Schneider
WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

15 Year-End Planning Tips To Slash Your 2022 Taxes

The pace of reform of federal tax laws has increased in the last several decades and accelerated since the pandemic struck, potentially complicating tax planning.

In addition, simplification seems like a long-forgotten goal in recent tax reform legislation. For example, in February 2022, rules implementing the SECURE Act, which was signed into law December 2019, changed a highly technical part of the Internal Revenue Code affecting distributions from federally qualified retirement plans (QRPs) and IRAs, and will shift retirement funding and estate planning decisions of millions of Americans.

Plus, stocks were up and down in recent months and may stay volatile through the end of 2022, which creates opportunities to realize gains and offset them by taking losses.

To make things simpler, here are 15 reminders about ways to cut your federal tax bill.

1. Have you fully funded your 401(k) or IRA for 2022 to save for retirement and lower your tax bill?

2. If you expect to have a taxable estate in 2026, when the $12.06 million individual estate tax exclusion may be slashed to $6.2 million ($12.4 million for married couples), consider making gifts to children and others by December 31.

3. If you expect to have a taxable estate after 2025, consider setting up a trust to transfer assets from your estate to reduce taxes, avoid probate, direct assets to be inherited on terms you specify, and provide your heirs protection from creditors, liens and divorce settlements.

4. If you are edging into a higher tax bracket this year, have you considered ways of bunching charitable donations and other itemized deductions into 2022?

5. If you're funding college tuition and other qualified education expenses, can you time tuition and other payments to bunch deductions and optimize your itemized deductions in 2022 or 2023?

6. If you own a traditional IRA, is this a good time to consider converting it to a Roth IRA, which could provide tax-free income and other tax benefits to your heirs?

7. If you experienced a financial

2022 Tax Brackets

Tax Rate	Taxable Income (Singles)	Taxable Income (Married Joint-Filers)
10%	Up to $10,275	Up to $20,550
12%	$10,276 to $41,775	$20,551 to $83,550
22%	$41,776 to $89,075	$83,551 to $178,150
24%	$89,076 to $170,050	$178,151 to $340,100
32%	$170,051 to $215,950	$340,101 to $431,900
35%	$215,951 to $539,900	$431,901 to $647,850
37%	$539,900+	Over $647,850+

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Ukraine, Inflation, Stock Losses And Times Of Investment Fear

We all know that turmoil in the world, economic setbacks, and financial volatility can spark anxiety. If you are feeling anxious, the most important thing you can do is talk about it with a professional.

Personal financial fear can evoke a full spectrum of human emotions, from panic to irrational exuberance and everything in between.

Fear is one of the most influential of all emotions. Financial fear and anxiety can feel like chronic conditions if you are paying down a large debt, supporting a relative, or worried about running out of money in retirement.

How you experience fear is partly dependent on your brain. We typically have three reactions to fear – perhaps not surprisingly – all "f words:" fight, flight, freeze.

Fight is an instinct that probably came in handy when humans lived in caves. It is not helpful in modern-day financial dealings, however. Fighting might make you double down on a bad investment and could cause a more significant loss.

Flight can mean selling an investment to remove yourself from harm's way, retreat to safety, and regain control of your situation. But this can also mean selling perfectly good assets that temporarily take a hit. Remember, you must face some market risk to earn long-term returns.

Freezing is another natural reaction in times of rising fear, becoming too afraid to do anything.

Talking about your concerns with a trained professional, who has been through decades of ups and downs and can provide a historical perspective and help you manage and understand risk, is an intelligent step toward restoring a sense of control and reducing anxiety.

Please note, changes in tax and estate planning laws may occur at any time and could have a substantial impact upon each person's situation.
While we are familiar with the tax and estate planning provisions of the issues presented herein, as Financial Advisors of Cambridge Investment Research, Inc we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

A Caution About Calling IRA Custodians

This is a heads-up for anyone deciding on how to designate beneficiaries of an IRA of a federally qualified retirement account based on advice from a call center.

Calling your IRA or 401(k) custodian requesting paperwork for a transaction is usually a simple way to get help. However, when designating beneficiaries, paying an IRA to a trust, or leaving someone other than your spouse assets held in your IRA or other retirement plan account, relying on a call center can be risky.

The representative that answers the call is not something you control. Whether you are calling with a question about a complex topic involving a large inherited IRA account or to ask a simple question about the amount of your last withdrawal, your call will be routed to any representative who happens to be accessible at the moment you call.

Even if the service from your IRA custodian receives high ratings from consumers, calling in with a question about the disposition of an IRA upon your death may be placing faith in the advice of a recent college graduate with little financial and tax planning knowledge.

Relying on advice from a custodian call center employee about your beneficiary designations is a big gamble since the rules on IRA and qualified retirement plans are complex and subject to change.

For example, even if you have a will, your beneficiary designation will override it. So, even though your will may say you wish to leave all your assets to your children, if your IRA beneficiary designation names your first spouse, whom you divorced 20 years ago, as the account beneficiary, then your ex-spouse would be entitled to inherit the IRA account upon your death. Designations made years ago at an old IRA, and other accounts should be confirmed as correct and in accordance with your wishes.

In addition, under the SECURE Act, which became effective January 1, 2020, the beneficiary of inherited IRA or 401(k) accounts is required to deplete the accounts within ten years. The Act exempted disabled, chronically ill beneficiaries and children. It’s a lot to know.

Complicating matters, two years and three months after the SECURE Act went into effect, the IRS augmented the rules on distributions from IRA and Qualified Retirement Plans implementing the Act, and the new rules went into effect at the beginning of 2022.

If you own a sizable IRA, 401(k), or other retirement plan account, and your beneficiary is your spouse, an individual with a disability, chronic illness, or a minor child, planning correctly to take full advantage of these rules can make a big difference in the life of a loved one who can stretch out distributions over their actuarial life expectancy, thus, leaving the assets to compound tax-free for a much more extended period.

If you call a custodian for help with a complex area of retirement tax planning, exercise caution, and make sure we are on that call with you since we are here to help.●

A Timely Reminder of Why You Take Stock Risk

The equity risk premium is an important metric to remember as the bear market that began this year extends into the fourth quarter of 2022. Illustrated on the right is the premium stocks annually-averaged in the 20 years that ended September 30, 2022.

Stocks, as measured by the Standard & Poor’s 500, averaged a +9.8% annual return in the 20 years — more than seven times the +1.2% annual return on the risk-free 90-day U.S. Treasury bill in the same 20-year period.

T-bills are considered riskless investments. That’s because they’re backed by the full faith and credit of the United States Government. In contrast, stock prices fluctuate depending on the economy and investor sentiment and are subject to some pretty wild and unpredictable swings. That’s why stocks are considered risky.

Subtracting the returns on T-bills from the return on stocks, the resulting +8.6% is the premium paid annually for taking the risk of owning U.S. stocks over the 20 years that ended September 30, 2022. In other words, investing in America’s 500 largest public companies earned an average of +8.6% more annually than a risk-free investment.

This 20-year period encompassed four frightening bear markets — the tech crash of 2002, the financial crisis of 2008, the COVID downturn of early 2020, and the current bear market.

Past performance is no guarantee of your future results, and that, paradoxically, is precisely why investors are paid a premium for owning stocks.

Yes, stocks are risky- But be glad for it since that is why stocks

Knowledge Of Financial History Is Important

The extreme financial effects of the COVID-19 pandemic seemed unprecedented to most investors. Over the past two years, Americans witnessed a sudden financial crisis in March 2020, the injection of nearly $10 trillion of monetary and fiscal stimulus within months, and an unexpected burst of inflation that caught even the Federal Reserve off guard. The truth, however, is that these events seem anomalous only because many historical parallels have disappeared from our collective memory. In fact, few living Americans know much about the two most relevant similarities — the onset of World War I in July 1914 and the post-World War I/Great Influenza inflation of 1919-1920.

Famed economist John Kenneth Galbraith once said, "for practical purposes, the financial memory should be assumed to last, at maximum, 20 years." But this principle only applies if one lacks the will to learn about events that transpired beyond this boundary.

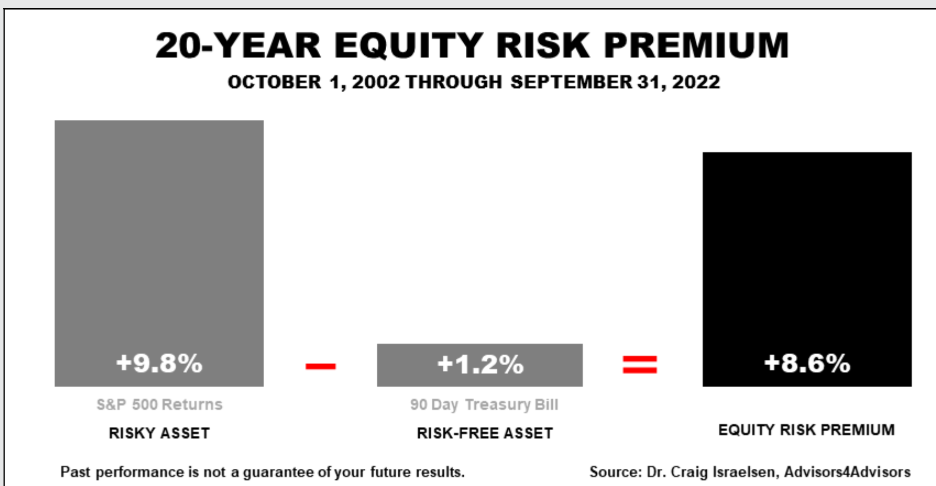
"Those who delve into the more distant past discover that what seems unprecedented in the moment has almost always occurred before — often multiple times," says financial historian Mark Higgins. He notes, "More so than prior financial crises, the COVID-19 pandemic revealed the importance of carefully studying financial history."

Students of the 1919–1920 inflation were unsurprised by the onset of post-COVID-19 inflation, according to Mr. Higgins. His forthcoming history of the U.S. financial system, "Becoming an Enlightened Investor" (Greenleaf Book Group) is expected to arrive on Amazon in spring 2023.

"Investors who recall the policy mistakes of the Federal Reserve in the late 1960s understand why the Fed leadership today is unlikely to repeat these errors," says Mr. Higgins. "This makes the Federal Reserve's hawkish turn in 2022 an expected outcome rather than an aberration."

Similarly, those who know about the speculative bubbles that have tormented U.S. markets for over two centuries are justifiably skeptical of the unproven prospects of cryptocurrencies and NFTs. Understanding the past lets investors put current happenings in perspective and avoid getting swept up in dangerous fads and speculative bubbles. Knowledge of financial history also provides a framework for intelligently reacting to, but not overreacting to market movements, be they up or down.●

returned +8.6% more annually than U.S.-government-guaranteed investments through multiple bear markets and financial crises of the past 20 years.●



New Research On Long-Term Care Insurance Policies Rate Increases

A new survey of long-term care insurance rate increases offers a rare glimpse into an insurance sector with a history of rate hikes for consumers.

Long-term care insurance (LTCI) is a relatively new type of insurance and is worthwhile for many people. But for most of its 50-year history, insurers made overly optimistic assumptions about key factors in the price of their policies, including:

- how much to charge for policies
- how many policyholders would keep their policies in force
- how long policyholders would live
- how many policyholders would need long-term care during their lives and for how long
- the yield insurers would earn on their investments

Because the insurers' assumptions turned out to be wrong so often, they have gone to state insurance regulators to request approval for price increases, as allowed by the policy contracts. Milliman, a national actuarial firm, recently released the results from a voluntary survey of 20 insurance companies that have asked for a rate increase. A few highlights:

- Most rate hike requests received full or partial approval.
- The average approved increase was 29%, with a range from 5% to more than 60%.
- Companies that request a rate increase also provide reduced benefit options, including reduced daily benefits, reduced benefit periods, increased elimination periods, and reduced inflation protection. However, only about 11% of policyholders elected a reduced benefit option.
- Many companies also offer a reduced paid-up benefit, with no further premiums due, but fewer than 5% of policyholders elected this option.
- Cash buyouts are under discussion but are not yet common.
- The review process and the results vary by state. A National Association of Insurance Commissioners task force is developing a multi-state process to encourage uniformity and efficiency.

The survey of long-term care insurance confirms that LTCI rate hikes are a risk to policyholders. Whether you have received a policy rate increase notice or are considering buying a new policy, we recommend consulting with a professional who understands the risk of rate increases and how these policies work. ●

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15 Year-End Planning Tips

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loss due to a property casualty or theft, or if you paid significant property tax or medical bills in 2022, it may be deductible and help you qualify to itemize deductions.

8. Consider donating appreciated assets, like publicly traded securities, real estate, or an interest in a private business, to charity to lower capital gain taxes and do good.

9. Have you cleaned out your garage and storage spaces to decide what you could give to a charity that may have significant fair market value and be written off against your taxable income as an itemized deduction?

10. If you are due a bonus by the end of the year, determine whether it will push you into a higher tax bracket and speak with your CPA to consider steps to reduce taxable income.

11. Depressed stock prices present an opportunity to consider selling a concentrated stock position and reinvesting the proceeds in a diversified group of asset classes.

12. Did you realize an investment loss in 2022, and can you apply the loss against a gain to reduce your total capital gains taxes?

13. Because up to $3,000 of long-term capital losses fully offset up to $3,000 of ordinary income, is there an investment loss you can realize?

14. If your employer sponsors a flexible spending account, maximize it by paying for health insurance co-pays or deductibles and qualified medical expenses, which you pay with pre-tax dollars.

15. If you own a business and want to accelerate savings for retirement, consider a defined benefit (DB) plan that allows higher contributions than an IRA or 401(k). But remember, DB plans are subject to complex tax and actuarial rules.●

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