[VINTAGE] FINANCIAL SERVICES, LLC

On the [MONEY]

Registered Investment Advisor | www.VintageFS.com | Spring 2021 Vol. XXXVII No. I

From the Grapevine...

We're excited to be named again to the *Forbes* Best in State Wealth Advisors list for 2021. Frank Moore, head of the Vintage team, was named #15 in Michigan this year, the highest ranked advisor in Washtenaw County. See more, including the *Forbes* selection criteria on our website at www.vintagefs.com/disclosure.

Congratulations to Michelle Schrag who joined Vintage last year as a Client Service Specialist. She has earned the Financial Paraplanner Qualified Professional designation (FPQP®) offered through the College for Financial Planning. While Michelle doesn't work in an advisory role, the additional education has helped her with a very good understanding of the financial planning and investment profession.

Also congratulations to Jack McCloskey, our COO, and his wife Ashley who welcomed their first child, Hazel Dey McCloskey, in January.

NEW PRESIDENT, NEW PRIORITIES

The recent elections have reversed the makeup of Washington from four years ago when the Republicans had the House, Senate and White House. Though the margin in Congress is very slim now, the Democrats are able to push through much of their agenda and have already reversed many of the Republican policies.

It's still too early to tell what the big changes may be in tax policy with the pandemic raging, but it's likely that we will see higher income tax rates, especially for high income taxpayers. There's also talk of increasing the estate tax by lowering the estate tax exemption and raising the corporate income tax rate.

One other key change is the nomination of Gary Gensler to head the Securities and Exchange Commission. A former Goldman Sachs partner, he has 18 years of experience on Wall Street but for the past twelve years has served in various regulatory roles including chairman of the CFTC under the Obama administration. Despite his Wall Street background, he has been seen as a tough regulator and has favored a true fiduciary standard for financial advisors. If confirmed, it will interesting to see if he can increase the accountability of stockbrokers to their clients.

Tax law changes will likely bring about some tax planning opportunities this year and we'll be looking to help our clients take advantage of them.

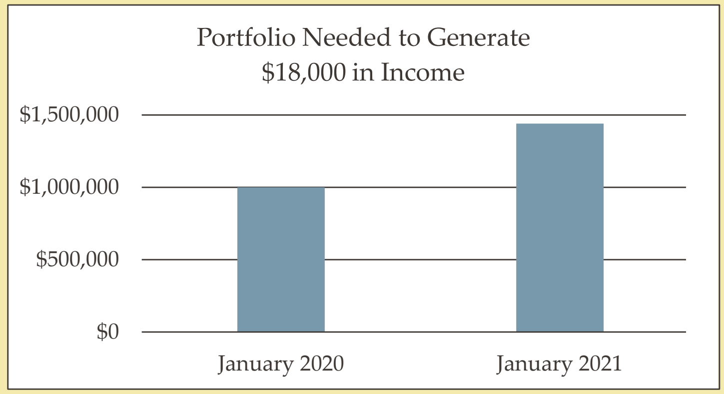
THE FED CHANGED YOUR NUMBER

About fifteen years ago there was a retirement planning book published called “The Number”. It was a bestseller and spawned a series of TV commercials by a big insurance company.

The idea was that everyone had a certain dollar amount that they needed to retire comfortably. While it was a cute idea, retirement planning is much more complicated and your “number” is constantly changing based on investment returns, tax laws and the outlook for inflation. With the Federal Reserve pushing interest rates to historic lows, your number has gone up—a lot.

In retirement, the amount of money you can safely withdraw from your portfolio each year depends on how many more years you expect to live and how much income your portfolio earns. If you expect to live just ten more years, you can withdraw 10% of your portfolio each year plus the investment earnings, though you may want to take a little less to factor in inflation. For a 30-year retirement, the withdrawal number drops to about 3% plus some earnings, minus an inflation adjustment. And, then of course, there’s taxes to consider.

At the beginning of 2020, if you had a $1 million portfolio and it was invested half in S&P 500 stocks and the other half in ten-year US Treasury bonds, the dividend and interest income came to $18,000 on an annualized basis (both the stock dividend yield and the bond interest rates were at 1.8%). But at the beginning of this year rates had dropped sharply and that same $1 million generated just $12,500, a 30% drop! In order to generate the $18,000 in annualized income you now need $1,440,000.



Unfortunately, the other factors that go into retirement planning aren’t moving in a favorable direction either. Stock prices, by most valuation metrics, are at very high levels that suggest future returns will be below the historical averages. And interest on the federal debt is projected to climb rapidly in the years ahead which may lead to higher income taxes and slower economic growth. The Federal Reserve has also been printing dollars by the trillion in hopes of stoking higher inflation.

If you haven’t updated your retirement plan to reflect the new variables, we’d be happy to help. Just contact our office at (734) 668-4040 or via our website at www.vintagefs.com/contact.

POST PANDEMIC RETIREMENT PLANNING: THE RULES HAVE CHANGED

Earlier this year we pulled together a number of articles that we’ve written on the various factors that go into retirement planning including investment returns, taxes, and inflation. The articles explain some key investment concepts and get more into depth on important retirement planning variables and how they have changed and may change in the years ahead. You can access the pdf version on our website at www.vintagefs.com/pprp.

ROTHS EXPLAINED

The biggest benefit of saving into a retirement plan is the tax deferred compounding of investment gains. Both Traditional IRAs, 401(k)s and 403(b) plans and the Roth versions offer that tax deferral. The difference between Roths and Traditional retirement plans is whether the funds are taxed before going into the plan or when funds are withdrawn at retirement. Roth contributions are made with after tax dollars but withdrawals are tax free at retirement while Traditional contributions can be made with pre-tax dollars but all withdrawals are taxable.

Generally, workers can contribute up to $19,500 each year into their 401(k) and $6,000 to an IRA and may be able to choose between Traditional and Roth options. Those over age 50 can add an additional $1,000 to their IRA or $6,500 to their 401(k). The options can be further limited by your employer's options and your income level.

	Contributions	Earnings	Withdrawals
Traditional	Pre-tax $	Deferred	Taxable
Roth	After-tax $	Deferred	Tax Free

The decision of whether to use a Traditional or Roth plan depends on your outlook for your income tax rate. If you think you are in a lower tax bracket now, for instance a younger worker starting a career, then the Roth may make sense until your income tax rate climbs higher. For workers that expect their tax rate to be the same or lower in retirement, the Traditional plan may make more sense. At Vintage, we're happy to run the numbers to help determine the best option.

Conversions

One strategy that may be very valuable is the ability to convert a Traditional 401(k) or IRA to a Roth. At first glance it seems like a great idea to convert the pre-tax dollars into a plan with no taxes on the withdrawals, but the downside is that taxes become due in the year of the conversion. If a large account is converted, especially while you are still working, the conversion could be taxed at the highest tax rates so it wouldn't make any sense. However, many investors may find partial conversions in a year with a low taxable income may save them a lot.

The real opportunity is often in the first few years of retirement. If you retire at 62 then your paycheck income goes away. If you aren't yet taking Social Security then you don't have that income and if you can take withdrawals from a taxable account rather than a Traditional 401(k) or IRA then you may find yourself in a very low income tax bracket. While it's great to not have to pay federal income taxes, you may be missing an opportunity.

By looking at your taxable income before the year is out, you can estimate what income tax bracket you may be in. If your income is low, you can withdraw enough to go to the top of one of the lower income tax brackets and tax the IRA withdrawals at a low rate. Once you start drawing Social Security and then add on the Required Minimum Distributions from the Traditional retirement plans at age 72, you may well be in a higher income tax bracket. Using this strategy for a few years in your 60's can yield huge tax savings over the course of your life.

At Vintage we regularly review these options for our clients as part of our year-end tax planning. For more on how we can optimize your finances, contact our office.

VINTAGE FINANCIAL SERVICES OFFERS

Fee only investment management, financial planning,
and tax preparation.
Minimum portfolio $500,000
(401(k) balance may count toward minimum).

For a no charge, no obligation initial interview please call our office
at (734) 668-4040 or (800) 666-9237 or e-mail:
Succeed@VintageFS.com
Or visit our website at www.VintageFS.com

- Retirement Planning
- Tax Planning
- Investment Management
- Estate Planning
- Insurance Review
- Education Funding
- Income Tax Preparation

Plan to succeed.

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