Financial Intelligence

Peak Asset MANAGEMENT

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A Financial Planning Update (2023 Review and 2024 Opportunities)

By Brent Yanagida, CFP®, EA

With the New Year upon us, it is always a good time to reflect on the past year and consider financial planning opportunities that can have a big impact on meeting your financial goals for 2024 and beyond. Your own financial goals may need to be revisited and discussed with your financial advisors and as such, opportunities, strategies, and action items will vary depending on your unique situation.

2023 In Review

Despite high interest rates and unsettling geopolitical conflict, the U.S. economy outperformed the expectations of most economists in 2023. The U.S. economy as measured by Gross Domestic Product (GDP) rose 3.1% for the year. The labor market stayed strong with wage gains outpacing inflation and unemployment remaining under 4%. A recession, forecasted by many in early 2023, did not happen and while 2023 was a challenging year for spenders and borrowers due to continued high inflation and a spike in interest rates, it was a remarkable year for investors. Some key observations for the year are:

- Inflation in the first half of the year remained elevated; however, cost increases slowed toward the end of the year such that overall inflation year over year was at 3.4%, which is significantly lower than 2021 and 2022 inflation numbers.
- The Federal Reserve continued to increase short-term interest rates in the first half of the year to tighten financial conditions and combat inflation, such that borrowing costs increased. Interest rates for mortgages, car loans, credit card debt, and student loans ranged from 7% (e.g., 30-year fixed mortgage) to over 20% (e.g., credit card debt). Consumer debt balances rose to $17.06 trillion in 2023, an increase of 4.15% over the prior year with credit card debt being the largest driver of this increase.
- Key U.S. and international stock market indexes had double digit returns for the year, with several indexes approaching all-time highs. The U.S. stock market gains were driven by large gains in individual technology stocks. Although fixed income (bond) valuations started out with losses due to interest rate increases by the Fed, yields increased such that overall returns turned positive for most fixed income asset classes for the year.
- As suggested in our March 2023 Financial Intelligence Newsletter for certain goals, the purchase of highly safe instruments such as money market funds, short-term Treasury bills/notes, and FDIC backed CDs did provide annualized returns of between 4% to 5%, far exceeding returns from cash in bank and savings accounts that continued to pay near a 0% yield for all of 2023.

2024 Planning Considerations and Opportunities

Although geopolitical conflicts and election uncertainties will likely make the news in the New Year, the U.S. and world economic outlook, as forecasted by most experts, is brighter than it was at this time last year. For the U.S., the Fed has not increased interest rates since last July and has indicated that they may start lowering interest rates later this year, implying that they feel inflation is likely under control. If a recession is avoided, lower interest rates can boost investment in products and services, and consumer spending will continue to spur the economy. Although interest rates under the Fed's control may slowly decrease later in the year, high interest rates on consumer debt

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are likely to persist and thus borrowing for car purchases, home improvements, or any other discretionary expense, should be minimized if at all possible.

Cash Alternatives for Emergency Funds and Short-term goals.

With cash instruments such as bank and most savings accounts still expected to pay less than 1% annualized in 2024, and thus not come close to covering inflation, other historically safe alternatives all available through our custodian (e.g., money market funds, short-term Treasury bills/notes and certain FDIC backed CDs) are still paying at or over 4% annualized at time of this writing, and should continue to be considered to support an emergency/rainy-day fund and to meet short-term financial goals that might be a few years out. Treasury money market funds and Treasury bills/notes also have the benefit of being exempt from state and local taxes if held in taxable accounts. Investing in fixed income (bond) ladders can still be a key strategy for some to support specific cash flow needs over a certain number of years, knowing that at maturity you are almost certain to a get a set value back.

Investment Opportunity for Long-term Goals.

Along with equities, a longer-duration fixed income allocation with government, municipal, and corporate bond holdings may provide better returns and yields over the long run as compared to holding only shorter duration fixed income holdings, which are subject to reinvestment risk as the yield curve becomes more normalized.

Tax Loss and Capital Gain Harvesting.

As also mentioned as a possible strategy for last year, investors having taxable accounts with certain holdings may have been able to take advantage of a tax savings and investing strategy, whereby principal losses primarily due to interest rate increases in the case of fixed income holdings, were captured upon sale, thus offsetting capital gains realized from other assets, whether it be in the current year or in a future year if not all utilized. Sale proceeds could be reinvested in more strategic alternatives. This strategy may still work well for certain investors in the future; however, the recent bounce back in most markets has reduced the opportunity to do tax loss harvesting in early 2024.

Even if losses are not captured, investors in lower tax brackets may be able to sell holding(s) with appreciated long term gains in a taxable account to support cash needs or strategic re-allocation, all while paying little, if any, federal taxes on the capital gains realized.

Social Security and Medicare.

For cash flow planning, Social Security benefits for those collecting will increase in 2024 with a Cost-of-Living Adjustment (COLA) of 3.2%, which is substantially less than the 8.7% COLA in 2023. This increase in benefit will be partially offset by an increase on Medicare premiums with most Part B premiums going up by approximately 6%. For example, the lowest Part B premium is going from $164.90/month to $174.70/month, an increase of $9.80/month. For those still working, contributions to Social Security will be based on earnings up to $168,600 as compared to $160,200 in 2023.

Increased Retirement and Tax Advantaged Savings Opportunities.

For those not yet having reached full retirement, the contribution to retirement accounts may need to be increased to meet retirement goals and possibly maximize tax savings. Opportunities may still include last minute 2023 tax year contributions to IRA and HSA accounts by April 15, and to Solo 401(k) and SEP IRA accounts by tax filing. The enclosed "2024 Key Planning Numbers" includes the increases in maximum retirement plan and Health Savings Account (HSA) contributions for 2024 if eligible. Some key numbers to note include the following:

- Maximum 401(k), 403(b), or 457(b) employee "elective deferral" contributions at $23,000 for those under 50 and at $30,500 for those 50 and older. Maximum combined employee and employer contributions at $69,000 if under 50 and $76,500 if 50 or older.
- IRA contribution limits for those eligible at $7,000 if under 50 and at $8,000 if 50 or over.
- Health Savings Account (HSA) limits at $4,150 ($5,150 if account owner is age 55 or older) for single plans. Family plans at $8,300 ($9,300 if account owner is age 55 or older.)

College Savings (529) Plans. Such plans continue to provide an excellent way to save for college while providing tax benefits for qualified education withdrawals. Most states offer an additional tax break for a certain amount of contributions. For example, Colorado taxpayers can now contribute per beneficiary into a Colorado 529 plan up to $22,700 as single filers and $34,000 as joint fillers and receive a Colorado tax deduction for such contributions on their returns. Know that contributions are considered a "gift" for tax purposes and if such gifts including other gifts for the year is above the $18,000 per person 2024 annual exemption, then a gift tax return would need to be filed. Joint filers can split the gift to stay under the annual exemption for each.

Starting in 2024 up to $35,000 of unused 529 balances could be rolled into a beneficiary's ROTH IRA over one's lifetime if the account has been open for 15 years and other key requirements are met. Stay tuned for further information later this year on this strategy as more details become available.

Tax bracket management for retirement plan withdrawals and conversions. In any year strategic withdrawals from different retirement and taxable accounts to support cash flow needs can have a big impact on meeting one's long-term goals, especially in retirement. IRA to Roth IRA conversions should be considered when in a lower tax bracket as potentially compared to future years to allow for future tax-free growth and tax-free withdrawals whether it be for the owner or for the beneficiary of such account.

RMD ages for owners of retirement accounts. SECURE 2.0 raised the initial age for required minimum distributions (RMDs) from traditional IRAs and most workplace plans from 72 to 73 beginning in 2023 and 75 beginning in 2033. Age 73 initial RMDs apply to those born from 1951 to 1959, and age 75 applies to those born in 1960 or later.

Charitable Strategies.

For the charitably minded, having available discretionary resources beyond those needed to support other financial goals, strategies remain mostly the same as in recent years.

Qualified Charitable Distributions (QCDs). This allows the traditional IRA account owner/beneficiary over 70 1/2 to have normally taxable distributions up to $105,000 in 2024 go directly to charity(s) without taxation. QCDs can count toward one's RMD, thus lowering Adjusted Gross Income (AGI) and taxable income if total distributions stay within the full RMD amount. For those being able to use this strategy in the past, it's worth noting that RMDs for 2024 could be higher than expected due to investment gains the prior year.

Donor Advised Funds. For those not needing to take RMDs, contributions of funds to such charitable accounts can still provide a benefit if a bunching strategy is used to allow the taxpayer to itemize rather than take the standard deduction on their tax return in a strategic year. Transferring appreciated stock/investments from a taxable account to the charitable account avoids capital gains tax upon the sale of such instruments within the charitable account, providing another tax benefit.

Estate Planning.

For those that have goals to pass along cash/assets to family or friends while living, the annual gift tax exclusion has increased to $18,000 per person in 2024. The Estate tax exemption has increased to $13,610,000 per person; however, keep in mind that if congress doesn't act before 2026, this exemption will reset to only half of the current amount, adjusted for inflation.

Account registration and beneficiary designation review. Since estate planning laws and goals often change, we encourage you to periodically review the titles and beneficiary designations on your financial accounts such that your assets can pass on as desired.

As stated in a review from past Financial Intelligence newsletters on Estate Planning saved on our website, beneficiary designations are a form of will substitute which supersedes anything in your will. It allows you to transfer certain account holdings upon death to a person or entity without going through probate, avoiding possible attorney's fees and delayed distribution of assets. You can change your beneficiary at any time at no cost, whereas making changes to a will would likely take more time and some cost. You generally can name more than one person as your beneficiary, subject to certain spousal rights for some retirement plans. If you name more than one person, your beneficiaries will receive equal shares unless you specify otherwise. Having minors as beneficiaries adds some complexity and a custodian will likely need to be appointed to manage accounts until such minors become of adult age, which is 18 in most states. You can also name a charitable institution or a trust as the beneficiary in most cases; however, one should understand the tax and legal nuances that might be associated with such decisions. In most cases, you should avoid naming your estate as beneficiary to avoid going through probate and possibly being subject to adverse tax implications.

When listing beneficiaries, a primary beneficiary is your first choice to receive benefits. You can name more than one person or entity as your primary beneficiary and determine the percentage each beneficiary will receive. Normally when a beneficiary predeceases you and you don't change the beneficiaries, this share upon your passing would be split evenly between the other living beneficiaries. You can, however, in most IRA and Transfer-On-Death (TOD) registrations for individual taxable brokerage accounts, include a "Per Stirpes" designation for a beneficiary, such that if this person predeceases you, his or her share, upon your passing, will go to his or her children. It is also a good practice to list secondary (or "contingent") beneficiaries, especially if only one primary beneficiary is listed, such as a spouse. This would cover an unlikely situation where both spouses pass at the same time. Bank accounts, through a payable on death (POD) registration, allow similar planning options as TOD registrations for brokerage accounts.

Joint tenancy (also called joint tenancy with rights of survivorship or JTWROS) is one of the ways two or more people can own something together and pass on their ownership to other joint owner(s) while avoiding probate. For brokerage accounts, you can also add a TOD to list contingent beneficiaries in the unlikely event that both joint owners pass at the same time.

For those having a Health Savings Account (HSA), such accounts can't be owned jointly, but a secondary beneficiary or beneficiaries should be named to avoid probate upon the owner's passing. A spouse inheriting an HSA account can continue to keep the account open and take tax free withdrawals for qualified health care expenses. Non-spouse beneficiaries can be listed but the account would need to be closed upon the owner's death and any remaining balance distribution would be a taxable event. If there is risk of such a taxable event, then an owner or spousal beneficiary having kept a record of past medical expenses paid for with non-HSA funds while the account was open, including Medicare Part B, C, and D premium payments, could reimburse oneself with tax free withdrawal(s) prior to passing.

Income tax considerations for beneficiaries. With the primary exception of Roth IRAs and Roth 401(k)s, retirement account withdrawals by a beneficiary are for the most part fully taxed based on the beneficiary's ordinary income tax rates. Your choice of beneficiary has an impact on the long-term tax consequences and thus the overall value of assets passed on. A spousal beneficiary has the greatest flexibility for distribution/rollover options and provides more opportunities to potentially delay distributions to maximize tax deferred growth.

A non-spouse IRA beneficiary has the option to directly roll over all or part of the account to an inherited IRA and “stretch out” the required withdrawals; however, recently enacted laws often require funds be fully distributed by the end of 10 years for those inheriting retirement accounts after 2019. In this case withdrawals should be strategically planned to avoid having a substantial tax hit in any one particular year.

Roth IRAs and Roth 401(k)s have a big benefit when passed on, in that your beneficiaries can receive distributions from contributions and conversions tax free. Earnings will also be tax free if a five-year holding period that began with the deceased IRA owner's first Roth IRA contribution or conversion is met. With most non-spouse beneficiaries now subject to the 10-year rule, a Roth account beneficiary may want to consider minimizing withdrawals until the end of the 10 years to potentially get the biggest tax-free benefit over time.

For brokerage accounts that are not retirement plans, the cost basis (amount invested) is adjusted up or down based on the fair market value at death. This adjusted cost basis will determine how much capital gain or loss is reported if the investment is sold by the beneficiary. The cost basis for real estate and business interests are also adjusted based on fair market value. Death proceeds received under a life insurance policy generally aren't subject to income tax. For annuities held outside of retirement accounts, any gain in value over the contribution amounts is passed through to the beneficiary (not stepped up) and such gains will be taxed at the beneficiary's ordinary income tax rate when distributions are made, which is normally at a higher tax rate than the tax rate on capital gains.

In summary, the larger and more complex your estate, the more thought and consideration should be given to strategic asset titling and beneficiary designations. Updates to your will may also be required as your financial situation and estate/tax laws change, and potentially more advanced estate planning strategies are considered which are beyond the scope of this newsletter. For everyone, it is important to keep your financial advisors up to date as your finances and related goals do change. We at Peak look forward to helping you achieve your financial goals during your lifetime and beyond.

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

Peak Asset Management LLC
Financial Planning Team
1371 E. Hecla Dr Suite A
Louisville, CO 80027
303-926-0100
www.peakam.com

Key Numbers 2024 | Tax reference numbers at a glance.

Income Tax (2024 tax rate tables)

Taxable income	Tax due	*plus*	% of income*
Single			
Up to $11,600	$0	+	10%
$11,601 to $47,150	$1,160.00	+	12%
$47,151 to $100,525	$5,426.00	+	22%
$100,526 to $191,950	$17,168.50	+	24%
$191,951 to $243,725	$39,110.50	+	32%
$243,726 to $609,350	$55,678.50	+	35%
Over $609,350	$183,647.25	+	37%
Married filing jointly			
Up to $23,200	$0	+	10%
$23,201 to $94,300	$2,320.00	+	12%
$94,301 to $201,050	$10,852.00	+	22%
$201,051 to $383,900	$34,337.00	+	24%
$383,901 to $487,450	$78,221.00	+	32%
$487,451 to $731,200	$111,357.00	+	35%
Over $731,200	$196,669.50	+	37%
Married filing separately			
Up to $11,600	$0	+	10%
$11,601 to $47,150	$1,160.00	+	12%
$47,151 to $100,525	$5,426.00	+	22%
$100,526 to $191,950	$17,168.50	+	24%
$191,951 to $243,725	$39,110.50	+	32%
$243,726 to $365,600	$55,678.50	+	35%
Over $365,600	$98,334.75	+	37%
Head of household			
Up to $16,550	$0	+	10%
$16,551 to $63,100	$1,655.00	+	12%
$63,101 to $100,500	$7,241.00	+	22%
$100,501 to $191,950	$15,469.00	+	24%
$191,951 to $243,700	$37,417.00	+	32%
$243,701 to $609,350	$53,977.00	+	35%
Over $609,350	$181,954.50	+	37%

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

Standard Deduction

Single	$14,600
Married filing jointly	$29,200
Married filing separately	$14,600
Head of household	$21,900
Dependent*	$1,300*

Additional deduction for blind or aged (age 65+)	
Single or head of household	$1,950
Married filing jointly or separately	$1,550

*Dependent standard deduction can't exceed the greater of $1,300 or $450 plus earned income.

Alternative Minimum Tax (AMT)

	Maximum exemption amount	**Exemption phaseout threshold**
Single or head of household	$85,700	$609,350
Married filing jointly	$133,300	$1,218,700
Married filing separately	$66,650	$609,350
26% rate applies to AMT income up to $232,600* 28% rate applies to AMT income over $232,600*		

*$116,300 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)**	$80,000 to $95,000	$165,000 to $195,000
U.S. Savings bond interest exclusion for higher-education expenses	$96,800 to $111,800	$145,200 to $175,200

Estate Planning

Annual gift tax exclusion	$18,000
Noncitizen spouse annual gift tax exclusion	$185,000
Top gift, estate, and GST tax rate	40%
Gift tax and estate tax applicable exclusion amount	$13,610,000 + DSUEA*
Generation-skipping transfer (GST) tax exemption	$13,610,000**

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

February 13, 2024

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)	$23,000
Annual catch-up contribution (age 50+)	$7,500
SIMPLE 401(k) and SIMPLE IRA plans	$16,000
Annual catch-up contribution (age 50+)	$3,500
IRA contribution limits**	
Traditional and Roth IRAs (combined)	$7,000
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	$77,000 to $87,000
Married filing jointly when the spouse who makes the contribution is covered by a workplace plan	$123,000 to $143,000
Married filing jointly when the spouse who makes the contribution is not covered by a workplace plan but the other spouse is covered	$230,000 to $240,000
Married filing separately	Up to $10,000

MAGI phaseout limits to contribute to a Roth IRA	
Single or head of household	$146,000 to $161,000
Married filing jointly	$230,000 to $240,000
Married filing separately	Up to $10,000

Health Care

Flexible spending account (FSA) for health care	
Maximum salary reduction contribution	$3,200
Health savings account (HSA)	
Annual contribution limit — individual coverage	$4,150
Annual contribution limit — family coverage	$8,300
Annual catch-up contribution (age 55+)	$1,000
High-deductible health plan (HDHP)	
Minimum deductible — individual coverage	$1,600
Minimum deductible — family coverage	$3,200
Maximum out-of-pocket amount — individual	$8,050
Maximum out-of-pocket amount — family	$16,100

Social Security/Medicare

Maximum taxable earnings	
Social Security (OASDI only)	$168,600
Medicare (HI only)	No limit

Standard Mileage Rates

Business purposes	67¢ per mile
Medical purposes	21¢ per mile
Charitable purposes	14¢ per mile
Moving purposes	21¢ 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 $47,025	Up to $94,050	Up to $47,025	Up to $63,000	0%
$47,026 up to $518,900	$94,051 up to $583,750	$47,026 up to $291,850	$63,001 up to $551,350	15%
More than $518,900	More than $583,750	More than $291,850	More than $551,350	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.

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