

# THE ADVANCED CONNECTION

## ISSUE #27

February 2022

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## 529 Savings Plan



### What is a 529 Savings Plan?

A 529 Savings Plan, sometimes referred to as a College Savings Plan, is an investment account in which assets can grow tax deferred and be withdrawn tax free, when withdrawn for qualified educational expenses.

### What expenses can funds be used for?

In order for withdrawals to be tax-free, funds must be used for qualified educational expenses. Qualified education expenses include tuition and related fees, room and board, books, computer, and other supplies.

Funds may be used for public or private universities, trade school, community college, etc. You may also use up to \$10,000 for private

elementary and high school tuition. Student loans can also be paid back with 529 Savings Plans, up to \$10,000.

If withdrawals are used for purposes other than qualified educational expenses, the earnings will be subject to a 10% federal penalty, federal income tax, and if applicable, state income tax.

### Who can contribute to a 529 Savings Plan?

Any individual can contribute to a 529 Savings Plan, such as parents, grandparents, extended family and friends, etc. There are no income limitations for contributing to a Plan.

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## 529 Savings Plan

Do you get a tax benefit for making contributions to a 529 Savings Plan?

If you use the state sponsored plan for the state in which you live, you may be entitled to a state income tax benefit. The rules regarding tax-deferred growth and tax-free withdrawals are federally mandated, but each state was given permission to develop their own state-sponsored plan, with corresponding tax benefits if the state wanted.



Does the state-sponsored plan determine the state in which the beneficiary must go to school?

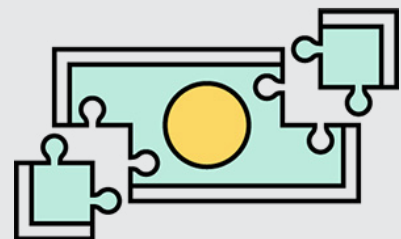
No, the use of a state-sponsored 529 Savings Plan is not dictated by where the beneficiary lives, where the owner of the plan lives, or where the beneficiary attends school.

How is a 529 Savings Plan different from a Coverdell Educational Savings Account?

Unlike a 529 Savings Plan, a Coverdell Educational Savings Account (ESA) has contribution limits and income limitations. Coverdell ESAs do not allow contributions once the beneficiary reaches age 18, and the account must be fully depleted by the time the beneficiary reaches age 30. There are other differences as well, but these are the primary ones.

## Student Loan Forbearance

The U.S. Department of Education has again extended the emergency relief for eligible student loans through May 1, 2022. If you or anyone you know have questions about student loans or repayment strategies, please be sure to let us know!



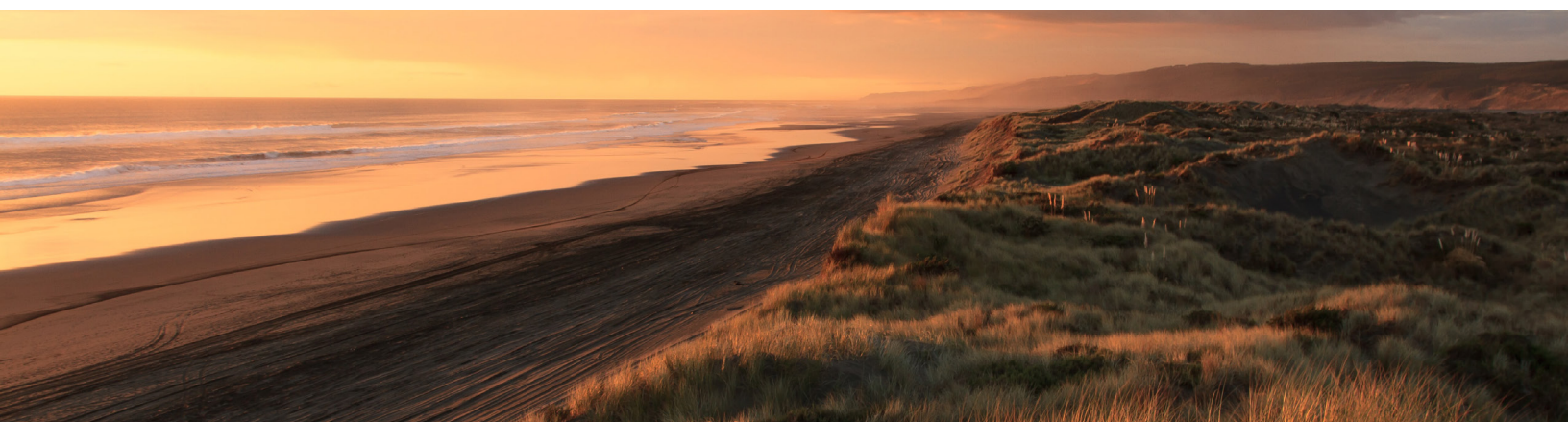
## Retirement Income Planning

A common question we at AWM get asked by clients is, “What can my money do for me?”, or “Am I on track?”. As we save towards our financial goals, specifically retirement, it can be extremely helpful and motivating to seek answers to these questions. However, with the constantly moving financial markets and so many factors affecting the answers to these questions, they can be difficult to answer.

The good news is that we have tools and programs to help answer these questions for you. While you won't get a definite yes or no answer, the tools provide guidance that helps to evaluate if you are on track to reach financial independence. Many of our clients have benefited from seeing these income projections. If we haven't looked at these projections with you yet, please make sure you ask us about them!

These income and savings projections can be helpful so you can make changes now that will help improve your financial situation throughout your retirement. We want you to be able to enjoy retirement and not have to be stressed about your finances! The tools allow us to look at your accounts and savings rates as they are and determine what may be a sustainable monthly amount of income in retirement. Then, if that income amount doesn't align with what you were thinking, we can work backwards to determine how much more savings you may need to do to be closer to meeting your goals.

No matter what stage of your investment life you are in, we are happy to run projections for you and see if there are ways to improve your overall financial situation and help you reach your goals. While these types of projections are often most thought about for retirement, we can run the same projections for other financial goals, such as saving for a new home, vacation home, college, or whatever your dream may be. Reach out to us today!



## Tax Time

The IRS has announced that the deadline for filing your 2021 tax return has been extended a few days to April 18, 2022 (April 19th for residents of Massachusetts and Maine). As you gather your tax documents be sure to reach out to us if we should be discussing anything to finalize your 2021 taxes, for example you have until April 15th to make IRA or Roth IRA contributions.

Most tax forms from investment accounts will start to be available online and be mailed out towards the end of January through mid-February, although we always like to remind clients that

sometimes they are sent out later and sometimes need to be revised. It can be advantageous to wait until closer to the tax deadline to file to ensure you have all the correct documents and that none of them needed to be amended.

Speaking of taxes, be sure to ask us the next time we talk if there are any additional tax strategies that you might be considering. For example, people over 70 can now make charitable contributions directly from their retirement accounts, which is a more tax advantageous strategy than existed in the past.

## Annual Savings Increase

The new year brings with it the opportunity to reflect and refocus on our personal and financial goals. In an effort to help you reach your financial goals, we like to give a friendly reminder that the next time you review your monthly cash-flow and budget to consider increasing your monthly savings.

An increase of 1%, for example, is unlikely to disrupt your budget too severely—you may even find you don't notice those extra dollars missing each month! But what may seem like a small amount now can have a significant impact on your investment account balance in 10 or 20 years.

Lastly, we wanted to highlight some of the IRS changes to retirement plans for 2022. The deferral limit for employees who participate in employer sponsored plans, such as 401(k) and 403(b) have increased to \$20,500 (with an additional \$6,500 for those over 50). Limits on contributions to traditional and Roth IRAs remain unchanged at \$6,000 (\$7,000 if you're age 50 or older).

As always, please reach out to our office if you would like to discuss your financial goals, have questions, or would make changes to your monthly contributions.





## Office Closures

President's Day  
February 21st

Juneteenth (observed)  
June 20th

Labor Day  
September 5th

Memorial Day  
May 30th

Independence Day  
July 4th

Thanksgiving  
November 24th - 25th

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*The fees, expenses, and features of 529 plans can vary from state to state. 529 plans involve investment risk, including the possible loss of funds. There is no guarantee that a college-funding goal will be met. In order to be federally tax-free, earnings must be used to pay for qualified higher education expenses. The earnings portion of a nonqualified withdrawal will be subject to ordinary income tax at the recipient's marginal rate and subject to a 10-percent penalty. By investing in a plan outside your state of residence, you may lose any state tax benefits. 529 plans are subject to enrollment, maintenance, and administration/management fees and expenses.*

*Securities and advisory services offered through Commonwealth Financial Network, member FINRA/SIPC, a Registered Investment Adviser.*

