FINANCIAL ADVISORS

Accumulating Interest

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A Word from the Investment Department

Is a Roth Conversion Right for You?

by Jessica Schmidt, Investment Manager

There are different stages you go through in life: the young working individual just starting a career, the vetted professional with a family, and the retired individual who needs to make sure their retirement savings will fund their remaining years and potentially provide an inheritance to their heirs. During each phase of life, there are financial decisions you make, such as purchasing a home, saving for your child's education, or downsizing your home in retirement. One lesser-known decision you may make is whether to convert some of your pre-tax savings (e.g., Traditional IRA) into after-tax savings via a Roth conversion. Depending on your financial position in life, there are benefits and drawbacks to doing a Roth conversion.

When you transfer retirement funds from a Traditional IRA (Individual Retirement Account) or a pre-tax 401(k) into a Roth IRA or Roth 401(k) this is considered a Roth conversion. Your Traditional IRA or pre-tax 401(k) is a tax-deferred vehicle, meaning you do not pay income taxes on the money you contribute until you take distributions from the account. A Roth IRA is a tax advantaged account, in that you pay income taxes on the money you contribute before it is deposited into the account, you pay no tax on dividend, interest, or capital gains income, and you can withdraw the money tax-free. When you convert funds from a Traditional IRA or pre-tax 401(k), you pay income taxes on the full amount converted in the year of the conversion.

There are a few rules to keep in mind when deciding if a Roth conversion is right for you:

The deadline is December 31st of the year you want to convert.

- If you are not able to contribute to a Roth IRA directly due to your income being over the limit, you can still do a type of Roth conversion known as a backdoor Roth conversion. Currently there is no limit on the number of conversions or the size of a Roth conversion you can make from a Traditional IRA.

- Converted funds must remain in your Roth IRA for at least five years. If you decide you want to take funds from your Roth IRA before the five-year period is up, you will be subject to a 10% early withdrawal penalty. Additionally, the five-year period starts at the beginning of the year in which you convert.
  - Example: You want to convert funds in October of 2021, your five-year clock starts January 1st of 2021, and you would be able to withdraw funds after January 1st of 2026 without incurring the 10% penalty.

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THE OFFICE WILL BE CLOSED ON THE FOLLOWING DAYS:

April 15
Good Friday

May 30
Memorial Day

July 4
Independence Day

CONTACT US

P : (904) 273-9850
F : (904) 273-6920

www.BandCfinancial.com

The B&C Financial Building
110 Professional Drive
Ponte Vedra Beach, FL 32082

Office Hours:

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Friday	8:30am - 4:00pm
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info@bandcfinancial.com

- If you are over 72 and must take a required minimum distribution (RMD) from your Traditional IRA, you can still do a Roth conversion, but you must take the RMD before doing the conversion.

As a young adult starting out in your career, contributing to a Roth IRA is always a good idea, especially if you think your earning power will grow in the years ahead. Eventually, you might be phased out of contributing to the Roth IRA. If so, a Roth conversion may be a good option if you believe you will be in a higher tax bracket in the future and are comfortable paying the additional taxes in the current year.

When you are an established professional, diligently putting money away for retirement, it can be daunting to think you will need to rely on these savings in retirement. Having funds saved in a Roth IRA is an excellent tax diversification strategy. A huge benefit to a Roth IRA is there is currently no RMD as there is with a Traditional IRA. If your current tax situation allows, it may be best to do a Roth conversion while still staying within your current tax bracket. Typically, this is a good strategy to do each year, a little at a time. By doing so, you are able to adjust as tax law changes and increase, decrease or cease your conversion, depending on the new tax changes.

A Roth conversion can be used as an estate planning technique for individuals who want to pass along an inheritance but remove the burden of paying taxes from their heirs. This is often best done for those folks in lower tax brackets than their heirs. Recognizing this can be a heavy burden to pay, one strategy you can employ is to set up a donor advised fund (DAF) in conjunction with a Roth conversion. The income tax deduction on the DAF contribution tends to offset the increased tax liability from the Roth conversion, because you receive an Immediate tax deduction in the year you contribute to the DAF. The DAF allows the donor to make grants over time to the desired charity.

A Roth conversion can have benefits for those in certain financial positions, but these benefits must be weighed against the downside of increased taxes or potentially lower income taxes in the future. However, if you are comfortable paying taxes now, it can be of great benefit in the future, depending on your current age and retirement goals. We know laws constantly change and evolve. With a portion of your retirement funds in a Roth IRA, you can mitigate the potentially higher taxes down the road, and you will not be required to withdraw funds from the account at age 72, the age at which RMDs begin. Regardless of your stage in life, this can and should be a topic to consider.

If you have any additional questions about Roth conversions, do not hesitate to reach out to B&C Financial Advisors. We will work with you and your tax preparer to determine whether a conversion is best for you given your individual circumstances.

Searching for our Next "Client for a Cause"

Do you volunteer? Help raise money or awareness for something you are passionate about? We want to hear about it!

Please email info@bandcfinancial.com with the details. We would love to feature you and your cause in our next newsletter.

Market Corrections are Normal

by Adam Oerther, Vice President

What should you do when the news across the world is extremely negative? You may ask yourself: "The stock market is in a correction—will this correction turn to a bear market? What does inflation mean for my financial life? What does a military event in Ukraine mean for my long-term plan?"

The market has entered correction territory as this week's events in Ukraine have pushed the risk-off mentality further. While these corrections can be painful, the reality of investing in the stock market is the long-term reward of 7-10% average returns which are balanced with the short-term pain of corrections and bear markets. The last three years of S&P 500 returns were 26.9%, 16.25%, and 28.87%, respectively, all well above the long-term average of 10% per year. In our opinion, all signs point to an eventual reversion to the mean.

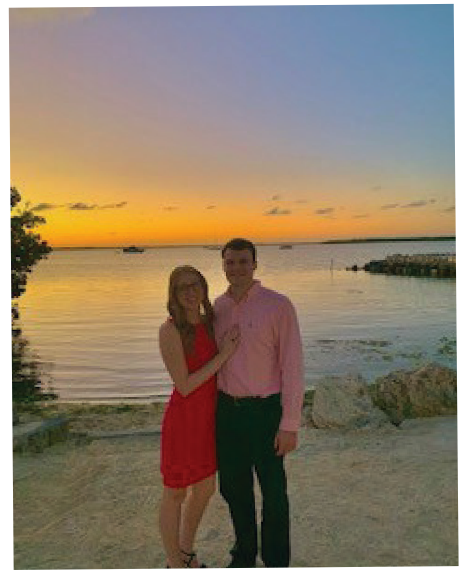
We are focused on long-term investing, which acknowledges the risk that comes in short-term periods. The price we pay for the liquidity the stock market provides is the volatility we must endure. These corrections (defined as a decline of 10% from highs) are a normal aspect of the market and are often followed by positive one-year returns. There have been 29 S&P 500 corrections since 1970, with only 7 of those corrections exceeding 20% declines (a true bear market). The average correction lasts less than four months and has rebounded on average by 17% on a one-year period. The key takeaway from an investment perspective is to stay the course, and not make knee-jerk reactions to market declines.

Additionally, most people do not just own the S&P 500—we allocate to fixed income instruments (bonds/cash) as well. These less correlated/uncorrelated assets perform as a balance to the more volatile side of the portfolio. The cash flow provided from fixed income and dividends allows us to rebalance portfolios and provide for cash needs despite equity market turmoil.

What should you do? Focus on your personal plan and keeping your financial house stable. Keep your spending rate below your earnings rate, and continue your current savings plan. If you are retired, we have a firm plan in place to provide cash flows based on your portfolio. If your life circumstances change, reach out to your advisor to have a conversation, and we will work to adjust to the new parameters. Remember how you felt in 2020, the end of 2018, in 2015, in 2011, in 2008, etc.—these were all periods of market volatility, corrections, and recessions through which we have successfully navigated together.

Keeping up with B&C

Chief Investment Officer Sean Guldi with his sister Melanie at the Gate River Run.



Investment Manager Jessica Schmidt and her boyfriend Alex attended a wedding in the Keys!

(from left to right) Vice President Adam Oerther, Dr. Bob Winters, and Jack Aschenbach at the Golf Psychology event hosted by the NFJG.

CCO Jacque Bos and her fiancé Paul on the San Antonio Riverwalk for her birthday.

IRMAA – Not Your Great Aunt, Not the Hurricane

by Sean Guldi, Chief Investment Officer

In retirement planning, one area many people neglect to spend time understanding is Medicare. For clients who have higher levels of income – or those who may incur a large jump in income for one particular year – you may find your Medicare costs are substantially increased. This increase is called an **Income Related Monthly Adjusted Amount (IRMAA)** and affects both your Medicare Part B and Part D premiums. Let's take a step back and understand what Medicare is and the various factors that may lead to IRMAA.

Medicare is the government-funded health insurance plan available to U.S. taxpayers that have earned enough credits by paying Medicare taxes (part of the payroll taxes paid while employed). You are eligible to begin Medicare upon reaching age 65. You have several options/plans (which are beyond the scope of this article), but the two main components are Part B (hospital insurance) and Part D (prescription drug benefits). The premiums are paid monthly, and if you are collecting Social Security, then they are deducted directly from your Social Security income. The government sets the monthly premiums each year at the lowest income levels, which are $170.10 for Part B and no surcharge for Part D. Which leads us to IRMAA.

The IRMAA calculations are progressive based on your Modified Adjusted Gross Income (MAGI) **from your tax return from two years ago (2020 tax return for 2022 IRMAA calculations)**. The highest cost is up to $578.30/month for Part B and $77.90/month for Part D. See charts for more detailed premium breakdown.

The IRS furnishes information to Social Security to calculate your premiums annually and sends a notice to you if you will be subject to IRMAA for the following year. The planning opportunities for IRMAA are multifaceted, which is why reviewing your Social Security claiming strategy, capital gains and portfolio income, and balancing ROTH Conversions with future Required Minimum Distributions (RMDs) are important part of the retirement planning conversations we have with clients. In some instances, the increased premiums are unavoidable, but with some foresight, there are ways to manage income to better prepare for future costs. As always, this planning is best done in conjunction with your tax advisor and financial advisor.

See tables on the next page.

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Part B Premium

If your yearly income in 2020 was			
File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	You Pay (in 2022)
$91,000 or less	$182,000 or less	$91,000 or less	$170.10
above $91,000 up to $114,000	above $182,000 up to $228,000	N/A	$238.10
above $114,000 up to $142,000	above $228,000 up to $284,000	N/A	$340.20
above $142,000 up to $170,000	above $284,000 up to $340,000	N/A	$442.30
above $170,000 and less than $500,000	above $340,000 and less than $750,000	above $91,000 and less than $409,000	$544.30
$500,000 or above	$750,000 or above	$409,000 or above	$578.30

Part D Premium

If your yearly income in 2020 was			
File Individual Tax Return	File Joint Tax Return	File Married & Separate Tax Return	You Pay (in 2022)
$91,000 or less	$182,000 or less	$91,000 or less	Your plan premium
above $91,000 up to $114,000	above $182,000 up to $228,000	N/A	$12.40 + your plan premium
above $114,000 up to $142,000	above $228,000 up to $284,000	N/A	$32.10 + your plan premium
above $142,000 up to $170,000	above $284,000 up to $340,000	N/A	$51.70 + your plan premium
above $170,000 and less than $500,000	above $340,000 and less than $750,000	above $91,000 and less than $409,000	$71.30 + your plan premium
$500,000 or above	$750,000 or above	$409,000 or above	$77.90+ your plan premium

Happy 27th Anniversay, B&C!

by Jacqueline Bos, CCO

As we celebrate twenty-seven years here at B&C, I find myself reminiscing about our beginning and the day I decided to leave Prudential Securities. I had been working for Jan Butensky and Allan Cohen for a couple years when they asked me if I was interested in leaving and coming to work for them at a firm they were starting. Without hesitation, I packed my desk, grabbed the framed picture of my family off my desk, and delivered my letter of resignation to the branch manager.

I didn’t know what the future held, and I didn’t know if the firm would be successful. However, what I did know made this big decision very easy for me. I knew their priority was to do what is best for the client—Jan and Allan had integrity. I knew they were resolved to create an environment where their success is directly tied to the client’s financial success. I knew they had determination to create a foundation for long-term success.

Twenty-seven years later, we continue to help clients and their families, some of whom have been with us since day one, trusting in us to help them achieve their personal financial goals. I know we will continue to do so way into the future, even after I’m retired, a goal B&C will help me successfully achieve.

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110 Professional Drive, Ste. 101
Ponte Vedra Beach, FL 32082