Lenox Advisors
QUARTERLY UPDATE

Despite New Protections, Identity Theft Remains A Threat

The Federal Trade Commission received 1.1 million identity theft reports through its IdentityTheft.gov website in 2024 (the last year for which statistics are available). And though the IRS has reduced tax-related identity theft in recent years, it remains a real risk. Chances are, you or someone you know has suffered an identity theft incident. Here's what you can do to fight back.

AGENCIES AND COMPANIES STEP UP

In recent years, tax-related identity theft has declined because of IRS technology upgrades and other antifraud efforts. In fact, the Treasury Inspector General for Tax Administration reports that the IRS has recently successfully stopped refunds before they were paid on nearly 99% of fraudulent returns.

Financial institutions and online tax preparers have also beefed up security. For example, most of these services use multifactor authentication, such as a password plus a code sent by text, to verify a user's identity. What's more, the three major credit bureaus (Equifax, Experian and TransUnion) and many banks now allow consumers to place security freezes on their accounts so that no information can be released or new credit issued.

LITTLE INFORMATION, BIG TROUBLE

Despite these efforts, many Americans are regularly defrauded because crooks can create a lot of trouble with only a little personal information. Perpetrators may be able to open credit cards in your name, apply for loans, and even take over financial accounts with just your name and Social Security number (SSN). Even a driver's license number can open doors to thieves, particularly if they use "synthetic" methods and combine data.

Tax-identity theft is particularly dangerous. Fraud perpetrators may file a fraudulent tax return with your SSN and claim a refund. Then, when you attempt to file, the IRS or state tax authority will likely reject your return as a duplicate. It can take months to resolve the matter and receive any refund you're owed.

PREVENTION TIPS

According to the ID Theft Resource Center, personally identifiable information used to perpetuate identity theft is generally obtained through one of three methods:

1. A scam (such as a phone-based imposter scheme or phishing email),
2. Stolen cards or documents, or
3. Unauthorized access to a computer or mobile device.

Given such threats, you should never divulge personal information to an unsolicited phone caller if you can't independently verify their identity. Know that the IRS, law enforcement or other government agencies will never ask for an SSN or financial information over the phone. And no legitimate business or agency will ask you to pay them with gift cards. (Only fraud perpetrators do that!) Also beware of phishing emails and never click on links or attachments in emails unless you're positive they're legitimate.

Another key to preventing identity theft is to safeguard your SSN. Don't carry your Social Security card with you, and don't provide your number to others unless absolutely necessary. Also, never type it into an email or unencrypted web form.

You can protect tech devices by using strong, regularly changed passwords and keeping security software and patches up to date. In addition, exercise caution when using public wi-fi networks. And routinely review credit card, bank and brokerage statements, as well as your credit bureau reports, for suspicious activity.

To head off tax identity theft, file your return as early as possible so that thieves don't get the chance to file before you. And obtain an Identity Protection PIN from the IRS. Once registered, you'll annually receive a six-digit number to use to prove your identity when filing.

TAKE CONTROL

Even the most careful individuals can fall prey to fraud. So if you suspect something, don't hesitate to act. Contact your financial institutions, close any compromised or fraudulently opened accounts, and call all three credit bureaus. Finally, let us know how we can help.

Beyond The 4% Rule

How To Get Retirement Savings Withdrawals "Just Right"

Once you've made the decision to retire, determining how much of your savings to tap each year can be nerve-wracking. You don't want to withdraw too much and run out of money or withdraw *too little* and miss out on enjoying retirement to its fullest. Let's look at some strategies to help you withdraw amounts that are "just right."

STARTING POINT

You may have heard of the "4% rule," which says you can safely withdraw 4% of your retirement savings each year. Although this rule can provide a good starting point, your actual safe withdrawal rate may be significantly higher or lower, depending on personal factors, including your:

- Retirement age,
- Life expectancy,
- Investment mix, and
- Risk tolerance.

What's more, the 4% benchmark itself may change over time depending on prevailing market conditions, inflation prospects and other economic forces.

The rule was originally developed in 1994 by a financial planner who conducted a study of long-term stock and bond returns. The author found that despite market volatility over the years, there were no historical scenarios in which annual 4% inflation-adjusted withdrawals would have depleted a retirement portfolio in less than approximately 33 years.

Here's how this generally works: Say you have $1 million in retirement savings. You'd withdraw 4% of your portfolio ($40,000) in the first year of retirement. To keep pace with inflation and maintain your purchasing power, you'd increase each year's withdrawals by the inflation rate. Assuming inflation is 3%, you'd withdraw $41,200 in year two, $42,436 in year three, and so on.

NEW WAYS OF THINKING

Recently, some financial analysts have fine-tuned the 4% rule to reflect current conditions. Each year, Morningstar researchers publish guidance on the "safe" starting withdrawal rate for retirees. For 2026, the rate is 3.9%, up from 3.7% for 2025. Morningstar develops the rate based on forward-looking assumptions about asset-class returns and inflation, resulting in a starting rate for inflation-adjusted spending under which there's a 90% probability that funds will remain at the end of a hypothetical 30-year retirement period.

However, though the 4% (or 3.9%) rule can be a useful guideline for starting your planning, relying on it remains risky. As Morningstar acknowledges, "the 'right' safe starting withdrawal rate is a moving target, depending on equity valuations, bond yields, prospects for inflation, and a retiree's own life expectancy and asset allocation, among other factors."

FLEXIBLE SPENDING STRATEGIES

Whether your "safe" retirement savings withdrawal rate is 4% or something different, you may be able to boost it by adopting a flexible spending strategy. Rates such as Morningstar's 3.9% figure (see main article) are designed to maximize the probability that your retirement nest egg will withstand the ups and downs of the market over a 30-year time horizon.

Flexible strategies allow you to withdraw more initially, so long as you're willing to reduce your spending during market downturns and wait until the market strengthens to increase spending again. Such strategies are particularly attractive if your guaranteed income sources are sufficient to cover your fixed expenses and you generally use your retirement savings for discretionary expenses.

For example, Morningstar's 3.9% safe rate assumes a new retiree with an investment portfolio of 30% to 50% equities who is planning for a 30-year retirement. If your portfolio has a higher equity weighting, a lower rate may be needed to protect you against significant market downturns. If, however, you're retiring at age 70 or have health issues, your time horizon may be shorter, say 20 or 25 years, which translates into a higher safe withdrawal rate.

The bottom line is that mechanically applying the 4% rule can have significant consequences for your retirement plan. It can lead you to overspend, creating a risk that you'll outlive your savings. Or it can lead you to underspend and miss out on some of the pleasures of retirement.

TAILORED APPROACH

Usually, a better strategy is to develop a customized retirement withdrawal plan that's tailored to your particular circumstances. So long as you're prepared to adjust your spending if necessary down the road (see "Flexible spending strategies" above), there are safe ways to potentially boost retirement withdrawals.

Work with your advisor to determine a withdrawal rate that reflects your personal circumstances. Also consider your plans during retirement.
For example, if you're considering traveling extensively in the early years, you may want to withdraw more initially and then reduce your withdrawals as your spending declines in later years.

In addition, weigh the impact of taxes. You likely have a mix of taxable, tax-deferred and tax-free accounts. And if you're at least age 73, you probably need to take required minimum distributions from your IRAs and qualified retirement plans. Finally, to accurately determine how much you need to withdraw from savings, consider any guaranteed sources of income, such as Social Security benefits and annuity or pension payments.

GET HELP

Don't attempt to tailor your own retirement plan. To help ensure you'll be able to pursue the retirement you've dreamed about, it's critical to work with knowledgeable financial professionals. Contact your advisor to learn more.

Withdrawal strategies and rates discussed are for illustrative purposes only and do not guarantee future results.

Hold On To These Tax Records

The IRS generally has three years to audit a tax return (from the latter of the return's due date or filing date). And taxpayers can file an amended return during this period if they've overlooked or reported incorrect information they want to change. To help ensure you'll have what you need to respond to an audit, amend a return or potentially for other purposes, retain tax records as follows.

FEDERAL TAXES

Regardless of the three-year audit/amendment period, many tax advisors recommend retaining copies of finished tax returns indefinitely. At a minimum, keep final returns for six years after they were due or were filed, whichever is later. Within the three-year window, keep records that support items on your individual tax returns. Supporting records include canceled checks, charitable contributions receipts, mortgage interest payments and retirement plan contributions.

So which records can you throw away now? Based on the three-year rule, you can recycle most supporting records associated with your 2022 return, assuming you filed it on time. If you asked for an extension and filed by Oct. 16, 2023, wait a couple of months before tossing these documents.

Also, know that some tax issues are subject to scrutiny for more than three years. For example, if the IRS suspects that income has been understated by 25% or more, the statute of limitations for an audit increases to six years. If no return was filed or if the IRS can assert fraud is involved, there are no time constraints to initiate an audit.

Note too that supporting records can back up tax return items, such as carryovers of charitable deductions, over several years. So be careful to save these documents for as long as you need them to support deductions. And keep records that support deductions for bad debts or worthless securities that could result in refund claims, because you have up to seven years to claim them.

STATE TAX AND OTHER DOCUMENTS

State laws determine how long you should retain state tax records, so

check with your state's revenue department or your tax advisor. States generally have the right to resolve their own issues related to federal tax returns that have been audited. So if you're audited by the IRS, hold on to those records for a year after the audit is completed. Also, you may be required to amend your state return after federal adjustments have been made.

For real estate documents, hold on to them as long as you own the property, plus three years after you dispose of the property and report the transaction on your tax return. As you buy and sell real estate, keep records of purchases, improvements, relevant insurance claims and refinancing documents. These records help prove the adjusted basis in a property (such as your primary residence), which is needed to figure any taxable gain at the time of sale. These supporting documents can also support rental property or home office deductions.

As for investment records, you should maintain detailed records of purchases and sales of securities, including cryptocurrency transactions. Records should include, where applicable, dates, quantities, prices, dividend reinvestment and expenses information. As with real estate, keep these records for as long as you own the investments, plus additional time until the statute of limitations for the relevant tax returns expires.

Finally, the IRS requires taxpayers to keep copies of Forms 8606, 5498 and 1099-R until all money is withdrawn from IRAs. It's even more important to retain records of transactions relating to Roth IRAs.

DISPOSE OF THEM PROPERLY

To prevent identity theft, dispose of old tax records properly. Paper records should be shredded using a cross-shredding machine and digital files should be permanently deleted. Be sure to wipe the memory of any device you used to prepare tax returns before recycling or donating them. For more about tax record retention, talk to a tax professional.

Gifts With Benefits

Navigating Charitable Deductions Under The New Tax Law

For most philanthropic people, giving to charity is its own reward. However, a tax deduction can be a welcome bonus. Last year's One Big Beautiful Bill Act (OBBBA) introduced several significant changes to the rules governing charitable deductions. As you make charitable gifts in 2026, review these updates to see how they affect the deductibility of your donations.

TAX BREAK FOR MOST FILERS

Starting this year, charitable donors who don't itemize can still claim an "above-the-line" deduction. This tax break is for up to $1,000 per year in cash contributions to qualified nonprofits ($2,000 for married couples filing jointly).

This provision benefits a growing number of taxpayers because the OBBBA significantly increased the standard deduction. For 2026, the standard deduction is $16,100 ($32,200 for joint filers), meaning fewer people will itemize. Standard deductions for taxpayers age 65 and older are even higher.

FLOOR FOR ITEMIZERS

Also starting in 2026, itemizers are subject to an annual floor on their charitable deductions. This floor is equal to 0.5% of itemizers' adjusted gross income (AGI). So only the charitable contributions that exceed 0.5% of AGI can be deducted.

Suppose, for example, that Isabel itemizes deductions on her federal income tax return. If her AGI is $200,000, then her first $1,000 in charitable gifts is nondeductible.

CEILING FOR HIGH EARNERS

Another provision that took effect in 2026 installs a ceiling on *all* itemized deductions (not just charitable deductions) for taxpayers in the top federal tax bracket. If you're in the 37% tax bracket, this provision caps the tax benefits you enjoy on account of your itemized deductions at 35%.

Say that Ned, a single filer in the 37% tax bracket with $1 million in AGI, donates $100,000 to charity. Pre-OBBBA, a $100,000 deduction would have saved Ned $37,000 in taxes. Now, however, under the charitable deduction floor, his first $5,000 in charitable gifts (0.5% x $100,000) is nondeductible, so his maximum deduction is $95,000. Plus, because of the new deduction ceiling, the benefit of a $95,000 deduction is capped at $33,250

(35% x $95,000). In other words, the OBBBA reduces the tax benefits of Ned's charitable gifts by more than 10%.

2 WAYS TO MAXIMIZE SAVINGS

Fortunately, there are a couple of strategies available that might help you maximize the tax benefits of your charitable deductions under the new rules:

1. Bunch your donations. Bunching means concentrating two or more years' worth of charitable gifts into one year. Suppose that Isabel from our previous example typically donates $10,000 to charity each year. The floor on itemized charitable deductions limits the amount she can deduct to $9,000 (the excess over $1,000), or $18,000 over two years. If, instead, she were to donate $20,000 every other year, she could deduct $19,000, thus increasing her deductions for the same two-year period by $1,000.

2. Make a qualified charitable distribution (QCD). If you're age 70½ or older, a QCD allows you to transfer up to $100,000 per year, tax-free, directly from an IRA to one or more qualified public charities. Because each distribution is excluded from your income, it has the same tax impact as a charitable deduction, but there's no need to itemize. Plus, it's not subject to a floor or ceiling, so if Ned from our previous example had made a QCD from his IRA, he would have enjoyed the full $37,000 tax benefit from his charitable gift. On top of these benefits, QCDs count toward required minimum distributions (RMDs) from IRAs, allowing you to make at least part of your RMDs without triggering income taxes.

The SECURE 2.0 Act made QCDs even more attractive. Taxpayers are now allowed to make a one-time QCD of up to $50,000 to a charitable gift annuity or charitable remainder trust, combining the tax benefits of a QCD with a lifetime income stream. SECURE 2.0 also provided for the $100,000 and $50,000 limits to be adjusted for inflation. In 2026, those limits are $115,000 and $55,000, respectively.

STRATEGIC GIVING PAYS OFF

The OBBBA has definitely added complexity to charitable giving. But with careful planning, it's still possible to maximize your tax benefits. By using strategies such as bunching and QCDs, you can ensure that your charitable dollars work as efficiently and effectively as possible. Be sure to consult a tax professional before adopting one of these charitable giving strategies.

DONATE NOW, DISTRIBUTE LATER, WITH A DAF

So long as you itemize federal tax deductions, a donor-advised fund (DAF) enables you to deduct eligible charitable contributions now, even if the donations aren't executed until a later date. Basically, you advise your DAF as to when and to whom the money should be distributed.

DAFs can be ideal if you want to enjoy the tax benefits of charitable giving now, but you haven't yet settled on specific charities or prefer to spread your donations over several years. Meanwhile, your investment grows tax-free, potentially increasing the amount available for charitable gifts. DAFs also make great vehicles for implementing a bunching strategy. You can concentrate charitable deductions in specific tax years while retaining control over the timing of charitable distributions.

Just keep in mind that tax regulations require DAF sponsors to have complete control over how funds are distributed. That said, DAF sponsors will almost always follow your recommendations.