

# Planning News



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## In this issue:

- **Put Your Money Where Your Values Are**
- **Coming in 2024: New 529 Plan to Roth IRA Rollover Option**
- **Financing Options to Help You Ride the Mortgage Rate Roller Coaster**

We hope you enjoy this issue of Planning News and its in depth and informative article content.

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## Put Your Money Where Your Values Are

Financial worries are often cited as a major source of stress. For example, a 2021 study found that even before the pandemic and subsequent economic downturn, a majority of Americans said they felt stressed or anxious about their finances. Similarly, in 2022, research revealed that more than seven out of 10 financial planning clients experienced financial anxiety more than half the time. What causes financial stress? Lack of assets and/or income is certainly one reason. Another might be the flood of financial information Americans can access on a daily basis: reports about the markets, economy, and financial institutions, as well as conflicting advice about what people should and should not do with their money. One way to avoid becoming distracted and anxious amid scary headlines is by having a sturdy framework to help guide your spending, saving, and investment decisions.

### The Why of It

In one of the most viewed TED Talks of all time, motivational speaker Simon Sinek identified what he calls “The Golden Circle,” which is actually a series of three concentric circles. He labels the extreme outside circle “What,” the middle circle “How,” and the core “Why.” He uses this image to illustrate how the most successful leaders and organizations are able to inspire so many people to support their causes or buy their products. Essentially, it’s not what they do or how they do it; it’s why they do it. “By ‘why’ I don’t mean to make a profit,” Sinek explains. “That’s a result ... By ‘why,’ I mean: What’s your purpose? What’s your cause? What’s your belief? Why does your organization exist? Why do you get out of bed in the morning?”

Certified financial planner, author, and creator of The New York Times’ “The Sketch Guy” column, Carl Richards, says Sinek’s principle can also apply to an individual’s or family’s financial plan. Having a clear vision of why you earn a paycheck, save, invest, and spend your money is critical to avoiding distractions and questionable or rash financial decisions.

### Taking Stock of What Matters

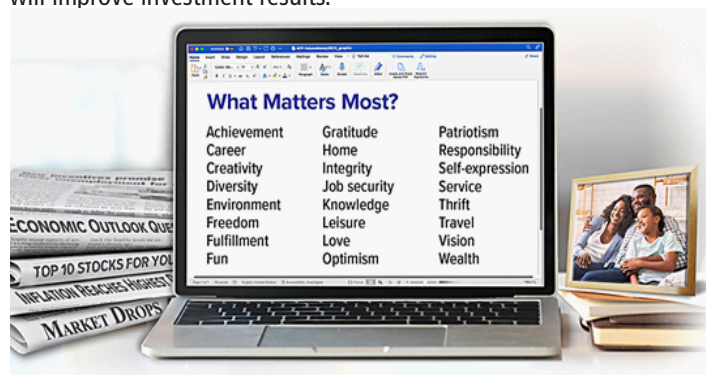
The key to identifying your why is taking inventory of your most important values, many of which may have little or nothing to do with money. To do this, set aside some time when you’re feeling at ease and simply jot down what matters most to you. Some examples might include family, achievement, security, faith, knowledge, creativity, generosity, and independence. Try to narrow down your list to 10 or fewer. Next, think about how your values relate to your financial situation. For example, if faith and generosity are high on your list, how might they influence your estate plan? Or if independence, creativity, and achievement make the final cut, how might those values affect your career choices? Perhaps family and knowledge are important — what might that indicate about your dreams for your children, from primary school to college and beyond? Working with your financial professional, you can use this list of core values as a framework for your financial goals, strategies, and tactics. Whenever you’re tempted to make a decision that could derail your overall strategy — such as chasing the latest hot investment tip or taking a loan from

your 401(k) plan — your core values can serve as an important guidepost and prevent you from making a costly mistake. Your list can also help you make spending decisions. For example, if adventure and education are among your key values, taking your family on a trip to explore a new culture can bring intangible returns in the form of a lifetime of tolerance for differences as well as happy memories.

### Adapting as Your Life Changes

A values-oriented financial plan is as personal and unique as each individual or family. It's also flexible. As you progress through various stages of life, your hopes, desires, needs, and beliefs may change as well. Your financial professional can help you ensure your financial goals and strategies continue to reflect what matters most to you.

\*There is no guarantee that working with a financial professional will improve investment results.



## Coming in 2024: New 529 Plan to Roth IRA Rollover Option

In December 2022, Congress passed the SECURE 2.0 Act. It introduced two new rules relating to 529 plans and student debt that will take effect in 2024. The first provision allows for tax- and penalty-free rollovers from a 529 plan to a Roth IRA. The second provision allows student loan payments made by employees to qualify for employer retirement matching contributions.

### Taking Stock of What Matters

529 plans are tax-advantaged savings accounts specifically geared to saving for college. In an effort to broaden their flexibility in situations where families have extra funds in an account, Congress created a new rollover option. Starting in 2024, 529 plan beneficiaries can roll over up to \$35,000 to a Roth IRA over their lifetime. Here are the specific rules.

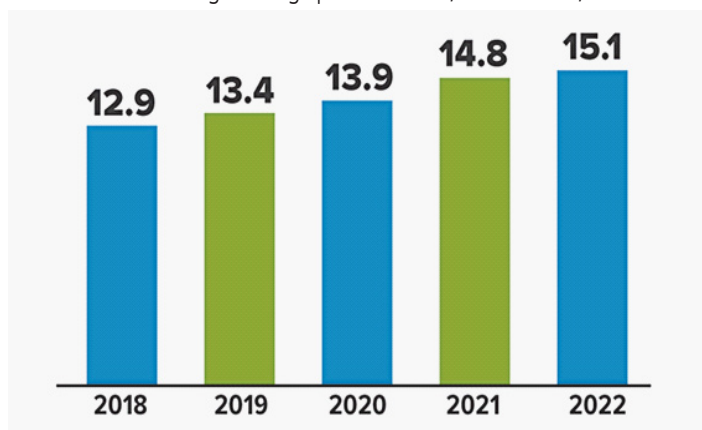
- Any rollover is subject to annual Roth IRA contribution limits, so a beneficiary can't roll over \$35,000 all at once. For example, in 2023, the Roth IRA contribution limit is \$6,500 (for people under age 50) or earned income, whichever is less. If the limit remains the same in 2024, a beneficiary would be able to roll over up to \$6,500.
- In order for the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. If the 529 account owner (typically a parent) changes the beneficiary of the 529 plan at any point, this could potentially restart the

15-year clock.

- Contributions to a 529 plan made within five years of the rollover date can't be rolled over — only 529 contributions made outside of the five-year window can be rolled over to the Roth IRA. For more information on determining the date of contributions, contact the 529 plan manager.

Example: Kate opens a 529 account for her son Joe when he is three years old. Kate contributes to the account for 15 years. At age 18, Joe enters college. Kate continues to contribute to the account while Joe is in college. Joe graduates, and there is money left over in the 529 account. Because the account has been open for at least 15 years, Joe is eligible to roll over funds from the 529 account to a Roth IRA in his name. He can roll over an amount up to the annual Roth IRA contribution limit, provided he doesn't transfer any contributions made to the 529 account in the past five years. Joe can continue rolling over funds from the 529 plan to the Roth IRA (consecutive years or intermittent years) until he has reached the \$35,000 lifetime limit.

Number of 529 college savings plan accounts, 2018–2022, in millions



Source: ISS Market Intelligence, 529 Market Highlights, 4Q 2019–2023

### Student Loan Payments Can Qualify for Employer Retirement Match

Employees with student debt often have to prioritize repaying their loans over contributing to their workplace retirement plan, which can mean missing out on any potential employer retirement matching contributions. Starting in 2024, the SECURE 2.0 Act gives employers the option to treat an employee's student loan payments as payments made to a qualified retirement plan (student loan payments will be considered an "elective deferral"), which would make those contributions eligible for an employer retirement match (if an employer offers this benefit).

\*There are generally fees and expenses associated with participation in a 529 plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may

include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses, which contain this and other information about the investment options, underlying investments, and investment company, can be obtained by contacting your financial professional.

## Financing Options to Help You Ride the Mortgage Rate Roller Coaster

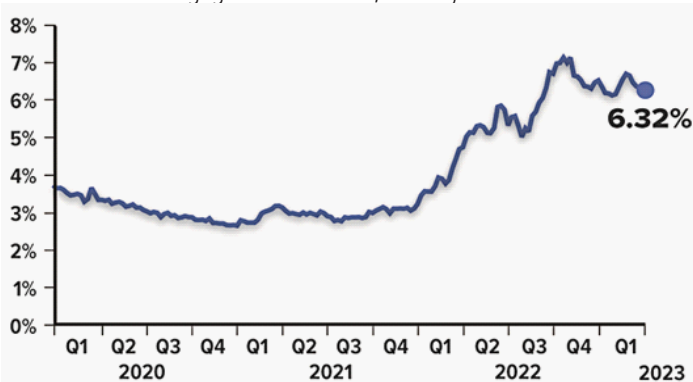
The mortgage industry has been on a roller coaster ride over the last couple of years. Interest rates for fixed-rate mortgage loans were at historical lows during the beginning of the pandemic in 2020, rising to a 20-year high in late 2022 — and fluctuating ever since. Many buyers are finding it difficult to afford a new home with traditional fixed-rate mortgage loans in such a high interest rate environment. As a result, more buyers are relying on alternative financing options to help lower their interest rates.

### Adjustable-Rate Mortgages

With an adjustable-rate mortgage (ARM), also referred to as a variable-rate mortgage, there is a fixed interest rate at the beginning of the loan which then adjusts annually for the remainder of the loan term. ARM rates are usually tied to the performance of an index. To determine the ARM rate, the lender will take the index rate and add it to an agreed-upon percentage rate, referred to as the margin. Most lenders offer ARMs with fixed-rate periods of five, seven or 10 years, along with caps that limit the amount by which rates and payments can change.

The initial interest rate on an ARM is generally lower than the rate on a traditional fixed-rate mortgage, which will result in a lower monthly mortgage payment. However, depending on interest rates, buyers with ARMs may find themselves with significantly higher mortgage payments once the fixed-rate period ends. Buyers should only consider ARMs if they can tolerate fluctuations in their mortgage payments or plan on refinancing or selling the home before the initial interest rate period ends.

30-Year Fixed Mortgage Interest Rates, January 2020 to March 2023



Source: Freddie Mac, 2023 (data through March)

### Temporary Buydowns

A temporary buydown provides the buyer with a lower interest rate on a fixed-rate mortgage during the beginning of the loan period (e.g., the first one or two years) in exchange for an upfront fee or higher interest rate once the buydown feature expires. Buydowns typically offer large interest rate discounts (e.g., up to one to three percentage points, depending on the type of buydown). The costs associated with the buydown feature can be paid for by the home buyer, seller, builder, or mortgage lender. While a buydown can make a home purchase more affordable at the beginning of the loan period, the long-term interest rates and mortgage payments on the loan can end up being substantially higher. This is why a borrower usually must initially qualify for the loan based on the full interest rate in effect after the buydown expires.

### Assumable Mortgages

Assumable mortgages may be another way for buyers to circumvent high mortgage rates. An assumable mortgage is when a buyer takes over a seller's existing loan and loan terms and pays cash or takes out a second mortgage to cover the remainder of the purchase price. This type of loan could be advantageous if the existing loan has a low enough interest rate, and the buyer has enough access to cash or financing to cover the difference between the sale price and outstanding balance of the assumed loan. Not all mortgage loans are assumable — generally they are limited to certain types of government-backed loans (e.g., FHA, VA loans).

### Other Incentives

One type of incentive offered by lenders is for a buyer to pay an upfront fee at closing, also known as points. By paying points at closing, buyers can reduce their interest rates — usually by around .25 percent per point — and lower their monthly mortgage loan payments. To make paying points cost effective, buyers should plan on staying in the home for several years so that they can recoup the costs. Sometimes a home builder or seller will offer to pay for points on a mortgage in order to attract more potential buyers.

Another incentive, often referred to as a "future refi," is one that allows borrowers to purchase a home at current interest rates, with the ability to refinance their loans at a later date. The refinancing can be free or the costs can be rolled into the new loan, depending on the lender and loan type. Keep in mind that there is typically a set time period for refinancing with these types of loans.