting your retirement goals in a second marriage.

1. HAVE OPEN AND HONEST COMMUNICATION

Open and honest communication is the foundation of any successful financial plan in a second marriage. Share your financial goals, priorities, and concerns with your spouse. Discuss your individual financial situations, including your assets, debts, and retirement accounts. Transparency is key to making informed decisions and working together to build a solid retirement plan.

2. SET CLEAR FINANCIAL GOALS

Setting clear financial goals is important in creating a retirement plan that works for both spouses. Determine how much money you'll need in retirement by considering factors such as your desired lifestyle, estimated healthcare costs, and the ages at which you plan to retire. Once you clearly understand your retirement needs, you can create a savings strategy.

3. WORK WITH A FEE-ONLY, FIDUCIARY FINANCIAL ADVISOR

A fee-only, fiduciary financial advisor can be invaluable in helping you navigate the complexities of saving for retirement in a second marriage. These professionals are legally obligated to act in your best interest and do not receive commissions for selling financial products.

They can provide personalized guidance and help you create a retirement plan that meets the unique needs of your blended family. From coordinating retirement accounts to advising on tax-efficient strategies, a financial advisor can be a trusted partner in achieving your retirement goals.

4. UPDATE BENEFICIARIES AND ESTATE PLANS

In a second marriage, it's crucial to review and update your beneficiary designations and estate plan. Ensure that your retirement accounts, life insurance policies, and other financial assets reflect your wishes. You might also consider setting up a trust to provide for your current spouse and children from your previous marriage. Coordinating with a financial advisor and estate planning attorney can help you create a plan that balances the needs of all family members and minimizes potential conflicts.

5. COORDINATE RETIREMENT ACCOUNTS

Couples in a second marriage may have multiple retirement accounts, such as 401(k)s and IRAs, from previous jobs and marriages. It can be a good idea to coordinate these accounts to ensure they're working together to achieve your goals.

This step may involve consolidating accounts, adjusting investment strategies, or rebalancing your portfolio. Working with a financial advisor can help you make informed decisions about managing your retirement accounts.

6. CONSIDER A PRENUPTIAL AGREEMENT

While discussing finances and planning for the future, you may want to consider a prenuptial agreement. A prenup can clarify each spouse's financial responsibilities and expectations in the marriage, helping to avoid misunderstandings and potential disputes. This legal document can also specify how assets will be divided in the event of divorce or death.

7. SAVE FOR RETIREMENT TOGETHER

One of the most effective ways to meet your retirement goals in a second marriage is to save together. Establish a joint savings plan that takes into account your combined income, expenses, and objectives. Determine a monthly savings target and commit to contributing to your retirement accounts consistently.

Additionally, take advantage of catch-up contributions if you're over 50. Catch-up contributions allow you to contribute more to your retirement accounts and accelerate your savings.

8. PLAN FOR HEALTHCARE EXPENSES

Healthcare costs can be a significant financial burden in retirement. Review your healthcare options, including Medicare, supplemental insurance, and long-term care policies.

While you're working, consider setting up a health savings account (HSA) if you're eligible. These accounts offer tax advantages and can be used to cover qualified medical expenses in retirement.

WHO WE ARE

ALLEN P. GIESE, ChFC®, CLU®, ChSNC®
President, CEO, Senior Financial Advisor

STEVE TEPPER, CFP®, MBA
Vice President, Chief Operations Officer, Chief Compliance Officer, Senior Financial Advisor

GARY S. GLANZ
Director of Business Development, Investment Advisor Representative

CHARLES THOMAS, MBA
Associate Advisor

GARY C. GONZALEZ
Investment Advisor Representative

STACY SAAVEDRA
Director of Client Services

RICHARD LOTTIER III
Client Service Specialist

LIAN TEPPER
Client Service Specialist

(954) 693-0030
1250 S. Pine Island Road, Suite 275
Plantation, FL 33324

northstarplanners.com
info@northstarplanners.com

9. CREATE AN EMERGENCY FUND

Unforeseen expenses, such as medical emergencies or job loss, can derail a retirement savings plan. Aim to have three to six months of living expenses in an easily accessible account. This can provide a safety net and help protect your retirement savings in the event of unexpected financial challenges.

10. REGULARLY REVIEW AND ADJUST YOUR RETIREMENT PLAN

As your financial circumstances and goals change, it's essential to regularly review and adjust your retirement plan. Schedule periodic check-ins with your spouse and financial advisor to help ensure your plan remains on track. These discussions can help you identify areas for improvement, adjust your savings strategy, and address any new challenges that may arise.

CONCLUSION

Saving for retirement in a second marriage can be complex, but with open communication, clear goals, and a solid plan, you can work together to achieve financial comfort. By partnering with a fee-only, fiduciary financial advisor, updating your estate plans, and coordinating your retirement accounts, you may boost your ability to meet your retirement goals. Remember to save together, plan for healthcare expenses, and review your plan regularly to help create a successful retirement for both spouses.

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