LENOX ADVISORS, INC

WEALTH MANAGEMENT ADVISOR

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Bond ladders can help mitigate interest-rate risk

Bonds can play an important role in an investment portfolio, especially if you're near retirement or already retired. Although they may not enjoy the same upside potential as stocks, bonds are somewhat insulated from the stock market's volatility.

RISING AND FALLING VALUE

That's not to say that bonds are risk-free. The underlying interest rates of bonds can leave them vulnerable. For example, corporate bonds depend on the ability of the companies issuing them to make good on the amounts they borrow.

But the biggest threat generally is interest-rate risk. When you buy a bond, you're locked into its rate until the bond matures. If rates fall in the meantime, the bond's value increases. But if interest rates rise before the bond matures, its value declines. That's because investors can then find higher yielding investments elsewhere. So to buy your bond with a below market rate of interest, an investor would insist on a discounted price to produce a yield in line with prevailing rates.

CLIMBING THE RUNGS

One strategy for mitigating interest-rate risk is to build a bond ladder — a portfolio of bonds with varying maturities. You might, for instance, distribute your investments evenly among bonds with maturities of two, four, six, eight and 10 years. Assuming interest rates are rising, a portion of your portfolio will be freed up regularly, giving you an opportunity to make new investments that take advantage of higher rates. On the other hand, when interest rates are falling, a portion of your portfolio (the bonds with longer maturities) will continue to be locked into the higher rates in effect when you first invested.

An important feature of the bond ladder strategy is that it allows you to hold all of the bonds until maturity. When a shorter-term bond matures, you can reinvest the principal in a longer-term bond, maintaining the ladder structure. Or you can reinvest it elsewhere if new opportunities arise — or use the money. This approach helps insulate you from interest-rate risk because holding bonds to maturity ensures you'll receive the full principal. If, on the other hand, all of your bonds mature at the same time, you might have to sell some before they mature — potentially at a loss.

PRICE OF STEADY INCOME

As with all investments, it's possible to lose money — including your original amount — investing in bonds. But if you're looking to reduce portfolio risk while generating steady income, the bond ladder strategy may be worth a look.

Thinking about "unretiring?" Do your research first

If you've retired but are thinking about rejoining the workforce, you're not alone. A recent survey by payroll service provider Paychex revealed that one in six retired Americans are considering returning to work after having been out of the workforce for an average of four years. However, before you "unretire" you need to consider the financial implications, including a paycheck's impact on your Social Security benefits and Medicare premiums.

ECONOMIC TURMOIL AND WORKER DEMAND

Given the economic and social turmoil of the last few years, volatility in the financial markets, high inflation, and rising interest rates, it's no surprise that many older Americans are reevaluating their retirement plans. The top reasons for considering unretirement among Paychex's survey respondents were:

1. Personal reasons (57%),
2. Needing more money (53%),
3. Getting bored (52%),
4. Feeling lonely (43%),
5. Inflation (43%), and
6. Stock market volatility (41%).

Don't simply blame the COVID-19 pandemic, though. According to CNBC, the rate of workers who retired then returned to work a year later in 2022 was around 3.2% — roughly the same as before the pandemic. One reason retirees are returning is that employers need them. As the Baby Boom generation leaves the workforce, some companies are having trouble filling their positions.

IMPACT ON SOCIAL SECURITY

How old you are when you start taking Social Security benefits will determine the impact of unretiring. In general, unless you need the money sooner, it's best to delay the start of Social Security benefits until you reach age 70 because you'll maximize the amount of your benefit checks. The benefit amount at age 70 is as much as 32% higher than the benefit at full benefit (normal) retirement age (66 to 67 for most people). If you're receiving Social Security benefits and go back to work at any age, the increased income on your tax return may result in a larger portion of your benefits being taxed.

If you're under full benefit retirement age and have already started taking benefits, returning to work can reduce them. For every $2 you earn above a specified threshold ($21,240 in 2023), your benefits will be reduced by $1. And in the year you reach your full retirement age, your benefits will be reduced by $1 for every $3 you

earn above a different threshold ($56,520 in 2023), until the month you reach your full retirement age.

Suppose, for example, that you retired at age 62 and started receiving a monthly Social Security check for $3,000, or $36,000 per year. If you return to a job that pays $75,000 per year, your annual benefits will be reduced by $26,880 [($75,000 - $21,240)/2] to only $9,120 per year.

Fortunately, this reduction won't last forever. Once you reach full retirement age, you're entitled to your full benefit amount, regardless of how much you earn. And the Social Security Administration will recalculate your benefit going forward so that you potentially recoup the amounts you lost when benefits were reduced. Also, since going back to work means you'll resume paying Social Security taxes, your additional earnings may increase your benefit amount.

HOW IT AFFECTS MEDICARE

If you're 65 or older and covered by Medicare, returning to work may increase your premiums. Currently, monthly premiums for Medicare Part B range from $164.90 (for individuals with income up to $97,000 or joint filers with income up to $194,000) to $560.50 (for individuals with income of $500,000-plus or joint filers with income of $750,000-plus). For instance, a retired single individual with $97,000 in income would pay $164.90 per month for Medicare Part B. But if that individual takes a job that pays $125,000 annually, the monthly premium would roughly double to $527.50.

Keep in mind that if your employer offers more affordable health care benefits, it may be possible to drop Medicare temporarily and then re-enroll when you re-retire. The rules in this area are tricky, however, so consult your Lenox advisor before dropping Medicare.

CONSIDER YOUR MOTIVATIONS

Finally, consider your motivations for unretiring. If they're financial, you don't necessarily need to work full time. A part-time job may be enough to make you feel financially secure. If you're motivated more by boredom, look for a low-stress position or volunteer for charity.

Whatever your decision, don't make it alone. Talk to your Lenox advisor to map out a retirement income plan.

SHIELD YOUR RETIREMENT NEST EGG FROM MARKET VOLATILITY

Volatility in the financial markets can be stressful for retirees. If you rely on your investments for current income, you may not be able to ride out the market's temporary ups and downs. But you can soften the impact of a jittery market. For example, you might want to:

- Shift some of your portfolio to bonds or dividend-paying stocks. These investments can provide you with income while helping to preserve the principal.
- Buy an annuity, which offers a guaranteed minimum return, albeit with less upside potential than other investments.
- Divide your investments into time-driven segments — with more conservative investments earmarked for short-term needs and more aggressive investments for mid- and long-term needs. Then reallocate your investments over time.
- Reduce spending during market downturns, if possible, to avoid selling investments at a loss. Save larger expenditures for times when the market has performed well.

Estate planning

Keeping the peace in a blended family

If you're remarried and have some combination of children with your current spouse, children from a previous marriage and stepchildren, you probably already know how complicated blended family life can be. So imagine the process of estate planning when you're trying to preserve wealth for various heirs while also avoiding resentment and family squabbles. It's possible, but for the best outcomes you should be aware of several issues — and the estate planning tools that address them.

WILLS AND TRUSTS

A will generally determines who gets what, when, where and how. It may be combined with "inter vivos trusts" established during your lifetime or be used to create testamentary trusts, or both. You can include a few tweaks for your blended family through a codicil to the will. But if the intended changes are substantive — such as removing an ex-spouse and adding a new spouse — you should meet with your attorney to have a new will, and perhaps trusts, prepared.

Keep in mind that if substantial assets are included in your will, it must pass through probate, which can be a costly and time-consuming process, depending on your state. Alternatively, you might transfer most assets to a living trust and designate members of your blended family as beneficiaries. Trust assets are exempt from probate. With a revocable living trust, the most common version, you retain the right to change beneficiaries and distribution amounts. However, living trusts generally are viewed as supplements to — not replacements for — basic wills.

For their part, marital trusts can be customized to meet the needs of a blended family. For example, a marital trust can be set up to provide income for the surviving spouse and preserve the principal for the deceased spouse's designated beneficiaries, who may be the children of prior relationships. If certain tax elections are made, estate tax that's due at the first death can be postponed until the death of the surviving spouse.

Another trust to consider is an irrevocable life insurance trust (ILIT). Life insurance is often used to provide needed benefits should the main breadwinner suddenly die. However, if you retain any "incidents of ownership" in a life insurance policy, such as the right to change beneficiaries, the proceeds will be included in your taxable estate. This result can be avoided by transferring the policy to an ILIT. The trustee, who may be a professional or family member, will follow the directives spelled out by the ILIT.

OTHER LEGAL TOOLS

If you have a prenuptial agreement, it likely defines which assets are characterized as the separate property of one spouse or community property of both spouses upon divorce or death. As such, prenups are often used to preserve wealth for the children of a first marriage before an individual enters into a second union. It may also include other directives — such as estate tax elections — that would occur if the marriage dissolved. Be sure to investigate state law concerning the validity of your prenup.

Another important legal document is the durable power of attorney. As the name implies, this directive authorizes another person to legally act on your behalf in the event you're incapacitated or otherwise unable to conduct your own affairs. This power may be "broad" or "limited" (for example, restricted to selling or managing personal property such as a home). Because some discretion is involved, it's important for an individual heading up a blended family to choose the attorney-in-fact wisely. This document may be coordinated with health care directives and a living will.

A SOLID PLAN

There are additional trusts and strategies to help ensure members of your blended family receive a fair share of your estate and you minimize tax liability. Talk with your Lenox advisor and estate planning attorney to develop a comprehensive plan that will be effective — no matter how complex your family situation.

What to do with your 401(k) account when you leave a job

If you're leaving your job — because, for example, you're changing employers or retiring — you may need to decide what to do with your 401(k) account without triggering a taxable withdrawal. Unless your account balance is less than $5,000, (excluding rollovers from other accounts), you typically can keep the funds in your former employer's plan. You also may have the option to roll over your old 401(k) balance into your new employer's plan (if applicable). Finally, you can roll over the funds into an IRA account.

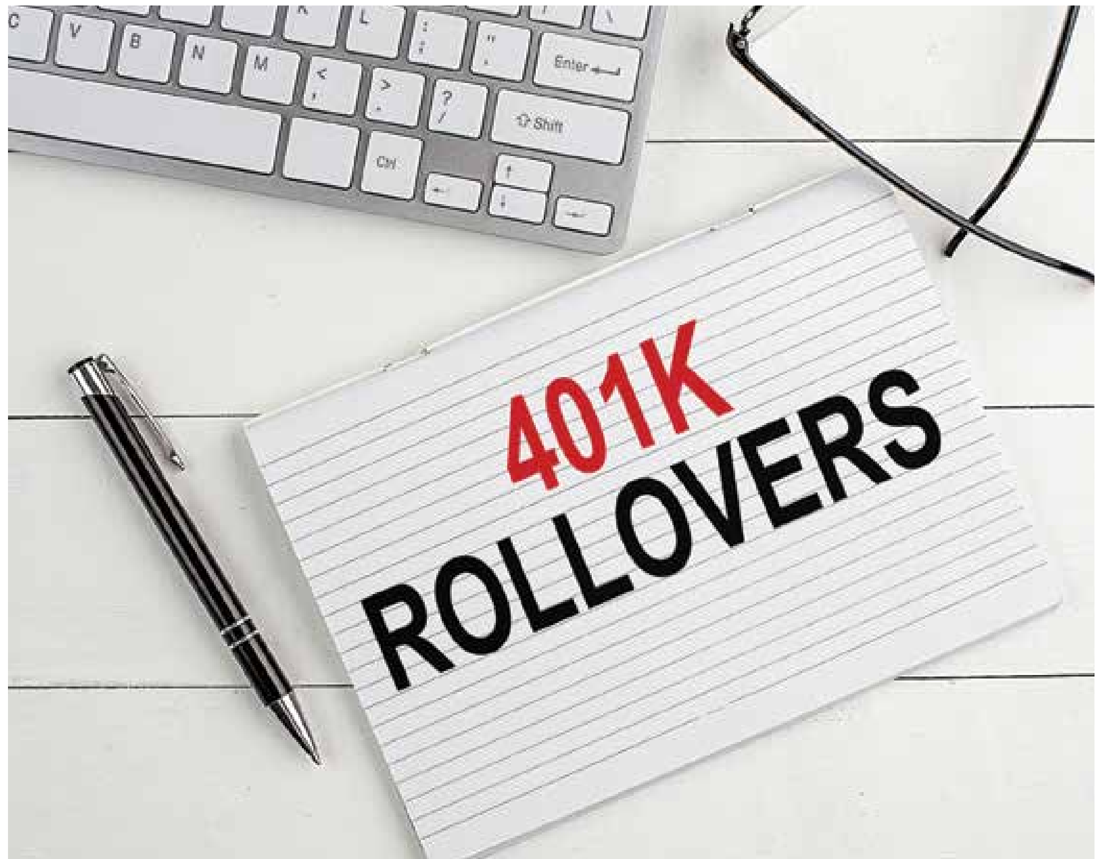
STAY OR ROLL OVER?

Rolling over a 401(k) balance into an IRA can be appealing because IRAs — usually offered by financial services companies — can provide a greater variety of investment options. But there are also drawbacks to such rollovers.

Before making your decision, weigh the following factors:

Fees. Investment fees vary widely, and they can have a big impact on the performance of your retirement

funds. Unfortunately, they're easy to overlook because they come out of your returns. Leaving your job may give you an opportunity to move your savings into lower cost investments. On the other hand, some 401(k) plans offer competitive fees. So be sure to compare the costs of your various options.



Your age. If you're 55 or older but younger than 59½, there may be an advantage to leaving funds in your former employer's 401(k) plan. Usually, if you withdraw money from a 401(k) or IRA before age 59½, you're subject to a 10% penalty (on top of ordinary taxes for withdrawals). But a special rule allows you to withdraw money from a 401(k) plan penalty-free before age 59½ if you leave your job at age 55 or older (50 or older for certain public safety employees). If you roll over the funds into an IRA, this option is lost.

Protection from creditors. If you're concerned about creditors going after your retirement savings, you'll generally enjoy greater protection if you leave your funds in a 401(k) plan. Under federal law, money in 401(k) plans and other qualified retirement plans is generally protected from creditors, both in and outside of bankruptcy. Funds rolled over from a 401(k) into an IRA are generally protected in bankruptcy. Outside of bankruptcy, however, creditor protection is governed by state law, and the level of protection varies widely from state to state.

Company stock. If your traditional 401(k) plan invests in your former employer's stock, you may miss out on a valuable tax planning opportunity by moving your entire balance to an IRA. If you leave company stock in the current plan, you likely can take advantage of a technique under which the stock is distributed to a taxable account and you're taxed at favorable capital gains rates on its appreciation. However, if you roll over your entire balance into a traditional IRA, distributions will be taxed at ordinary income rates — which may be significantly higher.

Withdrawal flexibility. If you're looking for control over the timing of your withdrawals, you may want to roll over your balance into an IRA. Many 401(k) plans prohibit partial or periodic withdrawals, so if you plan to spread withdrawals over time, a rollover can be your best bet.

NO PRESSURE

After you've left a job, there's generally no need to make a quick decision about an existing 401(k) balance. The best course is to leave your savings in your former employer's plan and take time to review your circumstances and discuss options with your Lenox advisor.

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