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INFORM
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Understanding Inherited IRAs

By Tim Hilterman

The rules around Inherited IRAs changed in 2019 with the passage of the Secure Act. Regulations released in 2022 outline the process, and the choices a beneficiary has are now a little more complex. I hope this will help you determine what rules apply to your situation, and decide the best choice for you.

Essentially, you need two pieces of information: your connection to the IRA owner, and their age when they passed away. The IRS classifies beneficiaries based on their relationship to the deceased.

- Eligible Designated Beneficiary – You fall into this category if you are:
    - The spouse of the deceased
    - A minor child of the deceased
    - Less than 10 years younger than the deceased (often a sibling or friend)
- Designated Beneficiary – Anyone who does not fall into any of the above categories. For example, an adult child of the deceased.

The second piece of information you need is whether the IRA owner had started taking Required Minimum Distributions (RMDs). This is based on age. Currently, RMDs begin at age 72.

Another important note: There is a "10-Year Rule" that says all funds must be distributed within 10 years of the IRA owner's death. Failure to do so will result in a 50% penalty for any funds still in the account. Read on to determine when this rule applies to you.

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End-of-Year Checklist

By Matthew Lefelhoc

With the end of the year approaching, we wanted to remind you of a few things to consider regarding your retirement accounts.

- **Have you fully funded your Retirement Savings?**

  Here are the contribution limits for 2022:

Retirement Plan Type	Under Age 50	Age 50 +
Traditional and Roth IRAs*	$6,000	$7,000
SIMPLE IRA	$14,000	$17,000
Traditional & Roth 401(k)s	$20,500	$27,000
SEP IRA or Solo 401(k)	$61,000	–

  *You have until the tax filing deadline (April 18, 2023) to make 2022 contributions into your Traditional or Roth IRA.

- **Have you satisfied your Required Minimum Distribution (RMD)?**

  IRA owners must withdraw a minimum amount from their account annually starting in the year they turn 72. 2022 RMD amounts are calculated using your 12/31/2021 account balance and your life expectancy. Stay tuned, RMD rules may be changed in the future!

- **Have you considered a Qualified Charitable Distribution (QCD)?**

  Do you have a heart for charity? Consider a QCD to satisfy all, or part, of your RMD. QCDs are a way to transfer funds directly to a qualified charity of your choice in a tax-free event!

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If you would like to discuss how this applies to your financial plan, let's talk!

In This Issue:

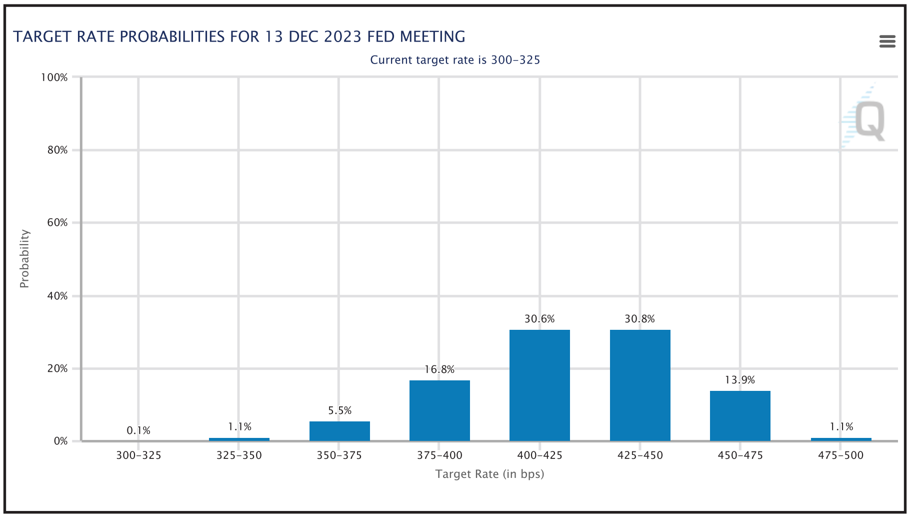
Third Quarter Market Recap

By Ryan Gilmer

This quarter has been disappointing for investors, and volatility has continued. US small-cap, large-cap, and international stocks all declined. Bonds also went down. The rising interest rate environment that began when the calendar flipped from 2021 to 2022 continues to be the main driver of economic and financial markets.

On Wednesday, September 22nd, the Federal Reserve raised short-term interest rates by 0.75% to a target range of 3.00 – 3.25%. This move itself was not surprising, but the Fed has reiterated their commitment to raising rates in order to quell high inflation. Their next meeting is on November 2nd. Much like football fans looking forward to the next game, markets are anticipating where interest rates may go in the future.

Of course, no one knows for sure what will happen. However, certain outcomes are more likely than others. The following graph shows where the market expects the Federal Funds interest rate to be after the December 2023 fed meeting:



Today, markets expect interest rates to be between 3.50 – 4.75% at the end of 2023. So while there is a high likelihood of continued rate hikes, they will probably come at a slower rate next year than they have this year. This has some implications for investor portfolios:

- Short-term interest rates are higher, so investors should be able to get higher returns on cash.
- Bonds have had a historically rough year in terms of returns, but now, yields are much higher. This should help provide stability, diversification to stocks, and higher returns for investors going forward.
- Interest rates have a significant impact on the prices of all financial assets such as houses, stocks, and bonds. Volatility is always present when investing, and there are lots of reasons for markets to move. Even so, more stability in the interest rate environment could contribute to less volatility in the stock market next year.
- Since borrowing costs have increased, companies with quality earnings, cash flows, and lower valuations should be well positioned relative to their peers.

If you would like to discuss how the current interest rate environment is affecting your personal portfolio, let's talk.

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MARKET UPDATE as of 9/30/22	3RD QTR	2022 YTD	5 YR AVG	10 YR AVG
S&P 500 COMP	-4.88%	-23.87%	9.24%	11.70%
RUSSELL 2000	-2.19%	-25.10%	3.55%	8.55%
MSCI EAFE	-9.29%	-26.76%	-0.36%	4.15%
MSCI EMERGING MARKETS	-10.62%	-26.51%	-1.07%	1.63%
BARCLAYS US AGG BOND	-4.75%	-14.61%	-0.27%	0.89%

Tax Impact of Capital Gains and Losses in a Fluctuating Market

By Beau Carpenter

Being invested in the market has proved to be a wild ride this year. You may have already realized some significant capital gains and capital losses, but your 2022 tax situation is not final until year-end.

Here are some tips to help avoid market-related tax surprises for 2022:

- Investments held in taxable, brokerage firm accounts are a different story — From a tax perspective, your cumulative gains and losses from executed trades during the year are what matter. (Unrealized gains and losses won't affect your 2022 tax bill, although they can certainly affect your mental health.)
  - Having an overall loss for the year, meaning your realized losses in taxable accounts exceed your realized gains, you can claim a net capital loss deduction of up to $3K against your ordinary income.
  - If your taxable accounts for the year exceed your losses, you have a net capital gain. Short-term gains will be taxed at your regular federal income tax rate. Long-term gains will be taxed at the lower federal capital gain tax rates of 0, 15, or 20%.
- Offset capital gain income by selling securities at a loss. Whether you have sold appreciated securities or sold some other capital asset (e.g. investment property, business assets, etc.), you can potentially offset recognized capital gains with tax loss harvesting. This is done by strategically selling securities at a loss which will offset the capital gain income and save tax. Even if you have no gains to recognize this year, you can still harvest a capital loss of up to $3,000 to offset other types of income.
- Complete a ROTH conversion in a down year to save tax. Converting securities held in a traditional IRA into a ROTH IRA is a taxable event. If you can complete this during a down market the amount that is taxable on the conversion will be less than when the market is up. This can result in substantial tax savings on the conversion. In addition, you will have the benefit of tax free growth when the market rebounds and the assets appreciate in the tax free ROTH account.
- Investments held in a tax-favored retirement account have no current tax impact — Tax-favored retirement accounts include a 401(k), traditional or Roth IRA, or a SEP account. While the market swings affect your account value, they have no impact on your taxes while the funds remain in the account.

As mentioned earlier, your tax results for 2022 are up in the air until all the gains and losses from trades executed during the year are tallied up. If you would like to learn more about this, we are more than happy to sit down with you and guide you through your personal taxes.

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Now, let's talk about your options.

Eligible Designated Beneficiary

If you are an adult, and the IRA owner was under 72 when they passed, you have two options:

1. You can start taking RMDs over your life expectancy. (The 10-Year Rule does not apply in this case.)
2. You can leave the funds in the account, and access them any time penalty-free, but you must follow the 10-Year Rule.

If the IRA owner was 72 or over — You <u>must</u> continue to take RMDs <u>and</u> the 10-Year Rule applies.

But what if the Eligible Designated Beneficiary is a minor? Their options are the same, but the 10-Year Rule is paused: it begins when they legally become an adult.

Special Option for Spouses — If you are inheriting your spouse's IRA, you have a third option: roll the Inherited IRA into a new IRA in your own name.

- Advantage: Funds have no withdrawal rules or requirements until you reach age 72.
- Disadvantage: If you are under 59½, taking funds from your IRA will incur an early-distribution penalty of 10%.

Designated Beneficiary

If the IRA owner was under 72 at the time of death:

You can distribute any amount of funds penalty free at any time, or you can leave the funds in the account if you choose. But the 10-Year Rule applies: everything must be distributed within 10 years.

If the IRA owner was 72 or over — You <u>must</u> continue to take RMDs <u>and</u> the 10-Year Rule applies.

Like I said at the beginning, it's a bit complex. But don't worry! We're here to help you sort out what option is best and make sure you're avoiding any potential pitfalls. If you still have questions, let's talk.

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2023 Social Security COLA

By Tracy Wells

Receiving Social Security benefits? You may have heard rumors that this year's Cost of Living Adjustment (COLA) will be a big one! We are still waiting for the exact number to be announced, but estimates are saying it will be the largest increase since 1982.

How is the COLA calculated? Since 1975, Social Security benefit increases have been based on cost of living adjustments using the Consumer Price Index for Urban Wage Earners and Clerical Workers. This is a formula to increase benefits annually, to account for the increase in food, shelter, medical care, and other important goods and services. Watch for a COLA announcement next month!

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What's Happening at W&H: Fall Shred Day

By Jordan Kvochick

On September 30th, we hosted our first Fall Shred Day, in support of the United Way of Ashland County. We were glad to see so many of our clients and friends from the community show up! Special thanks to Stacy Schiemann and her team from United Way for their support, Ev DeVaul for bringing his famous Wonderdogs out of retirement for the event, and our neighbors at the Moose Lodge for letting us use their parking lot. And of course, many thanks to our team members who were on hand to help out with everything from hauling boxes to dressing hot dogs!