Financial Intelligence

Peak Asset
MANAGEMENT

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A Financial Planning Update

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As we go through the early months of 2022, it has been exceptionally hard for many to focus on financial goals. Besides the normal life challenges, the uncertainty of COVID looms large, inflation has made it harder to save, catastrophic weather-related events have swept through local communities, and the war in Ukraine has created unbearable suffering for those directly impacted and high anxiety through the rest of the world. Despite all the increased interruptions to life and uncertainties going forward, it is important to stay on top of opportunities and strategies that can help meet your financial goals. Here are some thoughts and updates on a variety of financial planning topics.

Retirement Savings Opportunities

With the 2021 individual tax filing deadlines following pre-pandemic norms you may still have an opportunity to contribute to retirement accounts for the prior year. For example, if qualified, you have until April 18 to contribute to IRA accounts for the 2021 tax year. If not sure about any last-minute contribution possibilities, you should consult with your tax professional such that tax returns reflect any deductible contributions or that reported income will allow for contributions to after tax plans such as Roth IRAs. We are also available to consult with you and your tax professional about such contributions and would always suggest processing all contributions at least a week before any deadlines. The "Key Numbers 2021" insert attached to last April's Financial Intelligence article posted on the Peak website (see Resources Tab) can also provide information on 2021 contribution opportunities.

For 2022, the "Key Numbers 2022" insert to this newsletter will detail the opportunity to make retirement plan contributions for the new year, which include the following highlights.

IRA Contribution Limits.
Subject to potential income limits, the maximum amount you can contribute to a traditional IRA or a Roth IRA in 2022 is $6,000 (or 100% of your earned income, if less), unchanged from 2021. The maximum catch-up contribution for those age 50 or older remains at $1,000.

Employer Retirement Plans .
The maximum amount you can contribute (your "elective deferrals") to a 401(k), 403(b), and 457(b) plan has **increased to $20,500.** If you're age 50 or older, you can also make catch-up contributions of up to $6,500 to such plans (no change from 2021), increasing the total employee contribution to $27,000. (Special catch-up limits may also apply to certain participants in 403(b) and 457(b) plans).

If you participate in more than one retirement plan, your total elective deferrals can't exceed the annual limit mentioned earlier. Deferrals to 401(k) plans, 403(b) plans, and SIMPLE plans are included in this aggregate limit, but deferrals to Section 457(b) plans are not. The amount you can contribute to a SIMPLE IRA increases to $14,000, and the catch-up limit for those age 50 or older remains at $3,000.

The maximum combined employee and employer contributions that can be allocated to your account in a defined contribution plan (for example, a 401(k) plan or profit-sharing plan) in 2022 is $61,000 (up from $58,000 in 2021) plus age 50 catch-up contributions (e.g., $6,500 for a 401(k) plan, for a maximum combined $67,500).

Note: Although not considered a retire-

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ment account, the triple tax advantaged **Health Savings Account (HSA)** maximums for 2022 increased by $50 for a single plan to $3,650 ($4,650 if age 55 or older). For family plans, maximums are increased by $100 to $7,300 ($8,300 if age 55 or older.)

Employer Contribution Deadline for SEP IRAs, SIMPLE IRAs, Solo 401(k)s.
For self-employed business owners the employer contribution deadline for such plans is the tax-filing deadline, plus any extension that you might have. If you have an extension filed to Oct 15, 2023, you can make employer contributions until that date. Without an extension, the deadline for 2022 contributions is April 15, 2023 as of now.

Social Security Update

Social Security's Uncertain Future.
Social Security is a pay-as-you-go system, which means today's workers are paying taxes for the benefits received by today's retirees. However, demographic trends such as lower birth rates, higher retirement rates, and longer life spans are causing long-run fiscal challenges. There are simply not enough U.S. workers to support the growing number of beneficiaries. Social Security is not in danger of collapsing, but the clock is ticking on the program's ability to pay full benefits.

Each year, the Trustees of the Social Security Trust Funds provide a detailed report to Congress that tracks the program's current financial condition and projected financial outlook. In the latest report, the Trustees estimate that the retirement program will have funds to pay full benefits until 2033, unless Congress acts to shore up the program. This day of reckoning is expected to come one year sooner than previously projected because of the economic fallout from the COVID-19 pandemic. Once the trust fund reserves are depleted, payroll tax revenue alone would only be sufficient to pay about 76% of scheduled benefits.

Proposed Fixes.
The Trustees continue to urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Payroll adjustments are most often discussed as early fixes and combining some of the following solutions may also help soften the impact of any one solution.

- Raising or eliminating the ceiling on wages subject to Social Security payroll taxes (up to $147,000 in 2022).
- Raising the current Social Security payroll tax rate (currently 12.4%).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Calculating the annual cost-of-living adjustment (COLA) for benefits differently.
- Changing the benefit formula that is used to calculate benefits.
- Reducing future benefits.

Note: Sharp increases in consumer prices in July and August of 2021 have resulted in the 2022 COLA being 5.9% which is the highest since 1983. Unfortunately, Medicare premiums (e.g., Part B) for most have jumped by approximately 14.5%, which will offset part of the monthly increase.

What's at Stake for You?
For those already collecting Social Security, it is unlikely that any future changes will make it through Congress that would reduce gross benefits from today. For those years away from retirement and Social Security eligibility, payroll changes could first be passed into law to help bolster the Social Security fund, and as such, one's net paycheck (after FICA withholdings or self-employment taxes) could be less in the future. With such a possibility, there is no better time than now to focus on saving as much for retirement as possible, and to consider various income scenarios when planning for retirement.

When planning for retirement and approaching Social Security eligibility, it is important to understand what you can expect to receive from Social Security based on multiple scenarios of collecting. Your first source of information should be your Social Security Statement, which you can access online at the Social Security website, ssa.gov, by signing up for a My Social Security account. If you're not yet registered for an online account and are not yet receiving benefits, you should receive a statement in the mail every year, starting at age 60. There have been some recent enhancements to the statement that show benefits for additional claiming options and an online account does provide an enhanced ability to consider even more options with different levels of earnings until collecting. Although statements and tools are enhanced, they don't cover all scenarios and there are often discrepancies between what is shown and what you will actually collect when filing. Knowing the key components of Social Security is vital in being able to make sounds decisions on claiming and the Financial Intelligence newsletter posted on our Peakam.com web-

site titled, "See Retirement Planning Part 1: An Update on Social Security", provides a summary of such components. For the most part, the overall decision criteria on collecting Social Security have not changed over the years and can be summarized as follows:

Consider taking benefits earlier if:

- You are no longer working and can't make ends meet without your benefits.
- You are in poor health and don't expect the surviving member of the household to make it to average life expectancy.
- You are the lower-earning spouse and your higher-earning spouse can wait to file for a higher benefit.

Consider waiting to take benefits if:

- You are still working and/or have the financial means to not depend on Social Security.
- You are in good health and expect to exceed average life expectancy.
- You are the higher-earning spouse and want to be sure your surviving spouse receives the highest possible benefit.

For those that have other sources of cash flow (e.g., part-time income, savings, taxable investment accounts, IRA accounts) we often find that if life expectancy is close to 80 (a few years below average) taking benefits at FRA age versus 62 provides the most benefit. If expected to live close to average life expectancy for retirees (e.g., 82-86) then taking between FRA and age 70 works best. If expected to live past average expectancy (e.g., 87 and up), the maximum age 70 benefit is often the best choice. For married couples who have many more options to consider due to possible spousal and survivor benefits, we often find a "hybrid" solution provides the largest benefits, with most often the highest earner (especially if oldest) delaying until age 70 and lowest earning spouse (especially if younger) taking benefits anywhere from age 62 to FRA. Divorced individuals also have many scenarios to consider, and we can provide separate information pieces and/or consultation to help such persons make the best long-term decision. When discussing scenarios with clients we also may consider tax planning opportunities, opportunities for IRA to Roth conversions, Medicare/health insurance considerations, and how Social Security planning fits into one's overall retirement plan.

Changing Course on Benefits.

If personal and financial situations change, there are several options to change course on benefits after filing. For example, let's say you elected to receive early benefits at age 62, but then decided to go back to work at age 63. You could withdraw your Social Security application within the first 12 months of receiving benefits, pay back the years' worth of gross benefits you received, and then wait until a later age to restart your benefit checks at a higher level. This reversal option is limited to one per lifetime.

Another alternative strategy to increase benefits is after reaching your full retirement age (and before turning age 70), you can ask Social Security to suspend your benefits up to age 70. Your spouse or dependent would also stop receiving any benefits they might be claiming on your record. This will allow you to get approximately an 8% increased benefit for each year past full retirement age that you wait to start receiving benefits again.

In some cases, you may have delayed your benefits and then find that due to health reasons or unexpected cash needs, you might wish to have started benefits earlier, in which you can request a start date up to 6 months back from date of application, providing a lump sum retroactive payment for multiple months; however, keep in mind that monthly benefits going forward are permanently reduced as compared to not taking a retroactive payment.

For important details about repaying benefits or suspending benefit after reaching full retirement age, please refer to websites below:

https://www.ssa.gov/benefits/retirement/planner/withdrawal.html

https://www.ssa.gov/benefits/retirement/planner/suspend.html

Withholding Federal Taxes.

When applying for Social Security you can request to withhold federal taxes from your monthly benefit, which we often advise doing to reduce the risk of penalties due to underpayment of taxes. If already receiving benefits and you want to start, change, or stop your withholding, you'll need to submit IRS Form W-4V to your local Social Security Office. You can download the form or call the IRS toll-free at **1-800-829-3676** and ask for Form W-4V, Voluntary Withholding Request.

Homeowners Insurance Planning

The Marshall Fire in Boulder County and other recent tragic weather-related events across the country have shown the importance of having proper Homeowners insurance coverage. For more information on this planning topic, please see our recent blog posting sent out

to subscribers and available to all via our Peak website.

Miscellaneous Tax and Estate Planning Considerations

Exclusion of Capital Gain on Sale of Your Home.
Although home values overall in the U.S. over the last ten years have not kept up with the U.S. stock market, valuations have kept up with or exceeded general inflation. In Colorado, valuations have more than doubled over the last 10 years on average. This now means that many homeowners will be subject to a taxable gain upon a sale unless the gain falls under Section 121 Home Exclusion rules. If you meet the requirements, you can generally exclude up to $250,000 (up to $500,000 for married couples filing jointly) of the capital gain, regardless of your age. You can exclude the gain only if you owned and used the home as your principal residence for at least two out of the five years preceding the sale (the two years do not have to be consecutive). You can use this exclusion only once every two years, and this exclusion does not apply to vacation homes and pure investment properties.

For example, Mr. and Mrs. Jones bought a home 10 years ago in Colorado for $500,000. They have used it as their principal home ever since. They sell the house for $1,100,000 after commissions and fees. Before the exclusion, they would have a long-term capital gain (subject to capital gain taxes) of $600,000; however, they kept track of all improvements (e.g., deck, landscaping, kitchen upgrades, new furnace, new windows, new roof and solar panel expenses not paid by insurance or reimbursed by energy credits) which totaled $100,000, increasing the cost basis to $600,000 and thus reducing the potential capital gain to $500,000. The Joneses, who file jointly, can exclude $500,000 of capital gain realized on the sale of their home. Thus, their tax on the sale is $0.

For homeowners that are contemplating a sale in the future that might have substantial gains, it is important to keep all records of initial purchase and items that can increase (e.g., improvements) or decrease (e.g., depreciation taken) the basis of the home. Unfortunately, the $250,000 per person or $500,000 per married couple exemption has not increased since 1997, while home prices keep going up.

A partial or modified exclusion may be available even if you fail to meet the residency tests. You may claim a partial exclusion if the primary reason for selling your house is a change in place of employment, for health reasons, or for certain other unforeseen circumstances. A modified exclusion might be the case if your home has been a mixed-use property (e.g., used as a vacation home or rental property) where the gain from the sale of a principal residence home will not be excluded from gross income for periods that the home was not used as the principal residence (i.e., "nonqualifying use"). Special rules also might apply if your principal residence contained a home office or was otherwise partially used for business or rental purposes.

For a surviving spouse, the sale of a jointly owned and occupied residence is entitled to the $500,000 exclusion provided the sale occurs no later than two years after the date of the deceased spouse's death. After such period the exemption drops to $250,000. In non-community property states, the surviving spouse is also entitled to a stepped-up basis on the deceased spouse's half of the primary residence.

For more information, see IRS Publication 523, Selling Your Home. Possible tax planning considerations surrounding the sale of your home should always be discussed with your tax professional.

Child Tax Credit and Dependent Care Credits Not Extended.
In 2021 the American Rescue Plan provided substantial increases to federal child care credits (some of which was paid in advance) and dependent care credits depending on levels of income. As of this writing, these enhanced credits are not scheduled to return in 2022, which could mean a notable tax increase for 2022 for families claiming such credits.

Annual Gift Tax Exclusion Increased.
Since 2018, the annual gift tax exclusion (where no federal gift tax return is required to be filed for the donor) has been $15,000 per donor per recipient. This has increased by $1,000 to $16,000 for 2022. On the flipside, for Colorado taxpayers contributing to a Colorado 529 plan, CO tax deductions are now capped at $30,000 per beneficiary for joint filers (e.g., $15,000 per spouse per beneficiary). Single Colorado filers can get a tax deduction up to $20,000 of 529 contributions into a CO plan to any one beneficiary; however, this would require filing a gift tax return.

Colorado Tax Deduction for Taxable Social Security After Age 65 Now Unlimited.
In the past every individual could, after turning age 65, deduct up to $24,000 for any combination of taxable retirement account withdrawals, pensions, and Social Security. Starting in 2022 if taxable Social Security is over $24,000 the full amount can be deducted. Other retirement and pension income cannot increase this deduc-

tion, but the new law can provide an increased tax break for those that have or expect higher taxable social security income in which 85% of the gross amount is most often taxed. Although not a major decision criterion this change can provide another incentive to delay collecting Social Security for higher earning individuals as each year of delay provides an approximate 8% increase and annual Cost of Living Adjustments (COLAs) will be based on a higher amount. Delaying might also allow IRA distributions or Roth IRA conversions to fill the $24,000 deduction opportunity before Social Security kicks in and accounts for all of the CO deduction.

Enhanced Tax Break for Supporting Child Care and Development in Colorado.

Colorado provides a significant tax incentive for those that make monetary donations toward child care facilities and related charitable organizations. The Child Care Contribution Tax Credit (CCTC), which currently goes through 2024, provides a tax credit (dollar for dollar tax reduction) for 50% of the total contribution for up to $100,000 per year. If the receiving organization is a public charity, then this credit is in addition to any possible federal or CO deductions.

CCTC contributions are used to establish and operate licensed childcare facilities, fund grant programs (scholarships) for parents who need help paying for care, and supplement professional development costs for individuals working in the childcare sector. Most CO childcare facilities are affiliated with this program and many charitable organizations that support child care and development in Colorado (e.g., YMCA, United Way, Boys and Girls Clubs, I have a Dream Foundation, etc.) have examples of tax savings on their websites and information on how to qualify for the credit. To claim a credit the qualifying facility/organization must be able to provide form DR 1317 that would be attached to a Colorado return.

This credit is not valid for stock transfers, gifts in-kind, or gifts made through a foundation or **Donor Advised Fund (DAF)**; however, **Qualified Charitable Contributions (QCDs)** can be used to maximize tax incentives for those that are taking required minimum distributions (RMDs) out of their IRA account(s). For more information about RMDs and QCDs see a "Key Updates About RMDs" blog posting on the Peakam.com website.

Charitable Support for People of Ukraine.

The invasion of Ukraine and military conflict have left millions in the conflict areas displaced and in need of aid. There are many organizations that have come to the rescue of this humanitarian crisis. You may want to consider donating to the following qualified charities to support those in need. Websites (see below) provide specific information on how to donate and these charities are also available through Schwab and Fidelity **Donor Advised funds** for the processing of grants, in which you would indicate the "Ukraine crisis or relief fund" as your grant purpose.

Save the Children Federation, Inc. (Save the Children). This international organization works to address the needs of children growing up in times of crisis. Donations to Save the Children's Ukraine Crisis Relief Fund will go toward providing children and their families with hygiene kits, food and water, cash support, and psychosocial aid. According to Save the Children's website, 85% of every dollar donated to Save the Children goes directly to providing assistance to vulnerable children.

Cooperative for Assistance and Relief Everywhere Inc (CARE USA). This international humanitarian organization has set up an emergency Ukrainian Crisis Fund with the goal of providing immediate support for 4 million people. Donations will go toward providing Ukrainians with water, food, supplies, hygiene kits, immediate support and aid, and cash. CARE notes that its prioritizing supporting women, girls, families, and elderly.

The International Rescue Committee. This organization has a long history of providing resources to refugees fleeing countries facing humanitarian crisis. Its leaders have responded to the situation in Ukraine by meeting with organizations in Poland and Ukraine to gauge the potential number of refugees and their needs so it can quickly mobilize and provide whatever assistance is needed. While the organization will accept donations of any size, it states on the site that a monthly donation of $108 will provide eight families with temporary shelter.

International Medical Corps. This nonprofit is focused on providing health-care services, psychosocial support, and care to citizens of countries dealing with disaster, disease, and conflict. It's currently accepting monetary gifts that will go toward providing Ukrainians with better access to medical and mental health resources.

Project Hope. This international organization coordinates with health-care workers to provide on-the-ground medical support to countries in crisis. It's currently sending medical supplies to Ukrainians.

International Committee of the Red Cross. The ICRS has been working in Ukraine since 2014 and provides emergency assistance such as food, water, and other essential items. They support healthcare facilities with medical equipment and emergency preparedness, repair water stations, and help families separated by the

conflict reconnect.

https://www.savethechildren.org/

https://www.care.org/

https://www.rescue.org/

https://internationalmedicalcorps.org/

https://www.projecthope.org/

https://www.icrc.org/en/donate/ukraine

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