December 2022 Newsletter

Korbitz Financial Planning Newsletter

Eric S. Korbitz, CPA/PFS, CFP®
AICPA
PO Box 170049 • Milwaukee • WI • 53217
414-979-1040
Eric@KorbitzFinancialPlanning.com • www.KorbitzFinancialPlanning.com

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Welcome to December. I hope you had a relaxing Thanksgiving holiday.

For this final newsletter of 2022 I am going to focus on several articles targeted at younger individuals, as well as a composite article that could apply to just about anyone.

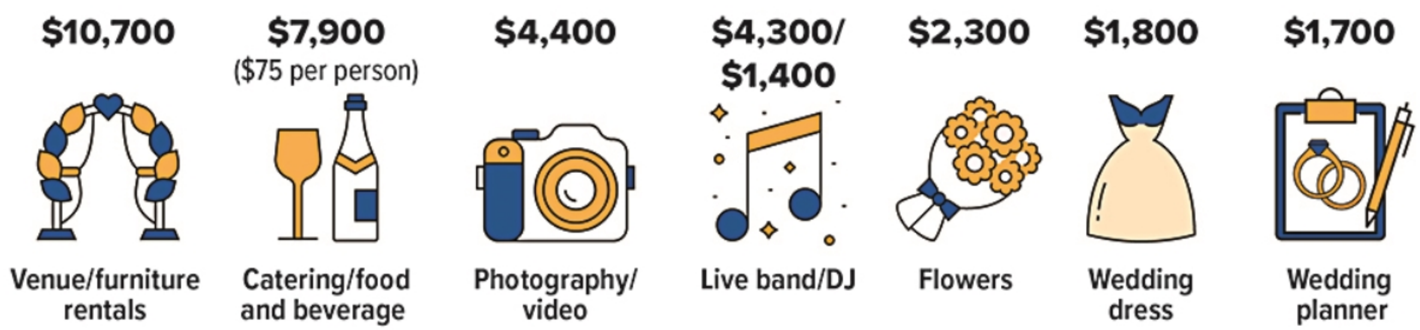
The first article talks about the costs of weddings. Keep in mind that what you spend on a wedding is a choice, not a requirement! The second composite article discusses the 2023 inflation adjusted limits as well as the complicated issue of inherited retirement accounts. The third article discusses when and how much young people should save. Finally, the fourth article discusses health care options for younger adults.

I wish you a safe and healthy winter and a happy new year!

Eric

Wedding Bonanza: How Much Will the Party Cost?

In 2021, the national average cost of a wedding was about $28,000, a figure that includes the rehearsal dinner, ceremony, and a reception with 105 guests — but not the engagement ring (which averaged $6,000) or the honeymoon. Of course, the average price tag varied greatly by location, from $16,000 in Oklahoma to $47,000 in New Jersey. With inflation soaring, many couples are facing significantly higher costs, and greater competition for in-demand vendors, in 2022.



Source: The Knot, 2022

2023 Numbers and Inherited IRAs

2023 Numbers

Many of the things that we can do financially are controlled by inflation adjusted limits set by the tax code. Here are a number of items that you should be aware of for 2023.

IRA/Roth IRA contribution limits

$6,500 (up from $6,000) for those under age 50 during 2023

$7,500 (up from $7,000) for those age 50 or older during 2023.

401(k)/403(b) contribution limits

$22,500 (up from $20,500) for those under age 50 during 2023

$30,000 (up from $27,000) for those age 50 or older during 2023.

Health Savings Account contribution limits

$3,850 (up from $3,650) for those with single coverage and under age 55 during 2023.

$4,850 (up from $4,650) for those with single coverage and age 55 or older during 2023

$7,750 (up from $7,300) for those with family coverage and under age 55 during 2023.

$8,750 (up from $8,300) for those with family coverage and one spouse age 55 or older during 2023.

$9,750 (up from $9,300) for those with family coverage and two spouses age 55 or older during 2023.

Inherited IRA Required Minimum Distributions (RMDs)

The tax treatment for IRA accounts, 401(k) accounts and similar retirement accounts (“retirement accounts”) which are inherited changed in 2019 by virtue of the SECURE Act which was passed by Congress and signed into law by President Trump in 2019. The purpose of this rule change was to accelerate the distribution of inherited retirement accounts and boost tax revenue for the US Government. Unfortunately, the implementation of this rule change has been confusing at best.

There are significant exceptions to the following rules for someone who inherits their spouse's retirement plan, for children and college students, and others.

For retirement accounts inherited from a decedent who died prior to January 1, 2020, the inherited retirement account is distributed as it was in the past.

For retirement accounts inherited from a decedent who died AFTER December 31, 2019, the inherited retirement account is subject to the new SECURE Act distribution rules. These rules are, in a word, complicated. More complicated than I am comfortable summarizing in a one page newsletter article. The issue or problem that people who inherited retirement accounts in 2020 or 2021 had was that the IRS did not issue the proposed regulations for taking distributions from those accounts until February, 2022, and as of this writing has not yet finalized those regulations!

On October 7, 2022, the IRS released Notice 2022-53 which indicates that they will not apply penalties to those who inherited retirement accounts in 2020 and 2021 who did not take the required RMD in 2021 or 2022. That is good news, as owners of those retirement accounts really did not know what their RMD even was for those years. Effectively the IRS is saying that if you inherited a retirement account in 2020 or 2021 you do not have to take an RMD for 2021 or 2022. This Notice does NOT affect RMDs from “owned” retirement accounts (one that you funded and you own, or that your spouse funded, that you inherited and took as your own) OR from retirement accounts inherited prior to January 1, 2020.

This Notice gives those who inherited retirement accounts in 2020 or 2021 some breathing room, as they will not be subject to RMDs until at least 2023, which will allow time for planning for the 2023 and subsequent distributions.

Given the complicated nature of the new Regulations, I highly recommend that anyone who inherits a retirement account after December 31, 2019 seek the advice of a financial planner or accountant to ensure that they take the Required Minimum Distributions, and do so in a tax efficient manner.

When Should Young Adults Start Investing for Retirement?

As young adults embark on their first real job, get married, or start a family, retirement might be the last thing on their minds. Even so, they might want to make it a financial priority. In preparing for retirement, the best time to start investing is now — for two key reasons: compounding and tax management.

Power of Compound Returns

A quick Internet search reveals that Albert Einstein once called compounding "the most powerful force in the universe," "the eighth wonder of the world," or "the greatest invention in human history." Although the validity of these quotes is debatable, Einstein would not have been far off in his assessments.

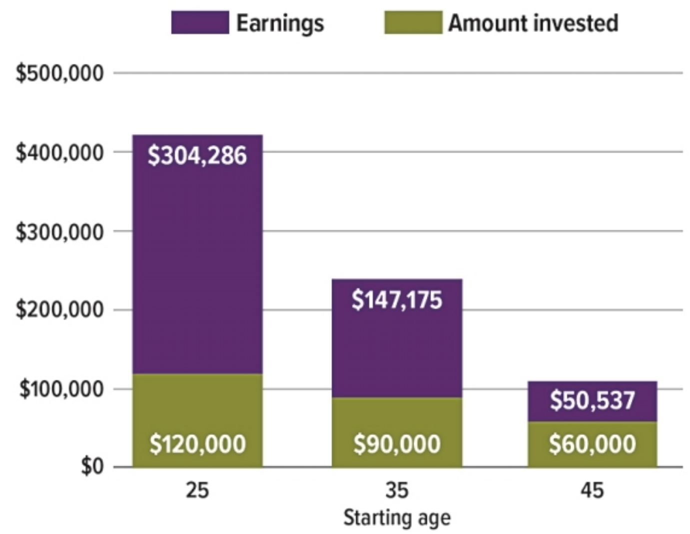
Compounding happens when returns earned on investments are reinvested in the account and earn returns themselves. Over time, the process can gain significant momentum.

For example, say an investor put $1,000 in an investment that earns 5%, or $50, in year one, which gets reinvested, bringing the total to $1,050. In year two, that money earns another 5%, or $52.50, resulting in a total of $1,102.50. Year three brings another 5%, or $55.13, totaling $1,157.63. Each year, the earnings grow a little bit more.

Over the long term, the results can snowball. Consider the examples in the accompanying chart.

A Head Start Can Be a Strong Ally

This chart illustrates how much an investor could accumulate by age 65 by investing $3,000 a year starting at age 25, 35, and 45 and earning a 6% annual rate of return, compounded annually.



These hypothetical examples of mathematical compounding are used for illustrative purposes only and do not reflect the performance of any specific investments. Fees, expenses, and taxes are not considered and would reduce the performance shown if they were included. Rates of return will vary over time, particularly for long-term investments. Investments offering the potential for higher rates of return also involve a higher degree of investment risk. Actual results will vary.

Tax Management

Another reason to start investing for retirement now is to benefit from tax-advantaged workplace retirement plans and IRAs.

Lower taxes now. Contributions to traditional 401(k)s and similar plans are deducted from a paycheck before taxes, so contributing can result in a lower current tax bill. And depending on a taxpayer's income, filing status, and coverage by a workplace plan, contributions to a traditional IRA may result in an income tax deduction.

Tax-deferred compounding. IRAs and workplace plans like 401(k)s compound on a tax-deferred basis, which means investors don't have to pay taxes on contributions and earnings until they withdraw the money. This helps drive compounding potential through the years.

Future tax-free income. Roth contributions to both workplace accounts and IRAs offer no immediate tax benefit, but earnings grow on a tax-deferred basis, and qualified distributions are tax-free. A qualified distribution is one made after the Roth account has been held for five years and the account holder reaches age 59½, dies, or becomes disabled.

Saver's Credit. In 2022, single taxpayers with adjusted gross incomes of up to $34,000 ($66,000 if married filing jointly) may qualify for an income tax credit of up to $1,000 ($2,000 for married couples) for eligible retirement account contributions. Unlike a deduction — which helps reduce the amount of income subject to taxes — a credit is applied directly to the amount of taxes owed.

Avoiding penalties. Keep in mind that withdrawals from pre-tax retirement accounts prior to age 59½ and nonqualified withdrawals from Roth accounts are subject to a 10% penalty on top of regular income tax.

Additional Fuel for the Fire

Workplace plans that offer employer matching or profit-sharing contributions can further fuel the tax-advantaged compounding potential. Investors would be wise to consider taking full advantage of employer matching contributions, if offered.

Don't Delay

With the power of compounding and the many tax advantages, it may make sense to make retirement investing a high priority at any age.

4 Health Insurance Options for Young Adults

Young adults have more access to health insurance coverage than ever before.[1] However, despite these gains, they also have some of the highest uninsured rates of any age group in the United States.[2] Having adequate health insurance is critical, even if you are young and healthy. Without it, getting hurt or sick could result in costly medical expenses that could lead to financial hardship. Here are four health insurance options to help you protect yourself.

Get on or stay on your parent's plan. If your parents have employer-sponsored health insurance or a Health Insurance Marketplace plan, you usually can be added to or remain on a parent's plan until you turn 26. Generally, you can stay on your parent's plan until you turn 26 even if you:

- Get married
- Have or adopt a child
- Start or leave school
- Live in or out of your parents' home
- Aren't claimed as a tax dependent
- Turn down an offer of job-based coverage

Enroll in your school's student health plan. Most U.S. colleges and universities require their students to have a certain level of health insurance coverage. If you are in college, you may be able to enroll in your school's student health plan if you don't already have health insurance or if your insurance plan does not meet the coverage requirements.

Apply for insurance through the Health Insurance Marketplace. Marketplace plans offer affordable coverage for essential health benefits and pre-existing conditions. In addition, when you fill out an online application for the Health Insurance Marketplace, you will find out if you qualify for a plan that offers income-based savings (if you are not a tax dependent) or if you are eligible for other free or low-cost coverage (e.g., Medicaid, CHIP).

Obtain coverage through your employer. If your employer offers health insurance coverage, consider enrolling in your company plan. If you just turned 26 and are outside of the open enrollment period, you may qualify for a special enrollment period. Employer-sponsored plans are typically more affordable than individual health plans because many employers pay a portion of the premiums.

For more information on health insurance coverage for young adults, visit healthcare.gov.

1) Urban Institute, 2021

2) American Community Survey, U.S. Census Bureau, 2020

IMPORTANT DISCLOSURES

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