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Re: Quarterly Newsletter/Fall 2016

Dear Clients and Colleagues:

In this newsletter we will review the 2016 Third Quarter market performance and discuss a tax deferral strategy known as a Stretch IRA.

Trivia

Our trivia question from last quarter took an interesting twist: Prior to the 2016 Summer games, Larisa Latynina, a Soviet Ukrainian gymnast, held the record for the most individual Olympic medals with 14. Michael Phelps, however, broke that record at this year's Summer Olympics by adding three individual medals for a grand total of 16.

Third Quarter Market Performance¹

	<u>3Q2016</u>	<u>2016YTD</u>
S&P 500	3.85%	7.84%
MSCI EAFE (Dev.Int'l)	6.43%	1.73%
MSCI EM (EmergingMrkt)	9.03%	16.02%
BarclaysUSAggIndx	.46%	5.8%

Wealth Building Potential Through Tax Deferral – Stretch IRA's

Funds in an Individual Retirement Account ("IRA") grow tax deferred and when distributions are taken they are subject to ordinary income tax. Although funds in an IRA are subject to minimum distribution requirements, any funds remaining at death may be distributed to a beneficiary and then distributed in minimum installments over the beneficiary's life expectancy, thus extending the tax deferral and the compounding of the account value. As shown in the example below, an IRA with \$1MM at retirement could end up distributing to a spouse and children over \$5.5MM.

IRA account holders may elect to delay distributions from an IRA account until April 1 of the year following turning age 70.5. To determine the amount of the required minimum distribution after 70.5, the account balance at the end of the previous year is divided by the life expectancy of the owner. For example, at age 70, life expectancy is 27.4 years and the required minimum distribution would be \$36,496 (\$1MM/27.4). The life expectancy factor adjusts each subsequent year.

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¹ Indices are unmanaged and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market.

Typically, a spouse beneficiary of an IRA will rollover the IRA funds to the spouse's own IRA account and use the spouse's age to determine required minimum distributions. Thus, if the spouse beneficiary is under 70.5, the spouse could defer distributions until reaching that age.

On the other hand, a non-spouse beneficiary of an IRA must start required minimum distributions by the end of the year after the year of death. For example, a 61-year-old non-spouse beneficiary has a life expectancy of 24.4 years and thus the required minimum distribution for a \$1MM inherited IRA account would be \$40,984 (\$1MM/24.4). The initial life expectancy factor is reduced by one year in each subsequent year.

By way of example, let's assume that a \$1MM 401(k) balance is rolled over to an IRA account at age 65. The funds may continue to grow tax deferred in the IRA until age 70.5 after which the first required minimum distribution must be taken. The chart below shows how by taking only the required minimum distributions the account can continue to grow tax deferred over two generations and end up distributing to the account holder, the spouse, and three children a total of over \$5.5MM.²

	Initial account value	Account growth and earnings ³	Required minimum distributions	Ending account value ⁴
IRA Owner				
John Doe	\$1,000,000	\$1,517,972	(\$982,713)	\$1,535,259
DOB: 1/1/51 Life expectancy: 83 Years of distribution: 14				
Primary Beneficiaries				
Jane Doe	\$1,535,259	\$1,010,476	(\$1,208,422)	\$1,337,312
DOB: 1/1/56 Relationship: Spouse Life expectancy: 90 Years of distribution: 12				
Final Beneficiaries of Spouse				
First child	\$445,726	\$512,131	(\$957,857)	\$0
DOB: 1/1/86 Life expectancy: 85 Years of distribution: 25				
Second child	\$445,726	\$674,122	(\$1,119,848)	\$0
DOB: 1/1/91 Life expectancy: 84 Years of distribution: 29				
Third child	\$445,860	\$884,963	(\$1,330,823)	\$0
DOB: 1/1/96 Life expectancy: 84 Years of distribution: 34				
Total distributions			(\$5,599,664)	

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² Guardian, its subsidiaries, agents and employees do not provide tax, legal or accounting advice. Consult your tax, legal or accounting professional regarding your individual situation.

³ Based on hypothetical 6% rate of return.

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