THE ADVANCED CONNECTION

ISSUE #28

May 2022

Welcome EJ

AWM would like to welcome our newest addition to the team, Erica Jean "EJ" Cortez, CFP®. She comes to us with over 12 years of financial services experience with an interest in insurance and financial planning. She was born and raised in Hawaii, but has been in Oregon for over 20 years. Pacific University in Forest Grove brought her to the PNW, but her husband, who was born and raised in Oregon, and their 3 children are what keep her here.

We look forward to introducing her to you at your next meeting, and in the meantime if you have any questions please do not hesitate to reach out to her at ej@advwealth.com.

Goodbye to Reanna

After a great four years on our team, we are bidding farewell and best of luck to our team member, Reanna Edds. Last April, Reanna and her husband welcomed their first baby, Levi, and they have made the decision to relocate to the Midwest this May to Grand Rapids, Michigan. They are looking forward to raising their son closer to family, warm lakes, and all the natural beauty the Midwest has to offer! Reanna has been an integral part of our AWM team and while we are sad to see her go, we wish her the best in this next adventure!

Inherited Retirement Accounts

At the end of 2019, while most of us were preparing to celebrate holidays and bring in the new year with our family and friends, Congress was debating and voting on a bill that changed many rules related to retirement accounts. On December 20, 2019 the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law.

This act changed several rules regarding retirement accounts, but we want to focus here on how the SECURE Act changed the rules for Inherited Retirement Accounts.

Prior to the SECURE Act, if you inherited a retirement account as a non-spouse beneficiary, you were able to spread the disbursement of that account over your lifetime. Under the updated SECURE Act rules, retirement accounts inherited by non-spouse beneficiaries now need to be fully disbursed by the end of the 10th year following the year of death of the original account holder.

There are several considerations and planning opportunities under this new rule. One of the first considerations to look at is whether you have non-spouse beneficiaries named, and if those non-spouse beneficiaries are likely to be in a higher or low income tax bracket compared to you. If beneficiaries are likely to be in a lower income tax bracket than you, then it may make sense to not draw down your retirement accounts quicker than you normally would. However, if you feel that your beneficiaries may be in a higher tax bracket than you, then it may make sense to accelerate the distributions from your retirement account prior to it being inherited. There are a couple ways to do this. First, you could take more distributions from retirement accounts instead of other non-retirement accounts you may have to help support your lifestyle and living expenses. You could also look at doing Roth conversions over time, where you pay taxes on the amount of the conversion now, but then the money is held in a Roth IRA environment where there are then no taxes assessed on amounts withdrawn. When a Roth IRA is inherited, the tax-free nature of the withdrawals passes to beneficiaries as well.

If we have not yet had an opportunity to discuss this Act and how it relates to your situation, please bring it up the next time we talk with you.

What Inflation Means for Your Financial Plan

Inflation has been the word of the year. Official inflation numbers have been coming in higher than we have seen in decades, and many of us have been noticing higher prices at the gas station and grocery stores. Of course, prices for many goods and services usually increase year-over-year, but the increases that we have been seeing in many parts of the economy are higher and more dramatic than we have been used to.

Inflation, like many economic and financial numbers, can be a tricky thing to understand. The basic concept is easy: inflation is a gauge of how much prices for certain goods or services have increased over time. The challenge can be in details such as which goods or services are being measured, how they are measured, what time periods are considered, and how different considerations can change over time. The reality is that some prices have large swings up and down, such as the price of a barrel of oil, while other prices tend to move much slower and remain constant for longer, such as rent prices. The inflation numbers being reported in the news are trying to look at the economy as a whole and provide a meaningful average, but the headlines often don't tell the whole story.

Inflation can be challenging for savers because the value of cash or money in the bank is losing purchasing power. Basically, inflation means that your dollars can buy less in the future because prices for everything went up. Inflation is also generally bad for bond investments, because most bonds pay fixed income payments, and the purchasing power of those future fixed payments are going down just as if they were cash in the bank. Stocks can be impacted in different ways, as inflation can be very challenging for some businesses, while others can offset inflationary pressures through controlling their supply chains or raising the prices they charge consumers. Some companies can even benefit from inflation, for example ones that can charge higher prices in an inflationary environment, but not necessarily see their costs rise at the same rate, such as companies that produce things like food or raw materials.

Given all the concern we are seeing around inflation, a logical question we have been getting lately is "What should I be doing about all this?" For most people and in most situations, our guidance might seem surprising but it will likely sound familiar: "The strategy we have in place for you was already designed to account for what we are seeing." By having a broadly diversified and balanced strategy we can ensure that we have exposure to all parts of the economy, meaning that while some parts of our investment plan might struggle in the current conditions other parts will thrive. On balance and throughout these cycles, an all-weather strategy will be the best protection to allow your money to work for you and grow without the danger that comes from trying to predict inflation.

Grandparents' Special Gift

Are you a grandparent who's always looking for something special to give your grandchildren, whether it's for a birthday, the holidays, or just because? With a grandparent-owned 529 college savings plan, you control the investments, and distributions for qualified educational expenses are federally tax free.

Previously, any qualified distribution from a 529 plan owned by a grandparent for the benefit of a grandchild counted as untaxed income to the beneficiary. Starting in the 2024/2025 school year, qualified distributions from a grandparent-owned 529 account will no longer be reported as untaxed income to the beneficiary. And since the Free Application for Federal Student Aid (FAFSA) uses income from two years prior to determine aid eligibility, distributions from a grandparent-owned 529 account will no longer affect financial aid beginning in 2022. Now grandparents can open and maintain a 529 without worrying about FAFSA eligibility.

If you are interested in learning more about 529 accounts, please contact our office.

Office Closures

Memorial Day May 30th	Independence Day July 4th	Thanksgiving November 24th - 25th
Juneteenth (observed) June 20th	Labor Day September 5th	Christmas (observed) December 26th

10220 SW Greenburg Road, Suite 210, Portland, OR 97223