Financial Intelligence

March 2023

A Financial Planning Update (2022 Review and 2023 Opportunities)

By Brent Yanagida, CFP, EA, and Hope Albu CFP, EA

With the year 2022 behind us it is a good time to review key financial planning topics that may have changed since this time last year, and as such, could have an impact on meeting your financial goals.

2022 In Review

2022 was a challenging year for consumers and investors:

- Inflation leapt to levels we haven't seen in over 40 years.
- The Federal Reserve rapidly increased short-term interest rates to tighten financial conditions and combat inflation.
- Asset classes like stocks, bonds, and real estate came under considerable pressure and ended 2022 with losses ranging from 10-30%.
- Geopolitical tensions increased dramatically with the outbreak of war in Europe, further pressuring supply chains and commodity prices on the heels of the pandemic.

While 2022 was discouraging on many fronts, these challenges have opened the door to strategic financial planning opportunities for investors and retirees. As always, we are grateful for the opportunity to help you navigate this challenging market environment and to help you implement updated planning strategies as appropriate.

On the positive front, **Social Security benefits** for most retirees **jumped by 5.9% in 2022 and increased by another 8.7% in 2023.** You have to go back to 1981 to see such a high increase in the Cost of Living Adjustment (COLA). Even for those not yet collecting Social Security but are 62 or older, this is good news as every COLA awarded from the time someone turns 62 until they file for benefits will be automatically included in future benefits. If you, or your spouse if married, can delay or have delayed collecting Social Security benefits, your benefits could be higher than expected when you add the COLA(s) on top of the higher delayed benefits.

For those on **Medicare, 2022 saw a double digit increase in Part B premiums over 2021; however, 2023 will actually see a decrease in most premiums by approximately 3%**, mostly due to repricing and usage of Alzheimer's drugs.

Planning Opportunities

Cash is Back: Increased Yields to Meet Short-Term Goals

Since 2008, there has been very little opportunity to put your money into a highly safe and liquid short-term savings/investment vehicle that would not be subject to principal loss and yet pay an annualized yield much beyond 1%. While cash instruments such as bank and savings accounts are still paying less than 1% on average, **money market funds, short-term Treasury bill/notes, and FDIC backed CDs,** all available to our clients through our custodian, **now have annualized yields, at the time of this writing, of between 4% and 5%.**

For most clients, we suggest having an emergency cash reserve of between 3 to 12 months of expenses that you could easily tap into if something unexpected happens where extra cash outlays are needed. We may also suggest holding additional cash or cash like instruments to support short-term

"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."

(e.g., 1-2 year) goals such as funding an upcoming home improvement, a car purchase, or a family trip. With the cost of borrowing for consumers having significantly increased (e.g., Home Equity and HELOC interest currently near 8%, credit card debt around 20% if not paid off monthly), being able to tap liquid funds without penalties or an adverse tax effect has become even more important than before.

Investment Opportunity for Longer-Term Goals

Thanks to higher bond yields and lower equity valuations, return projections by top institutions for the next 10 years for most popular equity and bond asset classes are higher than they have been in recent years. ("Experts Forecast Stock and Bond Returns: 2023 Edition by Christine Benz, Morningstar"). Yields on individual treasuries, CDs and highly rated corporate and municipal bonds are finally at the point that **building a fixed income (often called a bond) ladder** to lock in yields and provide specific maturity amounts **may help investors meet their unique asset allocation targets and related planning goals.** A fixed income ladder with very low risk of defaults may be designed to meet annual or specific-year cash needs by selecting specific maturities, and even though market values will fluctuate while holding such investments, you know that if you hold a bond or CD to maturity, you will get a specific dollar amount back.

Higher yields have also made investments in fixed income mutual funds and ETFs far more attractive today compared to just a year ago. Even if interest rates continue to increase, today's higher interest income on fixed income mutual funds and ETFs provide significantly greater cushion to help offset volatility in the principal value of the investment.

Tax Loss Harvesting

This is a tax and investing strategy that may work well for select investors with investment holdings in a taxable brokerage account. **In a down market, it may be possible for holdings to be replaced by other investments that may now better meet short-and long-term goals and/or have a better fit within a targeted asset allocation, while providing a tax benefit at the same time by selling positions at a loss.** Any loss captured can be offset against capital gains realized in the same year from other investments, which can also include gains from a sale of real estate or a business. If losses exceed realized gains in the year of sale, up to $3,000 of other taxable income that year can be offset, and any further unused losses can be carried over to future tax years to offset taxable gains and income.

Although a lower cost basis may now be associated with a new investment, any appreciation on a sale of the new investment might be strategically captured in a lower tax bracket year. If the appreciated investment in the brokerage account is held until death, current tax laws provide for a step-up in cost basis for the beneficiary, such that any future sale by the beneficiary would avoid the taxable capital gains built up prior the transfer.

Increased Retirement and Tax Savings Opportunities

Many of you have recently received a blog update about "2023 Key Planning Numbers" that shows the increases in maximum retirement plan and Health Savings Account (HSA) contributions from 2022 to 2023. For example, maximum **401k/403b/457b employee "elective deferral" contributions for someone 50 or older has jumped from $27,000 in 2022 to $30,000 in 2023 (from $20,500 to $22,500 if under 50). The maximum combined employee and employer contributions** that can be allocated to your account in a defined contribution plan, such as a 401k, **has increased to $66,000 if under 50 and $73,500 if 50 or older.**

IRA contribution limits for those eligible have increased by $500 to $6,500 if under 50 and to $7,500 if 50 or over ($1,000 catchup stays the same for now). For 2023, the income phaseout limitations for IRAs have been adjusted higher by approximately 7%, so those that may not have been able to contribute to IRAs in the past may now be able to do so.

Although, not considered a retirement account, for those having a high deductible health insurance plan, the **triple tax advantaged Health Savings Account (HSA) maximums for 2023 increased** by $200 for a single plan to $3,850 ($4,850 if account owner is age 55 or older). For family plans, maximums are increased by $450 to $7,750 ($8,750 if account owner is age 55 or older.)

In addition to using the "2023 Key Planning Numbers" chart (enclosed with this newsletter and saved on our website), **our tax and retirement planning software can help guide the discussion with you and/or your tax professional about where best to save to meet your long-term goals.** Such opportunities may still include last minute 2022 contributions to IRAs, Solo 401ks, SEP IRAs, and HSAs.

For our Colorado based clients, the maximum that can be contributed per beneficiary into a **Colorado 529 college saving plan** for Colorado tax deduction purposes has increased to $20,700 for single filers and $31,000 for joint filers. Know that contributions are considered a "gift" for tax purposes and is above the $17,000 per year per person 2023 annual exemption if contributing as a single filer. Joint filers can split the gift to stay under the annual exemption. If contributing above the annual exemption amount, a gift tax return would need to be filed.

SECURE ACT 2.0 Legislative Update

In late December 2022, President Biden signed into law an omnibus appropriations bill which included something commonly referred to as "SECURE Act 2.0". The most relevant portions are noted below.

Required Minimum Distribution ("RMD") Changes

For individuals who turn 72 after January 1, 2023, you can delay starting RMDs on your own individual retirement account (IRA) until age **73**. This rule does not impact anyone who has an inherited IRA or already started taking his/her RMD in a prior year. Any individual who was born after 1960 may start taking RMDs at age **75** starting in 2033.

Beginning in **2024**, employer sponsored retirement plans with Roth features will not be subject to an RMD requirement. This will allow participants to grow his/her account tax free and compound for additional years.

Surviving spouses of a retirement account have a new option when deciding on how and when to start taking RMDs. Under the SECURE Act 2.0, he/she can elect to be treated as if he/she was the deceased spouse. This means that the surviving spouse may be able to delay taking an RMD until the age at which the decedent would have reached RMD age and the surviving spouse would use the Uniform Lifetime Table used by the deceased owner, if applicable. This option would best be considered if the surviving spouse is older than the deceased spouse and there are other options to support cash flow needs.

The penalties associated with failing to take an RMD decrease to **25%** rather than 50% of the omitted amount. If the error is corrected in a "timely manner" the penalty is further reduced to **10%**.

Roth Enhancements to Employer Retirement Plans

Beginning this year, employees will be able to have employer contributions to qualified plans such as a 401(k) or 403(b) deposited into a Roth account (if available) rather than the previously required pre-tax account. **Starting in 2024 for those having wages over $145,000**, any catch-up contribution to a company retirement plan having the Roth option, will have to be contributed to the Roth account.

Roth SEP and SIMPLE IRAs are also now allowed, although it may take some time before such option is available for most custodians.

"Catch-Up" contribution Increases. Beginning in **2025**, employees aged 60, 61, 62, 63 who are in a qualified employer retirement plan can increase his/her catch-up contributions to the greater of:

- $10,000 (indexed for inflation) or
- 150% of the regular catch-up contribution amount for such plan in 2024

College 529 Plan Rollovers to a Roth IRA

Starting in 2024 a certain amount of unused 529 balances could be rolled into a beneficiary's ROTH IRA, which means that one may not have to use all 529 funds for qualified educational costs to avoid any taxes and the 10% penalty on gains within the account. This is a significant benefit if rolled over funds can continue to grow tax free in a Roth IRA and aren't withdrawn until much later in life, such as in retirement. There are notable restrictions in that the funds in the 529 are subject to a 15-year waiting period prior to rollover and any contributions and/or earnings deposited into the account within the previous 5 years are not eligible to be moved. Rollovers will still be limited to the annual IRA contribution limit and the beneficiary must have "earned income" to have a contribution; however, there is no phaseout based on income as there is for normal Roth IRA contributions. Another significant restriction is that the lifetime rollover maximum is $35,000.

With this option to rollover left over 529 funds, other college funding strategies during the student's time in college might be more strategically used. For example, if qualified for the **American Opportunity Tax Credit**, (phaseouts start when AGI exceeds $160,000 for married couples filing jointly and $80,000 for unmarried individuals) parents with a dependent student should pay out of pocket at least $2,000 for qualified educational expenses a year during the 1st four years of college. By not tapping a 529 account for this expense, a taxpayer can potentially get a **100% tax credit for up to $2,000/year**, and 25% tax credit for the next $2,000 of educational cost paid out of pocket. Tax credits can reduce taxes before any withholdings and estimated tax payments dollar for dollar and if the credit is fully or partially refundable (40% refundable for this credit), a taxpayer having no taxes can get a refund for the credit on top of any other refund due to over payment of taxes.

Please stay tuned for more details on the 529 Rollover announcement and other SECURE ACT 2.0 provisions, especially since most provisions don't take place until after this year.

Terry Hefty, Noel Bennett, John McCorvie, Tara Hefty, Terry Robinette, Brent Yanagida, Julie Pribble, Johnny Russell, Hope Albu, Bethany Aylor, Sophie Berglund,
Peak Asset Management, LLC | 303.926.0100 | 800.298.9081 | 1371 E. Hecla Drive, Suite A | Louisville, CO 80027 | PEAKAM.COM

Peak Asset Management
Financial Planning Team
Brent Yanagida, CFP®
1371 East Hecla Drive, Suite A
Louisville, CO 80027
303-926-0100
www.peakam.com

Key Numbers 2023 | Tax reference numbers at a glance.

Income Tax (2023 tax rate tables)

Taxable income	Tax due	*plus*	% of income*
Single			
Up to $11,000	$0	+	10%
$11,001 to $44,725	$1,100.00	+	12%
$44,726 to $95,375	$5,147.00	+	22%
$95,376 to $182,100	$16,290.00	+	24%
$182,101 to $231,250	$37,104.00	+	32%
$231,251 to $578,125	$52,832.00	+	35%
Over $578,125	$174,238.25	+	37%
Married filing jointly			
Up to $22,000	$0	+	10%
$22,001 to $89,450	$2,200.00	+	12%
$89,451 to $190,750	$10,294.00	+	22%
$190,751 to $364,200	$32,580.00	+	24%
$364,201 to $462,500	$74,208.00	+	32%
$462,501 to $693,750	$105,664.00	+	35%
Over $693,750	$186,601.50	+	37%
Married filing separately			
Up to $11,000	$0	+	10%
$11,001 to $44,725	$1,100.00	+	12%
$44,726 to $95,375	$5,147.00	+	22%
$95,376 to $182,100	$16,290.00	+	24%
$182,101 to $231,250	$37,104.00	+	32%
$231,251 to $346,875	$52,832.00	+	35%
Over $346,875	$93,300.75	+	37%
Head of household			
Up to $15,700	$0	+	10%
$15,701 to $59,850	$1,570.00	+	12%
$59,851 to $95,350	$6,868.00	+	22%
$95,351 to $182,100	$14,678.00	+	24%
$182,101 to $231,250	$35,498.00	+	32%
$231,251 to $578,100	$51,226.00	+	35%
Over $578,100	$172,623.50	+	37%

*The percentage applies to each dollar of taxable income within the range until the next income threshold is reached.

Standard Deduction

Single	$13,850
Married filing jointly	$27,700
Married filing separately	$13,850
Head of household	$20,800
Dependent*	$1,250*

Additional deduction for blind or aged (age 65+)	
Single or head of household	$1,850
Married filing jointly or separately	$1,500

*Dependent standard deduction can't exceed the greater of $1,250 or $400 plus earned income.

Alternative Minimum Tax (AMT)

	Maximum exemption amount	Exemption phaseout threshold
Single or head of household	$81,300	$578,150
Married filing jointly	$126,500	$1,156,300
Married filing separately	$63,250	$578,150
26% rate applies to AMT income up to $220,700* 28% rate applies to AMT income over $220,700*		

*$110,350 if married filing separately.

Education Credits and Deductions

MAGI phaseout ranges	Single or head of household	Married filing jointly
Lifetime Learning credit **($2,000 max)**	$80,000 to $90,000	$160,000 to $180,000
American Opportunity credit **($2,500 max)**	$80,000 to $90,000	$160,000 to $180,000
Education loan interest deduction **($2,500 max)**	$75,000 to $90,000	$155,000 to $185,000
U.S. Savings bond interest exclusion for higher-education expenses	$91,850 to $106,850	$137,800 to $167,800

Estate Planning

Annual gift tax exclusion	$17,000
Noncitizen spouse annual gift tax exclusion	$175,000
Top gift, estate, and GST tax rate	40%
Gift tax and estate tax applicable exclusion amount	$12,920,000 + DSUEA*
Generation-skipping transfer (GST) tax exemption	$12,920,000**

* Basic exclusion amount plus deceased spousal unused exclusion amount (exclusion is portable).
**The GST tax exemption is not portable.

February 21, 2023

Retirement Planning

Employee contribution limits to employer plans*	
401(k) plans, 403(b) plans, 457(b) plans, and SAR-SEPs (includes Roth contributions to these plans)	$22,500
Annual catch-up contribution (age 50+)	$7,500
SIMPLE 401(k) and SIMPLE IRA plans	$15,500
Annual catch-up contribution (age 50+)	$3,500
IRA contribution limits**	
Traditional and Roth IRAs (combined)	$6,500
Annual catch-up contribution (age 50+)	$1,000

* Lesser of these limits or 100% of participant's compensation.
** Lesser of these limits or 100% of earned income.

MAGI phaseout limits for deductible contributions to a traditional IRA (affects taxpayers covered by an employer-sponsored retirement plan)	
Single or head of household	$73,000 to $83,000
Married filing jointly when the spouse who makes the contribution is covered by a workplace plan	$116,000 to $136,000
Married filing jointly when the spouse who makes the contribution is not covered by a workplace plan but the other spouse is covered	$218,000 to $228,000
Married filing separately	Up to $10,000

MAGI phaseout limits to contribute to a Roth IRA	
Single or head of household	$138,000 to $153,000
Married filing jointly	$218,000 to $228,000
Married filing separately	Up to $10,000

Health Care

Flexible spending account (FSA) for health care	
Maximum salary reduction contribution	$3,050
Health savings account (HSA)	
Annual contribution limit — individual coverage	$3,850
Annual contribution limit — family coverage	$7,750
Annual catch-up contribution (age 55+)	$1,000
High-deductible health plan (HDHP)	
Minimum deductible — individual coverage	$1,500
Minimum deductible — family coverage	$3,000
Maximum out-of-pocket amount — individual	$7,500
Maximum out-of-pocket amount — family	$15,000

Social Security/Medicare

Maximum taxable earnings	
Social Security (OASDI only)	$160,200
Medicare (HI only)	No limit

Standard Mileage Rates

Business purposes	65.5¢ per mile
Medical purposes	22¢ per mile
Charitable purposes	14¢ per mile
Moving purposes	22¢ per mile

Investment Taxes

Single filer	Married filing jointly	Married filing separately	Head of household	Tax rate
Long-term capital gain & qualified dividend tax (taxable income thresholds)				
Up to $44,625	Up to $89,250	Up to $44,625	Up to $59,750	0%
$44,626 up to $492,300	$89,251 up to $553,850	$44,626 up to $276,900	$59,751 up to $523,050	15%
More than $492,300	More than $553,850	More than $276,900	More than $523,050	20%
Net investment income tax (MAGI thresholds)				
Over $200,000	Over $250,000	Over $125,000	Over $200,000	3.8%*

*The 3.8% net investment income tax (also referred to as the unearned income Medicare contribution tax) applies to the lesser of (a) net investment income or (b) modified adjusted gross income (MAGI) exceeding the above thresholds. It does not apply to municipal bond interest or qualified retirement plan/IRA withdrawals.

February 21, 2023