January – February 2023

Money Moxie®

SMEDLEY FINANCIAL SERVICES, INC.®

Trusted Since 1982

Keeping Up With Change

Keeping up with tax law changes can be challenging but is critical. In the last days of 2022, the President signed the Consolidated Appropriations Act (CAA) of 2023, which included what is known as the SECURE Act 2.0. It builds on the 2019 Setting Every Community Up for Retirement Enhancement (SECURE) Act.

It is no secret that many Americans are financially ill-prepared for retirement. We have witnessed a drastic reduction in the number of Americans with pension benefits, forcing each of us to take on the task of saving and investing for our retirement years. According to Fidelity Investment's Retirement Preparedness Measure, 55% of Gen X and 48% of Baby Boomers score their retirement preparedness as having less than needed to cover their basic expenses – reporting significant action is needed.

The goal of SECURE Act 2.0 is to provide Americans with opportunities to help them become better prepared for retirement. This is reflected in the changes made to retirement savings plans, increasing maximum contribution limits, increasing catch-up contribution limits, and introducing a special catch-up contribution limit for those ages 60 thru 63.

Measures have been implemented for employers establishing new retirement plans. They can help eligible employees save for retirement by automatically enrolling them into the plan with a minimum contribution. This contribution percentage can be increased over the years to a maximum amount. Of course, employees can opt out of auto-enrollment.

For those turning 72 this year, new Required Minimum Distribution (RMD) rules allow them to further defer tapping into tax-deferred retirement accounts. This is beneficial when managing taxable income and strategically converting from tax-deferred accounts to Roth IRAs. In a sense, it is giving them more years to trigger taxes at their discretion.

All things considered, we believe SECURE Act 2.0 creates greater flexibility and increased opportunities. Fundamentally speaking, this will be a crucial year to meet with your Smedley Financial wealth advisor to discuss how you can take advantage of the changes.

For more information regarding SECURE Act 2.0, listen to our webinar at SmedleyFinancial.com or look for new episodes of the Power Up Wealth podcast.

We hope you have a joyful and successful 2023.

Sharla

Sharla J. Jessop, CFP®
President

Tax Documents and QCDs

Tax documents will be mailed as late as March 4th. If you made a Qualified Charitable Distribution, please make sure you describe it accurately to your CPA. You want to avoid amending your taxes later.

Save the Date

The *SFS Money Matters Women's Conference* is coming on Friday, April 28th! Watch your email for more information on how to register.

Should I tap into my 401(k)?

By Mikal B. Aune, CFP®

Being laid off feels like a gut punch. As you transition, you might wonder what the ramifications would be if you tapped into your retirement savings. The general rule is to leave your 401(k) alone as long as possible unless you have enough money to retire early. However, tapping into your 401(k) may be the only option to help you stay afloat. Alternatively, you may be considering starting a business, and your 401(k) could be a way to turn that dream into reality. Many of these questions can only be answered with proper financial planning, where we can model the impact based on the size of assets, the size of withdrawals, and the time until retirement. Here are some things to keep in mind if you are considering tapping into your 401(k).

Since 401(k)s are designed for retirement, if you take a withdrawal before turning age 59½, you will have a 10% penalty on top of ordinary income taxes. For example, if you are in the 24% federal tax bracket, you would pay that, an additional 10% penalty, and your normal state income taxes (around 5% in Utah). That would be a loss of 39%. To net a $10,000 distribution from your 401(k), you would need to take out $16,393. Ouch!

If taking money from your 401(k) is your only option, below are a few ways to reduce taxes, avoid taxes, or escape the 10% penalty.

Reduce taxes

One tactic to reduce taxes is to split your income over two years. If you had a good amount of income during the year you were laid off, try delaying taking from your 401(k) until the following year, if possible. If you don't have much income in the year following, you may end up in a lower tax bracket, and in that case, you would pay less in total tax.

Tax-free withdrawals

If you have contributed to your Roth 401(k) AND you have a Roth IRA that has been open for more than five years, you may be in luck. You may be able to roll over your Roth 401(k) into a Roth IRA and take out the contributions. Keep in mind that your Roth IRA must have been open for five years before you can take a distribution. Also, ensure you have clear records of how much you contributed versus how much your earnings are. If you take out the Roth earnings before you are over 59 ½, you will pay a 10% penalty.

Rollovers for Business Startups (ROBS)

If this was the nudge you needed to start a business, a good opportunity that most people haven't heard of is a Rollover for Business Startups or ROBS. Your 401(k) must be over $50k, and you must find a company that will help you establish a self-directed 401(k). Then you can use the 401(k) to help fund your startup. Like everything, there are numerous caveats, and you should consult a qualified expert, CFP or CPA, to see if this is right for you.

Potential ways to avoid the 10% penalty

There are types of withdrawals that may avoid the 10% penalty, like paying health insurance premiums, federal taxes, or unreimbursed deductible medical expenses. You can also consider Substantially Equal Periodic Payments (AKA 72(t) distributions). Even though you still must pay ordinary income taxes, at least you would avoid the 10% penalty. While I can't explain each of those in this article, know they are available. Please consult with one of our Certified Financial Planners (CFP) or a CPA to make sure you understand all the rules.

If you want to create a financial plan that would model the impact of your decisions, consult with one of our advisors to determine the right course for you. Our goal is to help you create security and then find independence and freedom.

Sources: (1) https://www.bankrate.com/retirement/ways-to-take-penalty-free-withdrawals-from-ira-or-401k/
(2) https://www.guidantfinancial.com/financing-solutions/401k-business-financing/

SECURE Act 2.0

By Jordan R. Hadfield, CFP®

With a new year and the passing of SECURE Act 2.0, there are many changes taking place in the world of personal finance, particularly when it comes to retirement planning. The SECURE Act 2.0 was included in a 4,155-page, $1.7 trillion piece of legislation that passed on December 29, 2022. I have studied the Act in detail and outlined here what I believe to be the key points of interest.

Just like its predecessor, the SECURE Act 2.0 has pushed back the age for required minimum distributions (RMDs) from retirement accounts. We are happy to see this change as it provides greater freedom and flexibility to investors and allows assets to grow tax-deferred for a longer period of time. However, it also adds a greater need for tax and distribution planning as retirement accounts can end up with larger balances and fewer years of required distributions.

Required Minimum Distributions
New Age Rules

Birthdate	RMD Age
June 30, 1949 or before	70.5
July 1, 1949 - 1950	72
January 1, 1951 - 1959	73
January 1, 1960 or later	75

In addition to RMD extensions, the penalty for failure to take an RMD has been reduced from 50% to 25%. If a forgotten RMD is taken "within a timely manner," the penalty will be further reduced to 10%. We applaud this change.

The SECURE Act 2.0 also eliminates the mandatory RMDs from 401(k) Roth accounts starting in 2024. This was a much-needed change as Roth IRA accounts have never had mandatory distributions. Because Roths grow tax-free, the longer we can leave assets in them, the better. The Act also expanded Roth options to include other retirement-type accounts and employer-matching contributions. We are very excited to see this, as the Roth may be the greatest wealth-building vehicle available.

Greater Roth Flexibility
Roth 401(k) no longer subject to RMDs
Employer contributions can now be Roth
SEP and Simple Roth IRA options
403(b) Roth options
Mandatory Roth for certain catch-up contributions

Another welcome change pertains to the 529 education savings account. In years past, there were two options if an account beneficiary did not use all the assets available to them. They could take a taxable cash distribution and pay a 10% penalty, or a new beneficiary could be named. Starting in 2024, account owners will have a third option; they will have the ability to roll 529 assets into a Roth IRA in the name of the beneficiary. This change makes the 529 plan even more attractive for those planning for future qualified education expenses.

529 Education Account Rollover Rules
529 account must be at least 15 years old
Rolled assets must have 5 years in the 529 account
Maximum lifetime conversion amount of $35,000
Conversion subject to IRA annual contibuition limits
Beneficiary must have earned income ≥ conversion

It is now possible to save more money in your tax-advantaged retirement accounts. Although rising contribution limits for 2023 did not come by way of the SECURE Act, the Act did include beneficial changes that will also result in greater savings limits.

2023 Retirement Contribution Limits	
401(k) employee deferral	$22,500
401(k) catch-up contribution	$7,500
Traditional IRA	$6,500
IRA catch-up contribution	$1,000
Simple IRA	$15,500
Simple IRA catch-up contribution	$3,500
SEP IRA	$66,000

Annual contribution limits have also increased for Health Savings Accounts (HSA). These are fantastic vehicles for tax-advantaged medical savings for those who qualify.

2023 HSA Contribution Limits	
Health Savings Account - Single	$3,850
Health Savings Account - Family	$7,750
HSA catch-up contribution (55+)	$1,000

Retirement Catch-up Contributions
Starting in 2024, IRA catch-up contributions will be indexed for inflation, in $100 increments
Starting in 2025, employees that are ages 60-63 will have the ability to make additional "super" catch-up contributions in 401(k) and similar retirement plans
Starting in 2025, the Simple IRA will also add "super" catch-up contribution ability for those aged 60-63

For those over 50, retirement accounts allow for additional catch-up contributions above the standard contribution limits. This has long benefited investors who are nearing retirement. The SECURE Act 2.0 added a "super catch-up" contribution ability for those ages 60, 61, 62, and 63.

Benefits That Still Remain
The backdoor Roth conversion strategy
The mega backdoor Roth conversion strategy
Qualified charitable distributions at age 70.5

In my opinion, the most exciting part of the SECURE Act 2.0 was not what was in the Act but what was left out. Rumors have swirled for months regarding changes that would prohibit current strategies. We could not be happier seeing that the backdoor Roth options were untouched. This is great news indeed.

The SECURE Act 2.0 adds greater flexibility and many desired saving and investing opportunities. Although many of the benefits are not yet available, we look forward to their implementation. We also look forward to helping our clients adjust their financial plans and strategies to take advantage of what the SECURE Act offers. If you have questions about the SECURE Act 2.0 and what adjustments should be made to better help you reach your financial goals, please reach out to us directly. We look forward to speaking with you. SFS

Upcoming Podcasts

SFS releases new Power Up Wealth podcasts on timely and timeless financial principles. In the coming weeks, we will be doing a deep dive into each article written in this newsletter. Subscribe wherever you get your podcasts or listen at SmedleyFinancial.com.

The "Magic" of Lifetime Income Planning

By Parker Thompson

In a recent appointment with prospective clients to SFS, we were discussing the pros and cons of having us manage their investments.

Previously, these clients thought of keeping their 401(k) with their current company, even in retirement. We then brought up the Lifetime Income Plan strategy and its power to sustain someone through retirement, even through difficult markets and unexpected expenses. To this, the clients reacted with a smile, "This is great! Why doesn't everyone do this?"

At that moment, I couldn't help but think that's the magic of the Lifetime Income Plan.

So, what is the Lifetime Income Plan? Put simply, it's a strategy we deploy to ensure your assets and income can help you maintain a comfortable lifestyle throughout retirement.

The plan provides growth that can outpace inflation and distributions that are not as affected by market downturns. We have seen plenty of both of these recently. The strategy helps give you confidence when you wonder if your money will last.

How do we do it? The plan is set in motion by putting your money into multiple "buckets" or "segments."

These segments are earmarked for different phases of time in your retirement. Usually, the first is for years 1-5, the next is for years 6-10, and so on. The last segment is for 20+ years.

Each bucket is given a varying risk that correlates to the time frame. The segments that will be used sooner, like the first one, will be invested more conservatively in assets that will not fluctuate as much with the markets. On the other hand, the last bucket will be invested more aggressively to grow with the fluctuations in markets over a longer period of time. This way, the income that you need now is safer, and the assets you don't need to draw on just yet can beat inflation. They will grow to sustain your retirement long-term.

Why do we implement the Lifetime Income Plan? Well, because despite our best wishes, the market does not move in a straight line. You might be surprised to find out that, although the market has gone up 7-8% annually on average, there are good and bad years.

In some years, the market gains 21%; in others, it loses 18%, for example. This strategy is built for both situations. Good years are just that, good years. After the bad years, the more conservative accounts have been protected and can be drawn on for income. Your more aggressive accounts lose in the short term, but they have time to come back in the long run.

Then, for all the times that are not so good, it pays to have the peace of mind that you are still on track. With the Lifetime Income Plan, we can confidently say you and your money are going to be okay.

Is High Inflation Over? What's Next?

By James R. Derrick Jr., CFA®

Like you, I am tired of rising prices. At a local store, a dozen eggs cost $4.99.[1] I remember when they were $0.99. Fortunately, we see signs of inflation relief. Unfortunately, this was just one domino in a series that began falling years ago and will likely continue.

When the economic crisis of 2008 hit, we were told that the only people smart enough to get us out of it were those who got us into it. Their solution was to save failing companies, lower interest rates, and buy bonds to push up investment prices.

The Federal Reserve (Fed) added around $1.3 trillion to the financial system in the first three months. Many feared a rise in inflation, and it never happened.

Printing money without negative consequences became normal, especially for the Fed. When the pandemic came, it made sense that the government would do it again. This time, it added around $9 trillion to the economy over two years–much sent directly to Americans. This time, it was too much. Spending increased dramatically, and prices followed.

Conagra, which makes Hunt's ketchup, raised prices in all four quarters of 2022. Facing rising costs for materials and labor, it bumped prices by 8.6%, 13.2%, 14.3%, and finally, 17%. Americans just kept buying. Profit rose 38% from a year earlier. Now, there are signs that Conagra (and likely other companies) went too far. According to the CFO, David Marberger, consumers are tired of higher prices and are changing their shopping habits. Sales are dropping.[2]

Consumers have been surviving on savings and debt. In December, consumer spending fell by 1.1%. That is a drop of around $7 billion in sales. If January shows a similar decline, it will be meaningful and painful.

The Fed will not ignore high inflation. Last year, it began raising short-term interest rates at the fastest pace in 40 years. Bonds became less attractive and had perhaps their worst year ever. Stocks dropped as fear grew.

Inflation is coming down. At its peak in 2022, it was just over 9%, and it ended the year around 6.5%.

The Fed is not done. Its goal is to get prices stable enough that businesses can focus on what they do rather than on changing prices. The same goes for all Americans. The target is 2%. The Fed will slow the economy until it feels confident it has reached its goal.

Higher rates have caused new mortgages and car loan payments to nearly triple. One would think that everything would be falling. But it takes time for these dominos to fall. After all, most people will choose not to sell their home if they cannot get a "good price" for it.

I am watching employment. Weekly claims for new unemployment are reported each Thursday. National employment rates are typically released on the first Friday of the month. For now, employment is strong. If that changes, then we will have a recession.

Recessions bring challenges, especially for those without work. They are also a naturally occurring part of the economic cycle. There have already been six in my lifetime. Each is unique and offers lessons, especially to younger adults experiencing their first as independents.

Americans have always found a way to bounce back. In addition, if inflation comes down and stays down, the Fed will have the flexibility to help us out again. Let's just hope it uses its powerful tools wisely. SFS

1. Smiths.com, 1/18/2023.
2. Jennifer Williams-Alvarez, "Conagra CFO Doesn't See Need for Big Price Increases in Near Term, *The Wall Street Journal,* 1/12/2023.
All other data from Federal Reserve Bank of St Louis. Investing involves risk, including the potential loss of principal. The S&P 500 index is widely considered to represent the overall U.S. stock market. One cannot invest directly in an index. Past performance does not guarantee future results. The opinions and forecasts expressed are those of the author and may not actually come to pass. Diversification does not guarantee results. This is not a recommendation to purchase any type of investment.

Your SFS Team

Smedley Financial Services, Inc.® is an independent registered investment advisory firm. We work for our clients. Our wealth managers have the flexibility to implement our financial plans, retirement plans, and income distribution plans using strategies that work toward each client's needs and goals. We work with individuals, businesses, and family estates. We provide financial solutions for your life.

Wealth Accumulation
•Managed Accounts
•Indexed Investing
•Mutual Funds
•Exchange Traded Funds (ETFs)
•Stocks and Bonds
•Alternative Investments

Family Protection
•Term Insurance
•Whole Life Insurance
•Universal Life Insurance
•Variable Universal Life Insurance

Retirement
•Social Security Maximization Strategies
•Medicare Supplement
•Guaranteed Income (Annuities)
•Lifetime Income Planning

Disability (Injury)
•Short-Term Disability Insurance
•Long-Term Disability Insurance

Elder Care
•Long-Term Care Insurance
•Hybrid LTC

Employers and Self Employed
•Health Insurance
•401(k) Plans

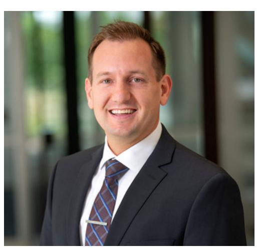
Roger M. Smedley, CFP®
CEO
Founded 1981

Sharla J. Jessop, CFP®
President &
Private Wealth Consultant
Joined 1994

James R. Derrick Jr., CFA®
Vice President &
Chief Investment Strategist
Joined 2000

Mikal B. Aune, CFP®
Vice President of
Wealth Management
Joined 2006

Shane Thomas
IT Specialist &
Advisor Relations
Joined 2003



Jordan R. Hadfield, CFP®
Private Wealth Consultant
Joined 2018

Parker Thompson
Registered Office Assistant
Joined 2022

Lynette S. Watts
Client Service Specialist
Joined 2000

Nashaela Lyons
Client Service Specialist
Joined 2013

Smedley Financial Services, Inc.®, a registered investment advisory firm since 1982
102 South 200 East, Suite 100 P.O. Box 4133 Salt Lake City, Utah 84110-4133
801-355-8888 800-748-4788
info@SmedleyFinancial.com
SmedleyFinancial.com