

Market Update 9/15/14 and The First RMD From Your IRA

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Thomas Cymer CFP® CRPC® Presents:

# WEEKLY ECONOMIC UPDATE

September 15, 2014

**WEEKLY QUOTE**

"Everybody needs beauty as well as bread, places to play in and pray in, where nature may heal and give strength to body and soul alike."

-John Muir

**WEEKLY TIP**

Think about putting 50% of your future pay raises into your workplace retirement plan, where those dollars could grow and compound nicely for your future.

**WEEKLY RIDDLE**

Christine likes grapes but not potatoes. She likes squash but not lettuce, and peas but not onions. Following the same rule, will she like pumpkins or apples?

**Last week's riddle:**

What flies without wings, fuel, muscles, feet and a fuselage?

**Last week's answer:**

Time.

**SUMMER SPENDING SPREE LIFTS RETAIL SALES**

They increased 0.6% in August, easing some anxieties about a possible slowdown in personal spending. Core retail sales (which exclude auto, gas, food, and home improvement purchases and more closely match the consumer spending aspect of GDP) improved 0.4% last month, and were up 4.1% year-over-year. The Commerce Department also revised July's headline retail sales gain up to 0.3%.<sup>1</sup>

**CONSUMER SENTIMENT HITS A 14-MONTH PEAK**

At a reading of 84.6, September's preliminary Thomson Reuters/University of Michigan consumer sentiment index was 2.1 points above its final mark for August. Not only that, it advanced to its highest level since July 2013. Household income expectations also hit their highest level in almost six years.<sup>1</sup>

**GOLD DESCENDS AGAIN, OIL SLUMPS ON IEA FORECAST**

Settling Friday at \$1,231.50, the precious metal fell 2.8% last week on the COMEX, undercut by dollar strength. Silver posted the same weekly loss, ending the week at \$18.55. After the International Energy Agency reduced its 2015 world demand forecast for oil, NYMEX crude slipped 0.6% Friday to settle at \$92.27.<sup>2</sup>

**INVESTORS WAIT, WONDER WHAT FED WILL SAY**

Bulls took a breather last week, mulling whether recent economic indicators might lead the Federal Reserve to issue a slightly more hawkish policy statement this Wednesday. Across five trading days, the S&P 500 retreated 1.10% to 1,985.54, the NASDAQ 0.33% to 4,567.60 and the Dow 0.87% to 16,987.51.<sup>3</sup>

**THIS WEEK:** On Monday, investors will consider data on August factory output in the U.S. and China. Tuesday offers the August Producer Price Index as well as Q3 earnings from Adobe Systems. Wednesday, the Fed wraps up its September policy meeting and the August Consumer Price Index appears; Wall Street will also parse earnings news from General Mills, Lennar and FedEx. Thursday, Census Bureau data on August building permits and housing starts accompany the latest initial jobless claims figures and earnings from Oracle, Red Hat, Rite Aid, Pier 1 Imports, Cintas and ConAgra Foods. Friday, the Conference Board presents its August leading economic indicator index and G20 finance ministers and central bankers meet in Australia.

% CHANGE	Y-T-D	1-YR CHG	5-YR AVG	10-YR AVG
DJIA	+2.48	+11.02	+15.37	+6.47
NASDAQ	+9.36	+22.92	+23.90	+13.91
S&P 500	+7.42	+17.95	+18.08	+7.64
REAL YIELD	9/12 RATE	1 YR AGO	5 YRS AGO	10 YRS AGO
10 YR TIPS	0.49%	0.81%	1.59%	1.81%

Sources: online.wsj.com, bigcharts.com, treasury.gov - 9/12/14<sup>4,5,6,7</sup>

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly.  
These returns do not include dividends.

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## That First RMD from Your IRA

*What you need to know:*

Provided by Thomas Cymer CFP® CRPC®

When you reach age 70½, the IRS instructs you to start making withdrawals from your Traditional IRA(s). These IRA withdrawals are also called Required Minimum Distributions (RMDs). You will make them annually from now on.<sup>1</sup>

If you fail to take your annual RMD or take out less than what is required, the IRS will notice. You will not only owe income taxes on the amount not withdrawn, you will owe 50% more. (The 50% penalty can be waived if you can show the IRS that the shortfall resulted from a "reasonable error" instead of negligence.)<sup>1</sup>

Many IRA owners have questions about the options and rules related to their initial RMDs, so let's answer a few.

**How does the IRS define age 70½?** Its definition is pretty straightforward. If your 70th birthday occurs in the first half of a year, you turn 70½ within that calendar year. If your 70th birthday occurs in the second half of a year, you turn 70½ during the subsequent calendar year.<sup>2</sup>

Your initial RMD has to be taken by April 1 of the year after you turn 70½. All the RMDs you take in subsequent years must be taken by December 31 of each year.<sup>3</sup>

So, if you turned 70 during the first six months of 2014, you will be 70½ by the end of 2014 and you must take your first RMD by April 1, 2015. If you turn 70 in the second half of 2014, then you will be 70½ in 2015 and you don't need to take that initial RMD until April 1, 2016.<sup>2</sup>

**Is waiting until April 1 of the following year to take my first RMD a bad idea?** The IRS allows you three extra months to take your first RMD, but it isn't necessarily doing you a favor. Your initial RMD is taxable in the year it is taken. If you postpone it into the following year, then the taxable portions of both your first RMD *and* your second RMD must be reported as income on your federal tax return for that following year.<sup>2</sup>

An example: James and his wife Stephanie file jointly, and they earn \$73,800 in 2014 (the upper limit of the 15% federal tax bracket). James turns 70½ in 2014, but he decides to put off his first RMD until April 1, 2015. Bad idea: this means that he will have to take two RMDs before 2015 ends. So his taxable income jumps in 2015 as a result of the dual RMDs, and it pushes them into a higher tax bracket for 2015. The lesson: if you will be 70½ by the time 2014 ends, take your initial RMD by the end of 2014 - it might save you thousands in taxes to do so.<sup>4</sup>

**How do I calculate my first RMD?** IRS Publication 590 is your resource. You calculate it using IRS life expectancy tables and your IRA balance on December 31 of the previous year. For that matter, if you Google "how to calculate your RMD" you will see links to RMD worksheets at [irs.gov](http://irs.gov) and free RMD calculators provided by the Financial Industry Regulatory Authority (FINRA), Kiplinger, Bankrate and others.<sup>2,5</sup>

If your spouse is at least 10 years younger than you and happens to be designated as the sole beneficiary for one or more IRAs you own, you should refer to Publication 590 instead of a calculator; the calculator may tell you that the RMD is larger than it actually is.<sup>6</sup>

If you have your IRA with one of the big investment firms, it might calculate your RMD for you and offer to route the amount into another account that you specify. Unless you state otherwise, it will withhold taxes on the amount of the RMD as required by law and give you and the IRS a 1099-R form recording the income distribution.<sup>2,5</sup>

**When I take my RMD, do I have to withdraw the whole amount?** No. You can also take it in smaller, successive withdrawals. Your IRA custodian may be able to schedule them for you.<sup>3</sup>

**What if I have multiple traditional IRAs?** You then figure out your total RMD by adding up the total of all of your traditional IRA balances on December 31 of the prior year. This total is the basis for the RMD calculation. You can take your RMD from a single IRA or multiple IRAs.<sup>1</sup>

**What if I have a Roth IRA?** If you are the original owner of that Roth IRA, you don't have to take any RMDs. Only inherited Roth IRAs require RMDs.<sup>2</sup>

**It doesn't pay to wait.** At the end of 2013, Fidelity Investments found that 14% of IRA owners required to take their first RMD hadn't yet done so - they were putting it off until early 2014. Another 40% had withdrawn less than the required amount by December 31. Avoid their behaviors, if you can: when it comes to your initial RMD, procrastination can invite higher-than-normal taxes and a risk of forgetting the deadline.<sup>2</sup>

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**Citations.**

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