

# The Current Yield

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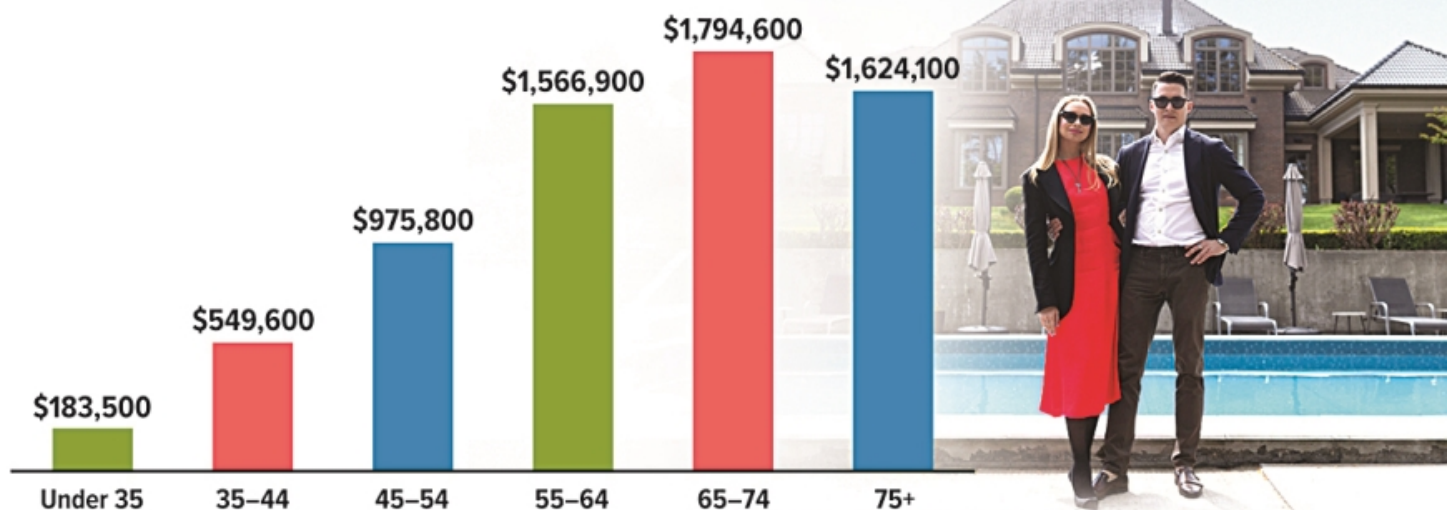
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## Just Your Average Millionaire

The average net worth of U.S. families surpassed \$1 million (\$1,063,700) for the first time in 2022, after increasing 23% from 2019. (A family's net worth is the total of their financial assets minus their liabilities, or debts.) Unfortunately, this milestone does not mean the typical American is a millionaire, because a small number of very wealthy households skews the average. The median net worth (\$192,900 in 2022) was much lower than the average, but its growth was by far the largest on record. Still, the net worth of U.S. families varies greatly depending on housing status, education, income level, and age — which shows that it usually takes time and diligence to build wealth.

Average (mean) net worth, by age group



Source: Federal Reserve, 2023

# Eight Great Investing Quotes

Investing can be daunting, whether you are experienced or a beginner. Even if you feel confident about your investing strategy, it can be easy to lose focus or make decisions based on emotion. Here are eight quotes from successful investors, economists, and other insightful thinkers that may help provide perspective and focus for your own investing strategy.

**"The individual investor should act consistently as an investor and not as a speculator."**<sup>1</sup>

— Benjamin Graham, investor, author, and teacher known as the "father of value investing." A speculator takes large risks in the hopes of making large quick gains. An investor focuses on risk-appropriate strategies to pursue long-term goals.

**"Don't try to buy at the bottom and sell at the top. It can't be done except by liars."**<sup>2</sup>

— Bernard Baruch, investor and presidential adviser. Trying to time the market may be tempting, but it rarely works, because no one really knows when the market has reached its top or bottom.

**"If you aren't willing to own a stock for 10 years, don't even think about owning it for 10 minutes."**<sup>3</sup>

— Warren Buffett, investor, businessman, and philanthropist. Buffett, a former student of Benjamin Graham, is perhaps the most famous proponent of patient "buy and hold" investing.

**"Take measured risk."**<sup>4</sup>

— Doris P. Meister, investment manager and business leader. All investing involves risk, but risk can be managed through careful research and proven strategies such as asset allocation and diversification.

**"Regardless of what happens in the markets, stick to your investment program. Changing your strategy at the wrong time can be the single most devastating mistake you can make as an investor."**<sup>5</sup>

— John Bogle, investor and mutual fund industry pioneer. A sound investment strategy should be designed to carry you through market ups and downs.

**"Know what you own, and know why you own it."**<sup>6</sup>

— Peter Lynch, investment manager, author, and philanthropist. Your portfolio should be assembled with an eye toward meeting your long-term financial goals, not by rushing to own the "flavor of the month."



**"Investing should be more like watching paint dry or watching grass grow. If you want excitement, take \$800 and go to Las Vegas."**<sup>7</sup>

— Paul Samuelson, 1970 Nobel laureate in economic sciences. Investors often make poor decisions when they are driven by adrenaline; patience is more likely to produce positive results in the long run.

**"Compound interest is the eighth wonder of the world. He who understands it, earns it ... he who doesn't ... pays it."**<sup>8</sup>

— Albert Einstein, 1921 Nobel laureate in physics. Even though this and similar quotes are often attributed to Einstein, it's uncertain whether he ever said them. Either way, one of the most powerful tools for investors is reinvesting interest, dividends, and capital gains.

*There is no guarantee that any investing strategy will be successful. All investments are subject to market fluctuation, risk, and loss of principal. When sold, they may be worth more or less than their original cost. Investments seeking to achieve higher returns also involve a higher degree of risk. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.*

1, 6, 7) Investopedia, September 15, 2023

2, 5) BrainyQuote, accessed March 28, 2024

3, 8) Goodreads, accessed March 28, 2024

4) U.S. News & World Report, March 11, 2024

# It's Complicated: Inheriting IRAs and Retirement Plans

The SECURE Act of 2019 dramatically changed the rules governing how IRA and retirement plan assets are distributed to beneficiaries. The new rules, which took effect for account owner deaths occurring in 2020 or later, are an alphabet soup of complicated requirements that could result in big tax bills for many beneficiaries.

## RMDs and RBDs

IRA owners and, in most cases, retirement plan participants must start taking annual required minimum distributions (RMDs) from their non-Roth accounts by April 1 following the year in which they reach RMD age (see table). This is known as their required beginning date (RBD).

Likewise, beneficiaries must take RMDs from inherited accounts (including, in most cases, Roth accounts). The timing and amount of an individual beneficiary's RMDs depend on several factors, including the relationship of the beneficiary to the original account owner and whether the original owner had reached the RBD.

Three key points apply to both owners and beneficiaries: (1) individuals must pay income taxes on the taxable portion of any distribution, (2) the larger the RMD, the higher the potential tax burden, and (3) failing to take the required amount generally results in an additional excise tax.<sup>1</sup>

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Date of birth	RMD age
Before July 1, 1949	70½
July 1, 1949, through 1950	72
1951 to 1959	73
1960 or later	75

The age that determines an account owner's RBD depends on the account owner's date of birth.

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## Spouse as sole beneficiary

Spouses who are sole beneficiaries have the most options for managing inherited accounts. By default, a surviving spouse beneficiary is treated as what's known as an eligible designated beneficiary (EDB) with certain advantages (see next section, "EDBs and DBs"). And if the deceased spouse died before the RBD, a surviving spouse EDB who is the sole owner can wait until the year the deceased would have reached RMD age to begin distributions.

Alternatively, a surviving spouse who is the sole owner can generally roll over the inherited account to their own account or elect to be treated as the account owner (rather than as an EDB). In these cases, the rules for account owners would apply. However, there is a potential drawback to this move: if the surviving spouse is younger than 59½, a 10% early distribution penalty may apply to subsequent withdrawals unless an exception applies.

## EDBs and DBs

The SECURE Act separated other individual beneficiaries into two groups: EDBs and designated beneficiaries (DBs). EDBs are spouses and minor children of the deceased, those who are not more than 10 years younger than the deceased, and disabled and chronically ill individuals. DBs are essentially everyone else, including adult children and grandchildren.

EDBs have certain advantages over DBs. If the account owner dies before the RBD, an EDB is able to spread distributions over their own life expectancy. If the account owner dies on or after the RBD, an EDB may spread distributions over either their own life expectancy or that of the original account owner, whichever is more beneficial.<sup>2</sup>

By contrast, DBs are required to liquidate inherited assets within 10 years, which could result in unanticipated and hefty tax bills. If the account owner dies before the RBD, the beneficiary can leave the account intact until year 10. If the owner dies on or after the RBD, a DB must generally take annual RMDs based on their own life expectancy in years one through nine, then liquidate the account in year 10.

## Other considerations

Work-sponsored retirement plans are not required to offer all distribution options; for example, an EDB may be required to follow the 10-year rule. However, both EDBs and DBs may roll eligible retirement plan assets into an inherited IRA, which may offer more options for managing RMDs.

This is just a broad overview of the complicated new rules as they apply to individual beneficiaries. If an account has multiple designated beneficiaries, or if a beneficiary is an entity such as a trust, charity, or estate, other rules apply. Beneficiaries should seek the assistance of an estate-planning attorney before making any decisions.

1) The IRS has waived this tax as it applies to the DB 10-year rule through 2024.

2) An inherited account must be liquidated 10 years after an EDB dies or a minor child EDB reaches age 21.

# The IRS Wants More Info About Your Gig Income

If you earn money through a payment app or online marketplace, you may be affected by a tax reporting change enacted by the 2021 American Rescue Plan. The law requires third-party settlement organizations to report business transactions totaling over \$600 per year by issuing a Form 1099-K to the taxpayer and the IRS. The previous reporting threshold was much higher (\$20,000 and 200 business transactions).

This change was delayed for the 2023 tax year because it could trigger frustrating unintended consequences. According to the Internal Revenue Service, an estimated 44 million taxpayers might have received unexpected 1099-K forms — with amounts that may not have been taxable. To provide more lead time, the agency announced plans to drop the threshold from \$20,000 to \$5,000 in 2024 (without regard to the total number of transactions) as part of a phase-in of the \$600 threshold.

Here are a few more things that may be helpful to know about this far-reaching new rule.

**It's not personal.** Business transactions are payments for goods or services, including tips. Money received from the online sale of personal items (like old clothing or furniture), which are normally sold at a loss, is not taxable and generally doesn't need to be reported. However, those in the business of reselling goods for a profit should carefully track the original costs of their purchases. Payment apps are not required to report

personal transactions intended as gifts or to split costs. The payer will typically be asked to note nonbusiness transactions.

**It's not a tax change.** Taxpayers who sell goods, rent out a vacation home, walk dogs, or perform any other type of freelance work through digital platforms were already responsible for self-reporting all income on their tax returns regardless of the threshold. But now the IRS can cross-reference the information sent by third parties with the reported amounts.

**It's not foolproof.** This change could still cause confusion and costly mistakes. If a payer (such as a roommate making a shared rent payment) accidentally clicks on the wrong box, the recipient could receive a Form 1099-K in error. A freelancer might receive a Form 1099-K from the payment processor and a Form 1099-MISC from the client for the same transaction. In such cases, the taxpayer may need to contact the issuer, and if a discrepancy is not corrected, the reported amount can be adjusted with a notation on the tax return.

Using separate accounts for business and personal digital transactions and keeping organized records will help ensure that your tax return is accurate, so you don't overpay or raise red flags with the IRS. If you have questions about how the new rule might affect you, don't hesitate to consult a qualified tax professional.

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