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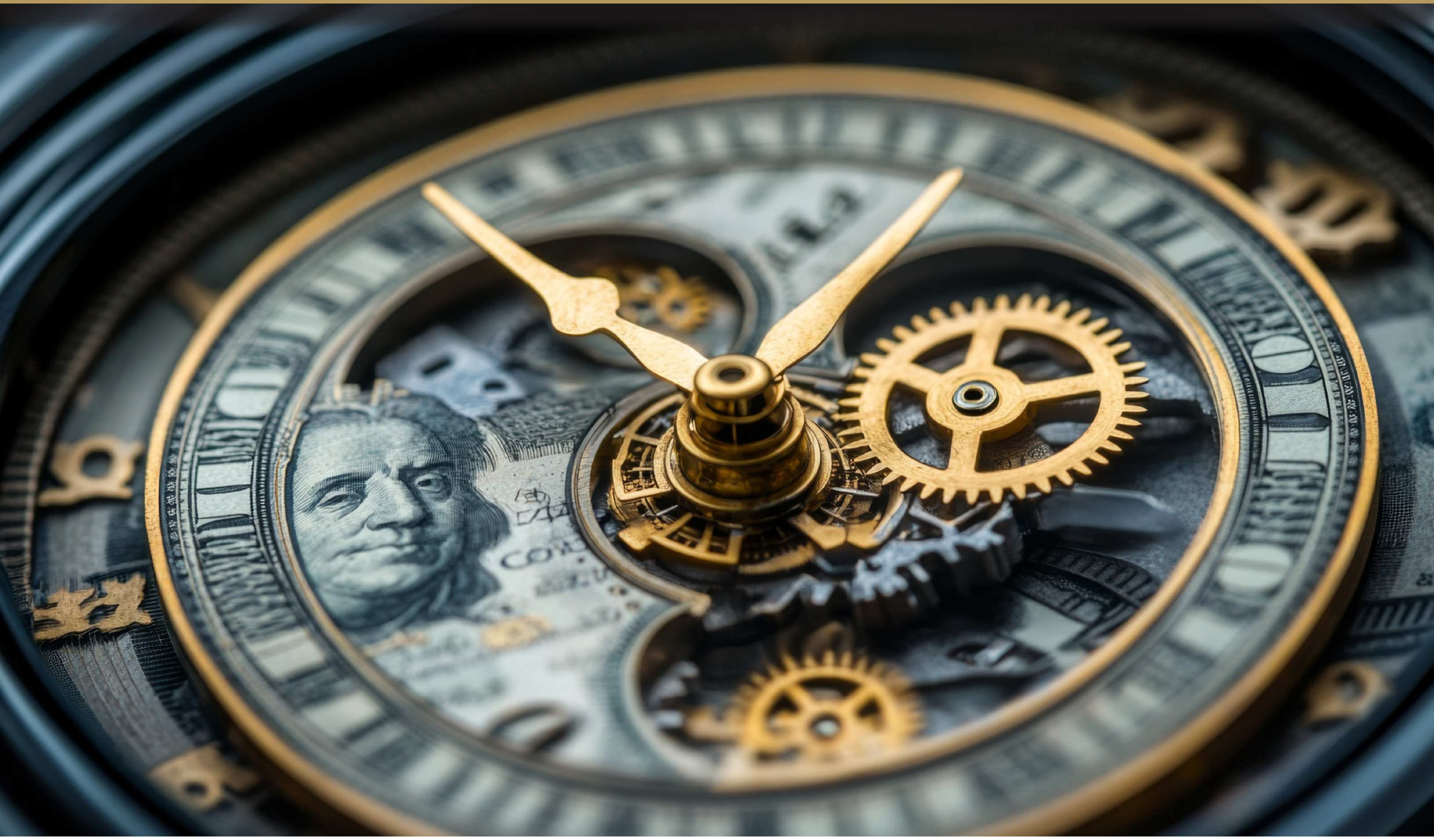

PEAPACK PRIVATE

Welcome to the September 2024 issue of the Peapack Private Planning Quarterly! This issue features a range of topics from retiring abroad, leaving your car to a loved one, an explanation of Restricted Stock Units and Social Security benefit timing. Please reach out to our authors or to any of our investment and planning professionals with your questions and feedback. We welcome all your personal finance questions and hope that our guidance will help you achieve your financial goals.

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Retiring Abroad: Is It Right for You?

Sarah Vehap
Wealth Planner

Retirement is a significant phase in life, offering an opportunity to try different things, embark on new adventures, or simply relax. While many Americans choose to retire domestically, an increasing number are considering retiring abroad. This article explores the reasons behind this trend, some of the pros and cons to consider, and a look at several countries and their benefits.

Why Retire Abroad?

There are several reasons why Americans decide to retire abroad. Some are drawn by the lower cost of living in many foreign countries. Others are attracted by the prospect of experiencing a new culture. Immersing oneself in a foreign culture can be intellectually stimulating and enriching. It offers new sights, sounds, and experiences that can enhance one's quality of life. Moreover, some retirees are motivated by the prospect of acquiring a second citizenship, which provides practical benefits like easier travel and access to social services in other countries.

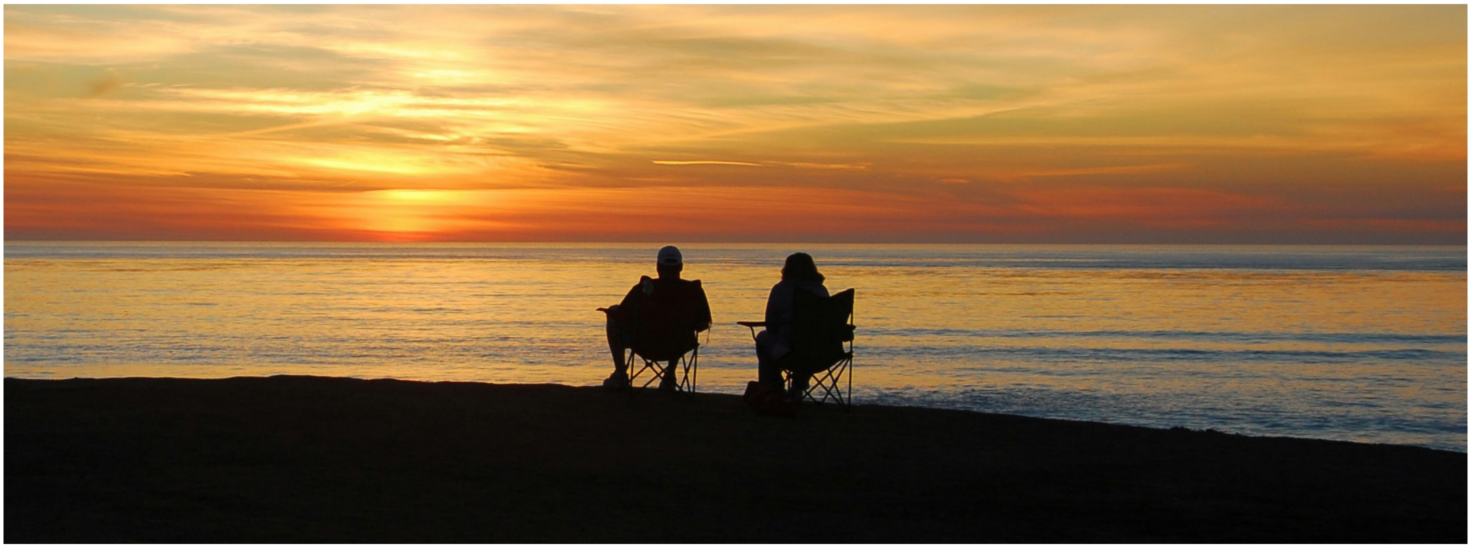
There's something thrilling about being in a new environment with new sights to see, new foods to try and new people to meet.

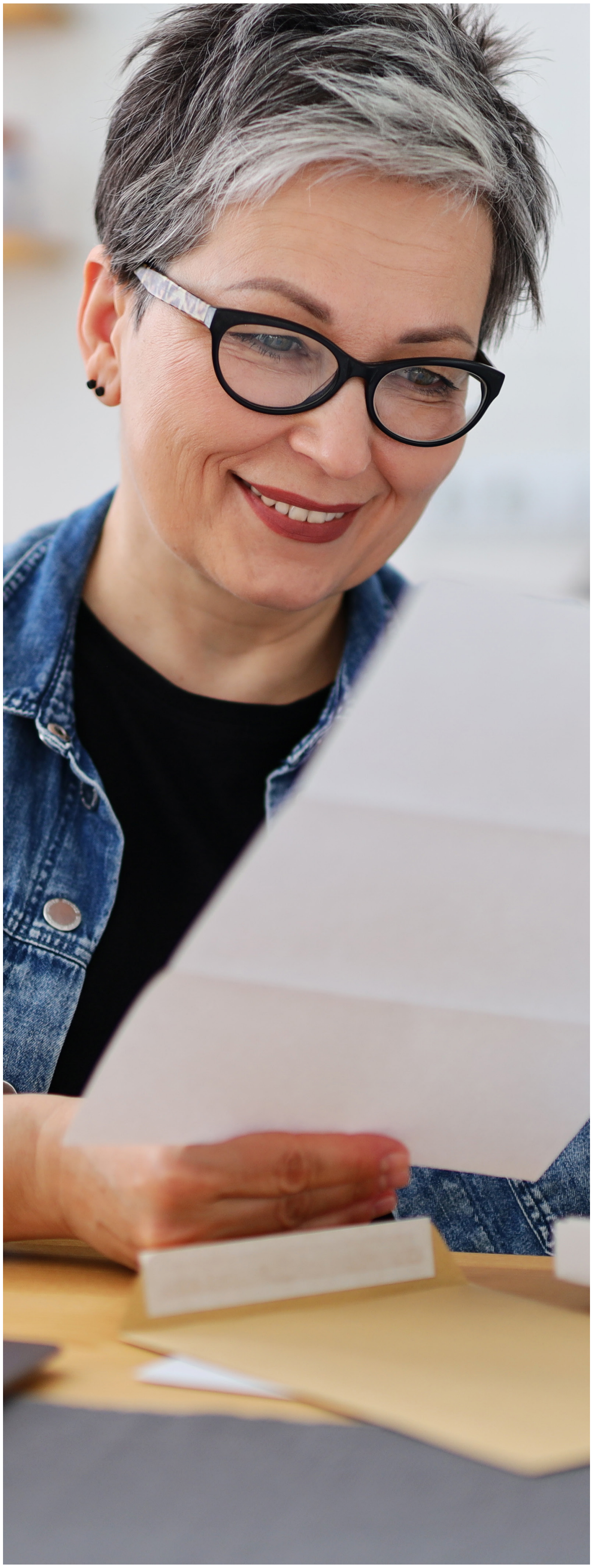
Pros and Cons of Retiring Abroad

Retiring abroad can be a rewarding experience, but it also comes with its own set of challenges. Let's explore the opportunities and potential pitfalls.

Pros:

- Experiencing a New Culture:
  - Retiring abroad can be a great adventure. There's something thrilling about being in a new environment with new sights to see, new foods to try, and new people to meet. The efforts of learning another language and adapting to unfamiliar cultural customs are great ways to keep one's mind sharp and engaged.
- Lower Cost of Living:
  - In general, the cost of living is much lower outside of United States. For example, the cost of living in New York City is twice as expensive as Florence, Italy. Porto, a popular retirement destination in Portugal, is almost 65% cheaper to live in than San Francisco.
- Quality of Life:
  - Beyond the novelty of traveling and experiencing a new culture, overseas retirees often cite a higher quality of life as a major draw. This can be due to factors such as less stress, better weather, and a slower pace of life.
- Healthcare
  - Some retirees are drawn to countries with affordable, high-quality healthcare systems.
- Retirement Visas:
  - More countries are opening up retirement visas, making it easier for Americans to retire abroad.





Cons:

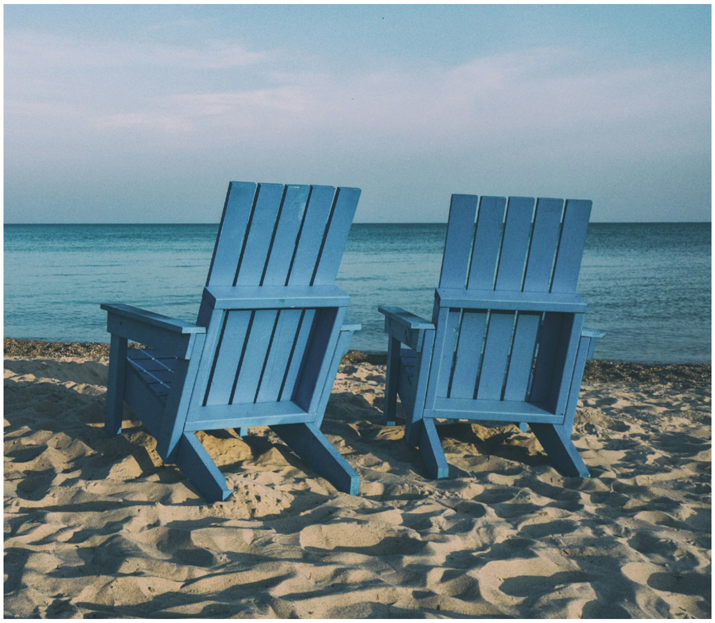
- Financial & Legal Complications:
  - Managing finances across international borders can be complex, often requiring careful planning and continuous oversight.
  - Understanding the tax implications of living abroad can be challenging, and retirees may need to seek professional advice to ensure they are in compliance with both U.S. and foreign tax laws. For example, U.S. citizens may receive Social Security payments outside the U.S. if eligible for them. However, there are certain countries to which the Social Security Administration is not allowed to send payments. Further, you will want to understand the taxation of your benefits should you be eligible to receive them. Additionally, you must pay U.S. income taxes if you keep U.S. citizenship, however the Foreign Income Exclusion ensures no double taxation on specific earned income. Work with a tax specialist to ensure compliance.
- Housing:
  - Should you buy or rent? Renting may assist you in exploring different regions or countries before you make a major purchase. Additionally, residency requirements vary for every nation, so understanding the expectations before making your decision is helpful.
- Culture and Language Barriers:
  - While immersing yourself in a new culture can be exciting, it can also present challenges. Language barriers can make simple tasks like shopping or visiting the doctor more difficult. Cultural differences can lead to misunderstandings or feelings of alienation.
- Social and Emotional Impact:
  - Retirees may miss the familiarity and comfort of their home country. This can include everything from missing family and friends to craving favorite foods that are hard to find abroad. The emotional cost of leaving your home country can be significant.
- Limited Support Network:
  - When you move to a new country, you may be leaving behind a support network and building a new one in a foreign country can take time and effort.
- Healthcare Availability:
  - Healthcare systems vary greatly from country to country, and it's important to understand what healthcare services are available and how you'll pay for them. Additionally, Medicare doesn't follow you, so understanding health care options is critical.

Top Destinations

There's no shortage of rankings and lists of where Americans are retiring and why; however, let's review a few that may provide insight into top destinations and their benefits, as well as context to the number of retirees in specific countries.

Countries with retirement tax benefits:

- Costa Rica:
  - Known for warm weather, friendly people, easygoing lifestyle, and low cost of living. It also has what is often considered one of the best healthcare systems in Latin America. It does not tax U.S. retirement income.
- The Philippines:
  - Offers a Special Resident Retiree's visa to expats with enticing tax benefits. This visa provides exemptions from taxes on annuities and pensions.
- Belize:
  - Offers the Qualified Retirement Program (QRP), which provides tax benefits to entice foreign retirees. Participants pay zero income tax on foreign income.
- Australia, Malaysia, Panama, Uruguay:
  - These countries do not tax any foreign income of expat retirees.
- Colombia, Dominican Republic:
  - Neither of these countries tax pension and Social Security payments.



Top 10 destinations for Americans and approximate number of retirees (as of 2022):

1. Mexico: 799,000
2. Canada: 273,000
3. United Kingdom: 170,000
4. Puerto Rico: 159,000
5. Germany: 152,000
6. Australia: 116,000
7. Israel: 76,000
8. South Korea: 68,000
9. France: 61,000
10. Japan: 58,000

Best Countries to Retire to (2024):

The International Living study utilizes a "Retirement Index", which focuses on well-established expat hubs that are known for comfortable living – considerations included housing, visas and benefits, cost of living, affinity rating (factors such as restaurants and ability to have a vibrant social life), healthcare, development and governance, and climate.

1. Costa Rica
2. Portugal
3. Mexico
4. Panama
5. Spain
6. Ecuador
7. Greece
8. Malaysia
9. France
10. Colombia

Conclusion

Retiring abroad is an increasingly attractive option for many Americans, especially those drawn by a lower cost of living, alignment with their political views, and potential tax benefits. However, there are significant cons to weigh, such as healthcare availability, legal and tax complexities, and the emotional cost of leaving your home country. Therefore, it is a good idea to live in the overseas destination for at least several months to make sure it will be a good fit.

Remember, a good vacation spot doesn't necessarily make a good place to live. It's crucial to consider all these factors and make an informed decision about where to spend your retirement years.

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Navigating Restricted Stock Units: Key Insights

Anibal Guerrero Russo, CFP®, CPWA®, EA
Wealth Planner

Whether you are stepping into the corporate world or in negotiations with a potential employer, understanding the concept of Restricted Stock Units (RSUs) can significantly enhance your financial standing. Companies often use RSUs as a key form of compensation, whether to attract top talent or to retain their existing workforce. Before we delve into the key questions to consider when negotiating your next bonus, it's essential to comprehend critical areas when it comes to Restricted Stock Units.

Restricted Stock Units are nothing more than a future promise by your employer to provide access to shares as a form of compensation. Such shares are restricted until specific requirements within your contract are met. This process of meeting the requirements and gaining access to the shares is known as 'vesting.' A common example of vesting is time-based restrictions, where employees must be with the Company for a certain period, e.g., three to five years. Also common are goal-based restrictions, where corporate, departmental, or individual goals must be achieved for an individual to receive their respective shares.

Valuing RSUs also comes with specifications that one must understand. A contract will specify the dollar amount to be granted to an employee, not the share amount. The calculation to determine the number of shares to be awarded varies from Company to Company. A good rule of thumb is to view the share price at the time of your grant and divide it by the dollar amount to be received. It is important to note that the share price at the grant date may differ from the share price at the vesting date, which is when the shares are received. This is important to understand as your potential bonus might differ from your initial expectation. Consider the following scenario:

Imagine you've been granted a $100,000 RSU bonus that you'll obtain in January 2025. This bonus comes with a three-year time-based restriction. Let's say the Company's stock price is $100 at the grant date, which means you'll receive 1,000 shares. However, at the end of the three years, the value of your bonus may change based on the stock price. If the stock price rises to $130, your bonus will be $130,000. Conversely, if the stock price falls to $80, your bonus will only be $80,000. This fluctuation in value demonstrates that RSUs come with risk, so it's essential to be cautious and prepared for such fluctuations.

This fluctuation in value demonstrates that RSUs come with risk, so it's essential to be cautious and prepared for such fluctuation.

Another critical aspect to understand when it comes to Restricted Stock Units is taxation. When an individual is awarded RSUs, there is no taxable event due to being subject to a 'substantial risk of forfeiture.' This means that the shares are not yet yours because conditions, such as a goal or timeline, are yet to be met. However, upon meeting the requirements set forth, one can expect the shares to vest. The value of the vested shares becomes subject to ordinary income taxation at the federal and state levels. Responsible planning is key to managing your finances effectively. Most employers withhold at the statutory rate of 22% if income is less than $1,000,000 or 37% if income is greater than $1,000,000, so understanding these rates can help you manage your finances more effectively. Additionally, employers will make it easy by offering automated withholding, i.e., selling shares to meet the withholding requirements. One last concept within the taxation of RSUs is the tax treatment after you've received your vested shares. From the date you receive the shares, the clock starts, which, depending on how long you hold the stock, will determine the tax treatment. If you sell the stock after holding it for less than 12 months, you can expect to pay at ordinary income tax rates. If you sell the stock after holding it for more than 12 months, you can expect a more favorable tax treatment at the long-term capital gains rate.

Once you have met the RSU requirements and withheld taxes, what should you consider next? After paying taxes, the remaining shares will be released to you, and at this point, you have a decision to make: should you sell everything or hold onto the stock? The choice will vary from person to person, but here are some questions to consider:

- Are there additional shares of equity compensation that I will receive?
- Would holding this stock create a concentration in one Company or industry across my portfolio?
- Do I currently have, or will I need liquidity where these funds can be utilized?

The answers to the questions above will lead to a solution based on an individual's circumstances.

Now, with a greater understanding of Restricted Stock Units, here are the following questions or areas you should consider when negotiating your compensation:

- Will my financial goals or objectives significantly be impacted if my RSUs fluctuate negatively?
- Reflect on the current stock price. How likely is it to continue its upward trajectory? Can it retain its current price?
- Does my employer offer other forms of equity compensation?

No single approach is superior; rather, it is important to understand your options to make a well-informed decision. Consider talking with your Wealth Advisor for guidance on equity compensation strategies. Seeking professional advice can provide you with the support and guidance you need to navigate the complexities of RSUs and to make the best decisions for your financial future.

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Easing the Burden: New Jersey's Approach to Vehicle Asset Transfer

Matt Yard
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Dealing with the death of a loved one is an incredibly difficult experience. In the midst of mourning, families often face a host of practical challenges, such as planning a funeral and handling the deceased's personal affairs. These tasks alone can be overwhelming, but when it comes time to transfer the decedent's assets, probate enters the picture, and the burden can become even heavier.

Fortunately, for New Jersey residents, the state has recognized the challenges that a lengthy and costly probate process poses and, therefore, has enacted a new law to help combat the intricacies of transferring assets from a loved one.

New Transfer on Death (TOD) Law for Motor Vehicles

In May of 2023, New Jersey enacted a new "transfer on death" (TOD) law for motor vehicles. This means that New Jersey motor vehicle owners can now designate a transfer on death beneficiary, allowing vehicles to pass outside of the probate process, in the same way that a similarly designated bank account would.

- **Ownership and Flexibility:** Under this new law, when a vehicle owner designates a TOD beneficiary, they retain full ownership of the vehicle during their lifetime. When they pass, the vehicle goes directly to the beneficiary. Additionally, the owner can change the TOD beneficiary at any point, allowing for flexibility if their circumstances change.

Benefits of the New Law

The new NJ law provides significant advantages to families already dealing with the emotional loss of a loved one:

- **Quick and Seamless Transfer:** It allows the vehicle to be transferred quickly and seamlessly, helping to avoid the unnecessary stress and time of probate.
- **Continued Use:** Loved ones can continue using the vehicle for everyday needs without interruption.

New Jersey's TOD designation for vehicles offers a practical and compassionate solution that eases the burden on grieving families.

Considerations

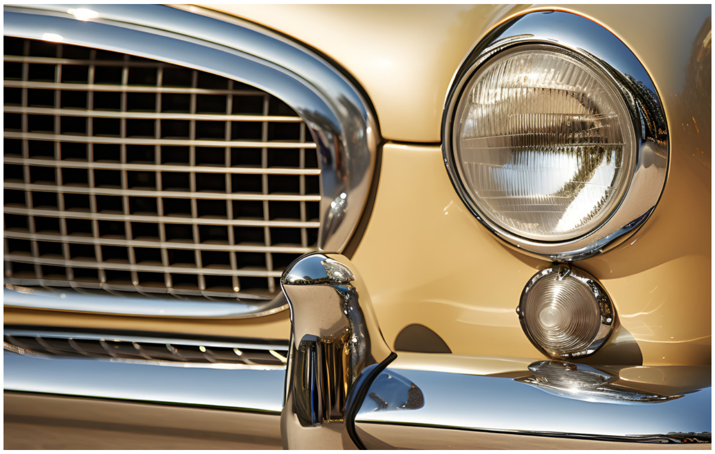
While assigning a Transfer on Death beneficiary to a vehicle offers significant advantages, it's not always the best option for everyone.

- **Financial Obligations:** When a beneficiary inherits the vehicle, they also inherit the financial obligation. If there is a loan on the car at the time of death, the beneficiary would be responsible for the remaining loan payments. If a beneficiary is unprepared to assume the debt on the vehicle, it could create significant financial strain.
- **Inheritance Tax:** While this new law allows for the transfer of a vehicle outside of the probate process, it does not eliminate the potential inheritance tax implications. The state of New Jersey imposes an inheritance tax on the transfer of assets, including vehicles. While Class A beneficiaries (spouse, children, grandchildren, parents) are exempt from this tax, Class C beneficiaries (other close family relatives) may be subject to an inheritance tax ranging from 11% - 16% of the vehicle's value above the exemption amount.

New Jersey's TOD designation for vehicles offers a practical and compassionate solution that eases the burden on grieving families.

Final Thoughts

Ultimately, allowing NJ motor vehicle owners to designate a TOD beneficiary provides a straightforward solution to bypassing the probate process. However, it is essential to consider carefully your individual circumstances and consult with a financial professional to ensure that this option is right for you.



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When Should I Start Receiving My Social Security Benefits?

Cynthia Aiken, MBA, CFP®
Senior Managing Director, Head of Wealth Planning

Clients, family members and friends often ask when **can** they and when **should** they start taking their Social Security retirement benefits?

You can begin receiving your Social Security retirement benefits at any age from 62 to 70. However, at **Full Retirement Age (FRA)** you will be eligible to receive 100% of your monthly benefit. If you start receiving benefits before your FRA, your benefits will be reduced; however, if you delay receipt of benefits until after your FRA, your benefits will be increased.

Specifically, **Full Retirement Age (FRA)** ranges from age 66 to 67 and is based on the year you were born.

- 66 – if born from 1943 to 1954
- 66 to 67 – if born from 1955 to 1960
- 67 – if born in 1960 or later

By starting your benefits before your FRA, your benefit will be reduced by 6.00% to 6.25% annually. Therefore, if your full retirement age is 66 and you start benefits at age 62 (48 months), your benefits will be reduced by 25%. If your full retirement age is 67 and you start benefits at age 62 (60 months), your benefits will be reduced by 30%.

By delaying your benefits until full retirement age, you will receive a benefit increase of 8% annually. Thus, if your full retirement age is 66 and you delay benefits until age 70 (48 months), then your benefits will be increased by 32%.

When you reach age 70, your monthly benefit stops increasing even if you continue to delay taking benefits.

There are pros and cons of receiving benefits before FRA and each recipient can weigh the factors for themselves. Here are some of the most common pros and cons.

Pros of starting Social Security benefits early:

- **If in poor health** – You may decide to start your benefits early due to concern that you may be collecting benefits over fewer years.
- **No longer working** – If you decided to retire early or your employer decided for you, you may decide to start your benefits early because you need the income.
- **You need cash now** – We are living in a period of high inflation, and you may decide to claim benefits early to cover your living expenses rather than tap your savings or retirement accounts.
- **You need to get out of debt** – If in debt, taking benefits early may help you pay off your debt. You may make this decision if your debt carries very high interest rates, such as credit card debt with rates of 30% or more. Please note that starting benefits early (prior to FRA) permanently reduces your benefits.
- **You may choose to collect benefits early and invest the funds** – Keep in mind that the return on your investment must surpass the guaranteed return that Social Security provides if you delay benefits until full retirement age or later.
- **Solvency of the Social Security Trust** – You may have concerns that Social Security benefits will be reduced or non-existent when you start claiming.

We are living in a period of high inflation, and you may decide to claim benefits early to cover your living expenses rather than tap your savings or retirement accounts.

Cons of starting Social Security benefits early:

- **Your benefits are permanently reduced** – By starting benefits at age 62, you will receive 70% to 75% of your full retirement age benefit. You will be locked into this discount for the remainder of your life.
- **The annual cost of living adjustments will be smaller** – The Social Security cost of living adjustments will be based upon a smaller benefit and thus the increases will be smaller.
- **Long-term impact** – The lower benefit and smaller cost of living adjustments equate to lower income throughout your retirement.
- **You will incur a penalty for working** – If you are employed at the time when you begin your Social Security benefits, those benefits will be reduced. If under full retirement age, Social Security deducts $1 from benefits for each $2 earned over the annual income limit of $22,320. However, in the year you reach FRA, Social Security deducts $1 for each $3 earned over $59,520. Beginning with the month you reach FRA, your earnings no longer reduce your benefits, no matter how much you earn.
- **Your spouse's benefits may be permanently reduced** – Typically, when you start your own benefits, your spouse is eligible to receive a spousal benefit which can be half of your FRA benefit. If you begin receiving your benefits early, then the spousal benefit will be 50% of your benefit at that time. As a result, if you start benefits early, then your spouse will be locked into a lower benefit than if you had started at your FRA.

Considerations:

- **Life expectancy** – If you are healthy and there is longevity in your family, you may anticipate a long life. In this situation, you may decide to delay starting benefits until full retirement age or later to lock in higher benefits rather than starting earlier and locking in much lower benefits.
- **Breakeven point** – You may want to calculate the year when benefits received early versus benefits received at full retirement age or later are equal. This is referred to as the breakeven point. If you expect to live beyond the breakeven point, then the later starting age may result in higher overall lifetime benefits.
- **Income streams or financial assets?** – What income streams or financial assets will you use to cover living expenses if you are retired and delay Social Security benefits? Do you have a pension, annuity or other income for financial support? Or will you be drawing on your cash or investment accounts?
- **Single or married?** – If you are single, you are only concerned with maximizing your own benefits, but if married, you may be worried about reduced benefits for your spouse if you start early.
- **Spousal benefits** – As noted above, starting your own benefits early could impact your spouse's benefits. Furthermore, it is important to take into account the benefits based on your spouse's own employment history. Your spouse's own benefits may be more than your benefits or more than 50% of your benefits. In this case, it may be best to coordinate the start dates of both benefits.

The decision of when to begin taking Social Security benefits is unique to every individual, couple and family and depends upon several factors. Please consult your Wealth Advisor who can explore various strategies to help you make an informed decision.

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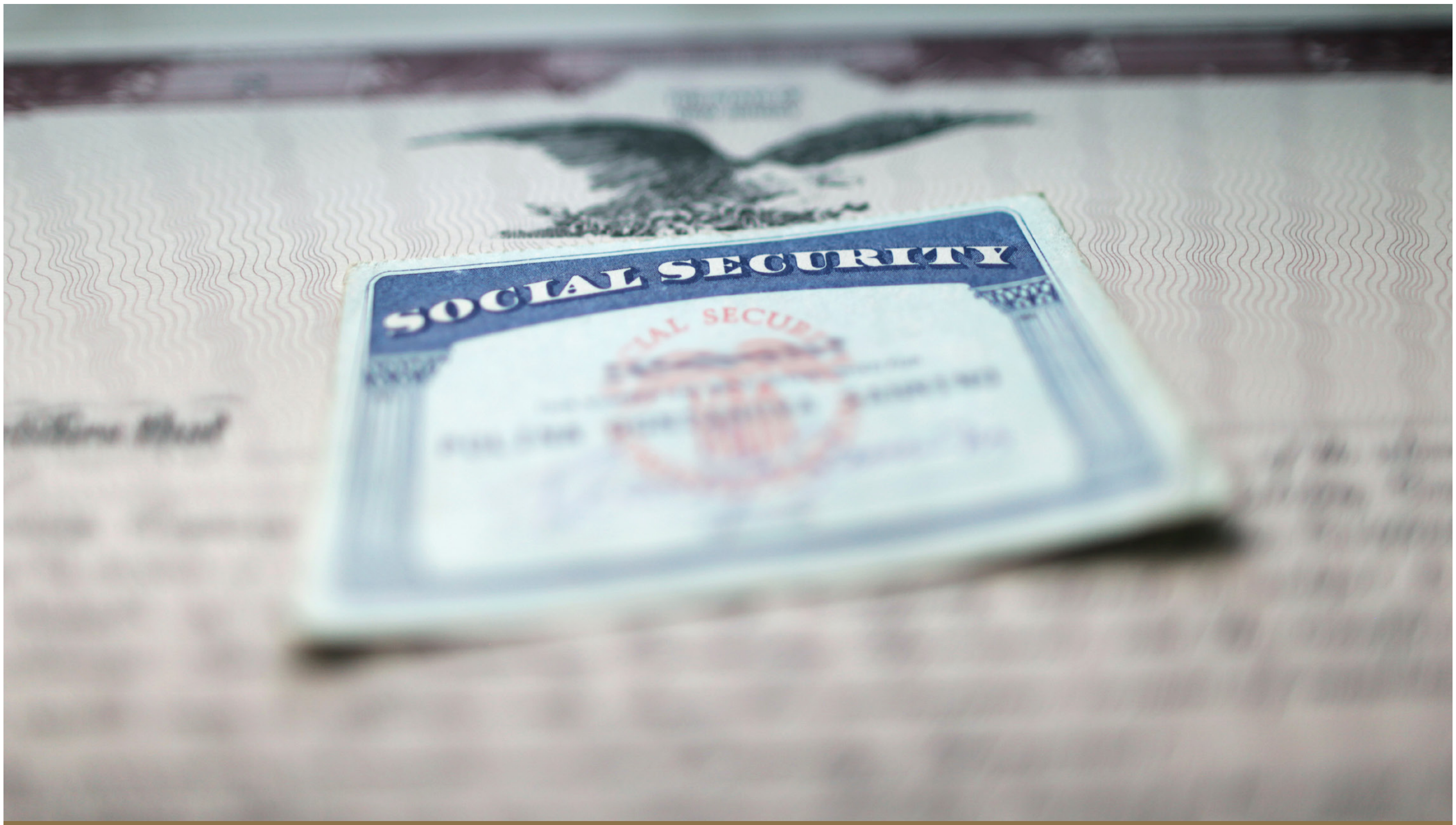

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