

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

Top Planning Topics for 2024

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Director of Advanced Planning

February 27, 2024

Discover the *Baird Difference*

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Agenda

The logo for BAIRD, consisting of the word "BAIRD" in white, uppercase, sans-serif font, set against a dark blue parallelogram background.

- 2024 Tax Updates
- The 2026 Tax Landscape
- Roth Conversions
- Social Security Planning
- Managing Medicare Premium Cost
- Tax Deduction Planning
- Qualified Charitable Distribution

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2024 Tax Updates

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2024 Tax Updates

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- Remnants from the SECURE 2 (December 2022)
 - No more RMDs from Roth 401(k) plans
 - New options for pre-59½ retirement account withdrawals
 - 529 rollover to Roth IRA
 - RMD age pushed to 73

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Rolling 529 Plan to Roth IRA




The Fine Print...

- Not available until 2024
- Roth must be for the benefit of the 529 beneficiary
- 529 plan must have been open at least 15 years
- Contributions made in prior 5 years (and earnings) can't be rolled out
- Roth beneficiary must have earned income (however, no earnings cap)
- Annual rollover limited to Roth IRA contribution limit LESS any other Trad/Roth contributions that year
 - \$6,500 for 2023
- Lifetime rollover limited to \$35,000

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RMD Age Increased to 73



- RMDs now begin in year the owner turns age 73, eventually 75

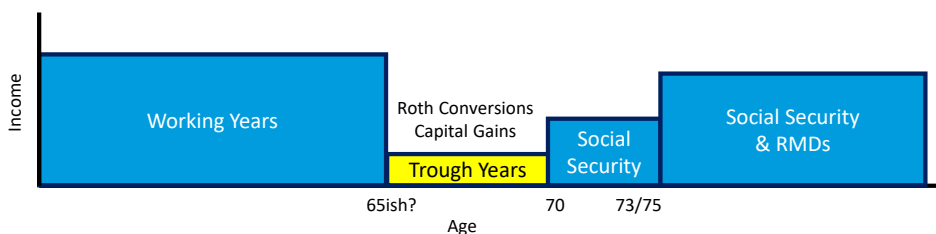
| Birthdate | RMD Start Age |
|-----------------------------------|---------------|
| Before July 1, 1949 | 70.5 |
| July 1, 1949–December 31, 1950 | 72 |
| January 1, 1950–December 31, 1959 | 73 |
| January 1, 1960, or later | 75 |

- No changes to:
 - First year RMD can be delayed to April 1 of following year (Required Beginning Date, RBD)
 - Employer plan RMD delayed until year of retirement (unless >5% owner)
 - Age for penalty on early distributions – still 59½
 - Age for Qualified Charitable Distributions – still 70½

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Planning Impact of New RMD Age: More “Trough” Year Opportunities



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New Rules for IRA Beneficiaries

| Non-Designated Beneficiary | Designated Beneficiary | |
|--|--|---|
| Charity, Estate, Will (any non-living entity) | Eligible Designated Beneficiary (EDB) | Non-Eligible Designated Beneficiary (non-EDB) |
| NO CHANGES | <ul style="list-style-type: none"> Spouse Minor child of the owner Disabled Chronically ill Less than 10 years younger than owner | <ul style="list-style-type: none"> Any other primary beneficiary Minor grandchildren of owner Eligible Designated Beneficiary who loses their EDB status ANY successor beneficiary: <ul style="list-style-type: none"> Someone who would otherwise be an EDB Successor of pre-2020 beneficiary |
| | NO CHANGES* | NEW 10-YEAR RULE |

* Can opt into new 10-year rule

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The New 10-Year Rule



- Non-EDBs must withdraw entire IRA balance within 10 years of death of owner
 - Deadline is December 31 after 10th anniversary of death
 - Ex: Date of death is February 1, 2022, deadline is December 31, 2032
 - 11 tax years
- Applies to any non-EDB when decedent dies after 2019
 - Delayed until deaths after 2021 for governmental plans (e.g., 457, 403(b)) or plans subject to collective bargaining agreement

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Inherited Retirement Accounts Update



- Original SECURE Act created new “10-year rule”
 - For most beneficiaries, account must be emptied within 10 years of owner’s death
- What happens prior to year 10?
 - Beneficiary must take RMDs each year?
 - Beneficiary has full flexibility to take withdrawals?
- Still waiting for final guidance from the IRS, but...
- Beneficiaries should prepare to take RMDs in years 1-9

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Arizona Families Tax Rebate

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- Tax rebate for those who claimed a dependent tax credit on their 2021 Arizona tax return
 - \$250 per dependent under age 17
 - \$100 per dependent over age 17
 - \$750 maximum rebate
 - Deposited in accounts November 2023
- **Rebate is taxable for Federal purposes, not for Arizona purposes**
 - Be sure to subtract this when computing AZ taxable income
- Form 1099-MISC available online at azdor.gov/individuals/arizona-families-tax-rebate.

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The 2026 Tax Landscape

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The 2026 Tax Landscape

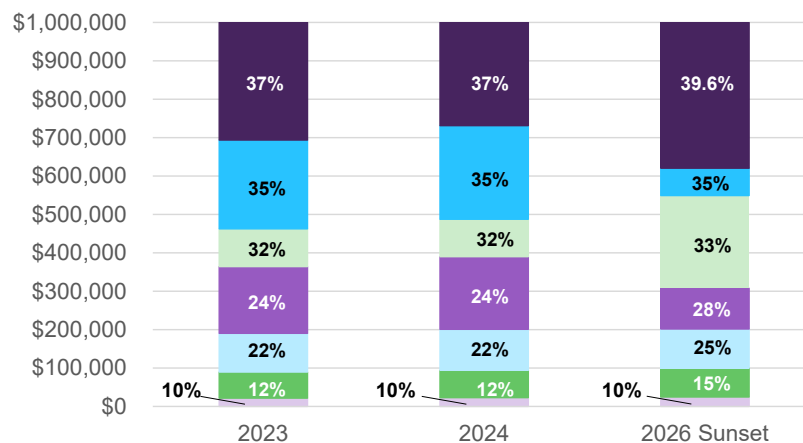


- 2017 Tax Cuts & Jobs Act – many provisions sunset after 2025
- Expiring provisions could lead to:
 - Changes to tax rates, brackets
 - Lower standard deduction, itemized deduction phaseout return
 - \$10,000 SALT deduction limit expires
 - Miscellaneous itemized deductions return
 - Personal exemption returns
 - AMT likely to become more of an issue again
 - Child credit reduced
 - Pass-through business deduction (QBI) expires
 - Estate tax changes

Projected Tax Rate/Bracket Changes

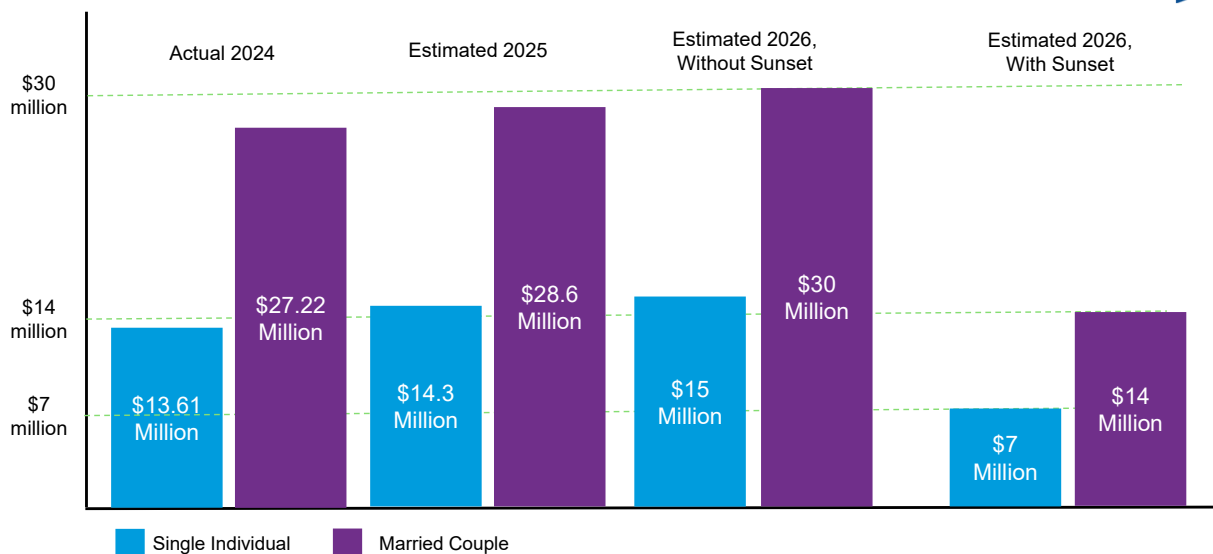


Married Filing Joint Ordinary Tax Rates



2026 thresholds have been adjusted for inflation using the actual chained CPI of 3.21% for tax years 2017-2022 and an assumed chained inflation rate of 3% for tax years 2023-2026.

Lifetime Gift & Estate Tax Exemption

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Estate Planning Leading Up to 2026



- Couples below ~\$14 million
 - Not likely to ever have an estate tax issue
 - Still need to current set of estate documents
- Couples over ~\$30 million
 - Should always be planning to manage their estate tax liability
- Couples between \$14 and \$30 million
 - Difficult planning environment
 - Consider utilizing one spouse's exemption before expiration
 - Gifting, Spousal Lifetime Access Trust (SLAT)

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Roth Conversions

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Roth Conversion Basics

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- Withdraw funds from a Traditional IRA and redeposit into a Roth IRA
 - Can be a trustee-to-trustee transfer (ideal) or a 60-day rollover
 - Can be cash or in-kind transfer
 - Can convert Traditional 401k/403b to Roth 401k/403b OR Roth IRA
- Conversion of any deductible contributions, all earnings is taxable in year of conversion
 - Not subject to pre-59½ penalty
- Other key points:
 - Taxed as ordinary income
 - Recharacterization no longer available

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Factors to Consider in a Roth Conversion



How to Pay the Conversion Tax

- Best to use money from a taxable account to pay the tax
- Roth conversion harder to justify if using IRA funds to pay the tax cost
- Especially true if less than age 59½
 - IRA funds withdrawn pre-59½ and NOT converted are subject to 10% early withdrawal penalty

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Factors to Consider in a Roth Conversion



Current vs. Future Tax Rate

- Best to convert in a year when marginal tax is lower than projected rate when taking IRA withdrawals
 - Income is artificially low (e.g., between jobs, loss from business)
 - Trough years between retirement and start of Social Security, RMDs
- However – higher tax rate at conversion can be overcome given enough time

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Factors to Consider in a Roth Conversion

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Income Needs in Retirement

- The longer you can delay accessing the Roth funds, the more effective the conversion will be
 - Roth funds need time to grow tax-free to make up for accelerating the tax cost
- Conversions are ideal for excess IRA money that won't be needed to fund retirement

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Tax Deduction Planning

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Standard Deduction or Itemized Deduction



| Standard Deduction | |
|-------------------------|--------------|
| Filing Status | 2024 Amount* |
| Married Filing Joint | \$29,200 |
| Single | \$14,600 |
| Married Filing Separate | \$14,600 |
| Head of Household | \$21,900 |

* Additional amounts for age 65 and/or blind
 • Married - \$1,550
 • Single - \$1,950

| Itemized Deductions | |
|---------------------|-------------------------|
| Deductible Expenses | Limitations |
| State & local taxes | \$10,000/year |
| Charitable gifts | Capped at % of AGI |
| Mortgage interest | Cap on size of loan |
| Medical expenses | Must exceed 7.5% of AGI |

| Tax Year | Standard | Itemized |
|----------|----------|----------|
| 2017 | 69% | 31% |
| 2018 | 88% | 12% |
| 2021 | 90% | 10% |

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Bunching of Itemized Deductions



- Accelerating/deferring deductions between years to maximize their benefit
- Goal is to move between standard deduction and itemizing
- Not a new concept – been around as long as we've had itemized deductions
- Requires multi-year tax planning to manage around the standard deduction

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Bunching of Itemized Deductions



| Pay Annually | 2024 | 2025 | 2026 | 2027 | Total |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Income & Property Taxes | 10,000 | 10,000 | 10,000 | 10,000 | |
| Mortgage Interest | 9,500 | 9,500 | 9,500 | 9,500 | |
| Charitable Contributions | 7,000 | 7,000 | 7,000 | 7,000 | |
| Total Itemized Deductions | 26,500 | 26,500 | 26,500 | 26,500 | |
| Standard Deduction | 29,200 | 29,200 | 29,200 | 29,200 | |
| Actual Deduction | 29,200 | 29,200 | 29,200 | 29,200 | 116,800 |

| Bunching | 2024 | 2025 | 2026 | 2027 | Total |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Income & Property Taxes | 10,000 | 10,000 | 10,000 | 10,000 | |
| Mortgage Interest | 9,500 | 9,500 | 9,500 | 9,500 | |
| Charitable Contributions | 14,000 | - | 14,000 | - | |
| Total Itemized Deductions | 33,500 | 19,500 | 33,500 | 19,500 | |
| Standard Deduction | 29,200 | 29,200 | 29,200 | 29,200 | |
| Actual Deduction | 33,500 | 29,200 | 33,500 | 29,200 | 125,400 |

Bunching of Itemized Deductions



| Pay Annually | 2024 | 2025 | 2026 | 2027 | Total |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Income & Property Taxes | 10,000 | 10,000 | 10,000 | 10,000 | |
| Mortgage Interest | - | - | - | - | |
| Charitable Contributions | 20,000 | 20,000 | 20,000 | 20,000 | |
| Total Itemized Deductions | 30,000 | 30,000 | 30,000 | 30,000 | |
| Standard Deduction | 29,200 | 29,200 | 29,200 | 29,200 | |
| Actual Deduction | 30,000 | 30,000 | 30,000 | 30,000 | 120,000 |

| Bunching | 2024 | 2025 | 2026 | 2027 | Total |
|----------------------------------|---------------|---------------|---------------|---------------|----------------|
| Income & Property Taxes | 10,000 | 10,000 | 10,000 | 10,000 | |
| Mortgage Interest | - | - | - | - | |
| Charitable Contributions | 20,000 | - | 20,000 | - | |
| Total Itemized Deductions | 30,000 | 10,000 | 30,000 | 10,000 | |
| Standard Deduction | 29,200 | 29,200 | 29,200 | 29,200 | |
| Actual Deduction | 30,000 | 29,200 | 30,000 | 29,200 | 118,400 |

Donor Advised Fund



- Tax deduction up front, donations paid out over time

Advantages

- Easier to create, less expensive than a foundation
- No tax return, public notice to file
- Less documentation

Disadvantages

- Typically less investment control
- Only “advising” on the gifts
- Administrative fees

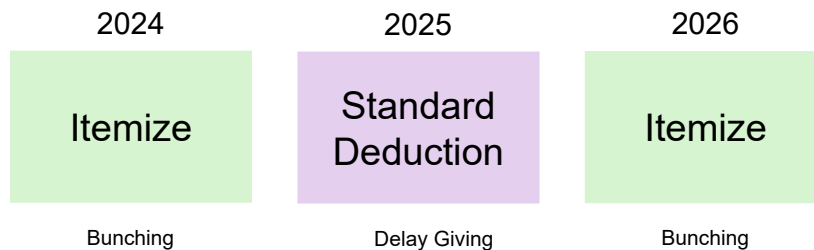
Ideal for donor who:

- Is implementing a bunching strategy
- Can afford to make a larger donation
 - Initial funding varies by provider, but \$5,000 is common
- Has a large spike in income that isn't likely to occur again soon
- Wants deduction now but doesn't know where to give the money
- Doesn't have a need for income from the assets

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2024 – A Year of Bunching?

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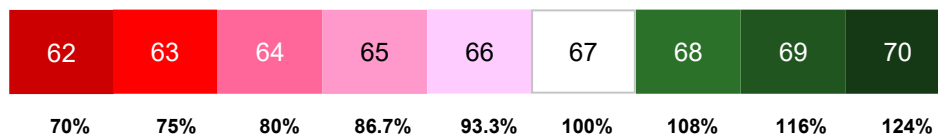
Social Security Planning

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Starting Age for Benefits

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- Full Retirement Age = 67 (for anyone born in 1960 or later)
 - Age when you collect "full" benefit



- Benefits increase by 8% per year for delaying benefits
- Benefits cut by 6.7% when taken early
 - Lowered to 5% if more than 3 years early

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When to Begin Taking Benefits

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Reasons to Start Early

- Substantial legacy goals – want to leave assets to heirs
- Health considerations – take benefits when younger, healthier
- Start spousal, dependent benefits earlier
- Cash flow needs
- Concerned about the future of Social Security

It Depends...

- Delay to at least FRA if still working; working post-FRA is fine
- ROR on delayed benefits vs. investment portfolio
- Life expectancy

Reasons to Delay

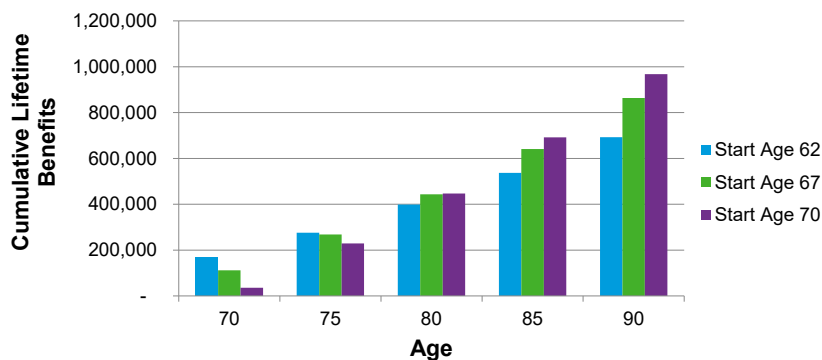
- Maximize your annual benefit
- Maximize a survivor's benefit
- Want to avoid Medicare

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When to Begin Taking Benefits

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| Starting Age | Monthly Benefit | Adjustment to FRA Benefit |
|-------------------|-----------------|---------------------------|
| Begin at 62 | \$1,400 | 30% reduction |
| Begin at 67 (FRA) | \$2,000 | |
| Begin at 70 | \$2,480 | 24% increase |



Assumes 2.4% annual COLA

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What We're Watching This Year

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- Finalized guidance on inherited retirement accounts, 529 rollovers to Roth
- Potential for some tax legislation
 - Minor changes to child tax credit
 - SALT relief (retroactive for 2023 only)
- Awaiting the election

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The graphic features a dark blue background with a world map and various financial charts. A prominent white arrow points upwards and to the right, overlaid on a green line graph. In the top right corner, the text 'Index' is followed by a green upward-pointing triangle, the number '1.56', and a red downward-pointing triangle followed by '0'. The BAIRD logo is in the top left corner.

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Baird Private Wealth
Michael Antonelli

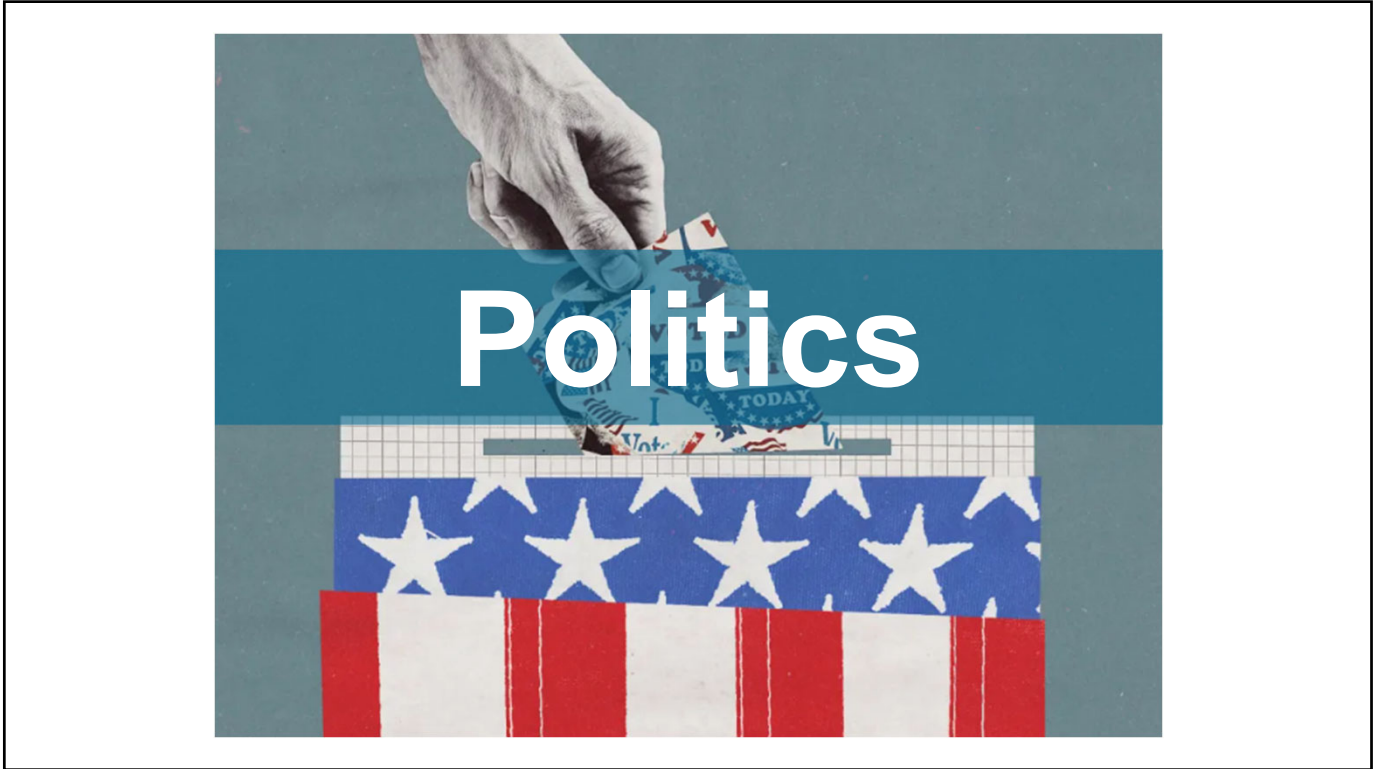
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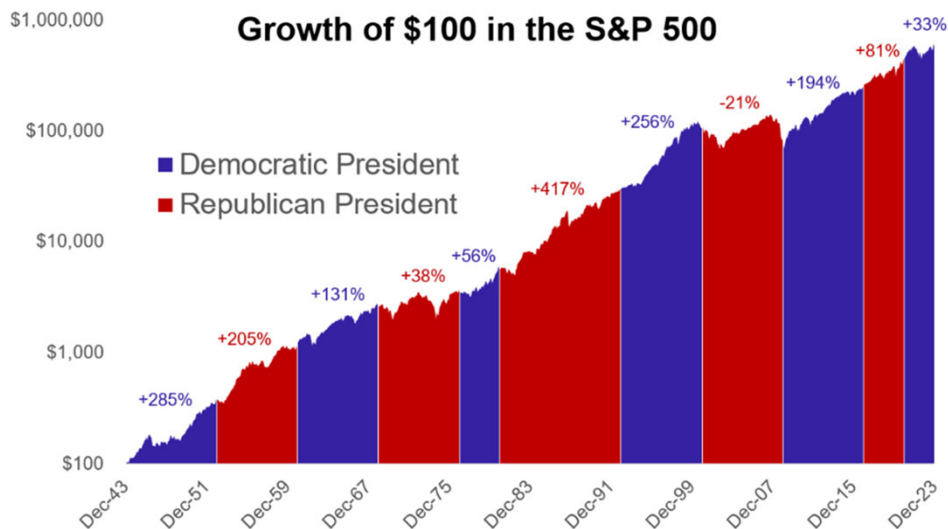


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Market's trend is apolitical



Source: FactSet

42

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History happens to the president

| President | Party | Largest Decline During Term (Dow Jones) | |
|-----------------------|-------|---|------|
| Joe Biden | Dem. | Sept. 2022 | -21% |
| Donald Trump | Rep. | Mar. 2020 | -37% |
| Barack Obama | Dem. | Mar. 2009 | -21% |
| George W. Bush | Rep. | Nov. 2008 | -46% |
| Bill Clinton | Dem. | Aug. 1998 | -19% |
| George H.W. Bush | Rep. | Oct. 1990 | -21% |
| Ronald Reagan | Rep. | Oct. 1987 | -26% |
| Jimmy Carter | Dem. | Mar. 1978 | -23% |
| Gerald Ford | Rep. | Dec. 1974 | -25% |
| Richard Nixon | Rep. | May 1970 | -34% |
| Lyndon B. Johnson | Dem. | Oct. 1966 | -25% |
| John F. Kennedy | Dem. | Jun. 1962 | -27% |
| Dwight D. Eisenhower | Rep. | Oct. 1957 | -19% |
| Harry Truman | Dem. | Jun. 1949 | -24% |
| Franklin D. Roosevelt | Dem. | Apr. 1942 | -52% |
| Herbert Hoover | Rep. | Jul. 1932 | -86% |

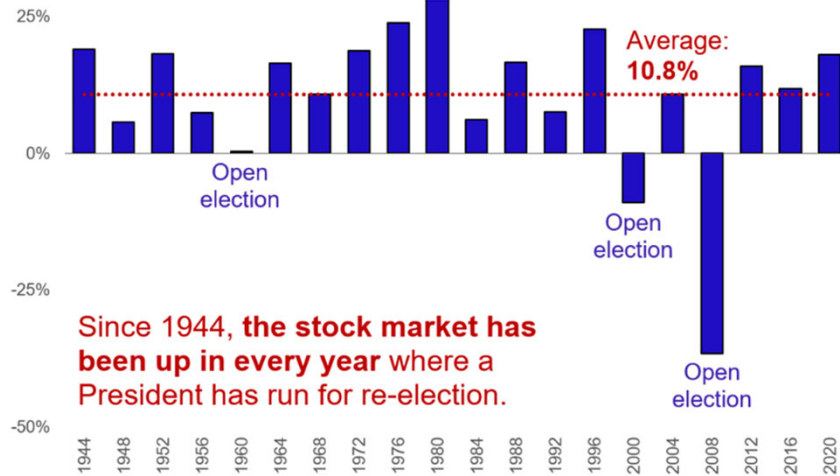
Baird Research

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Re-election years tend to be solid

S&P 500 Performance in Election Years



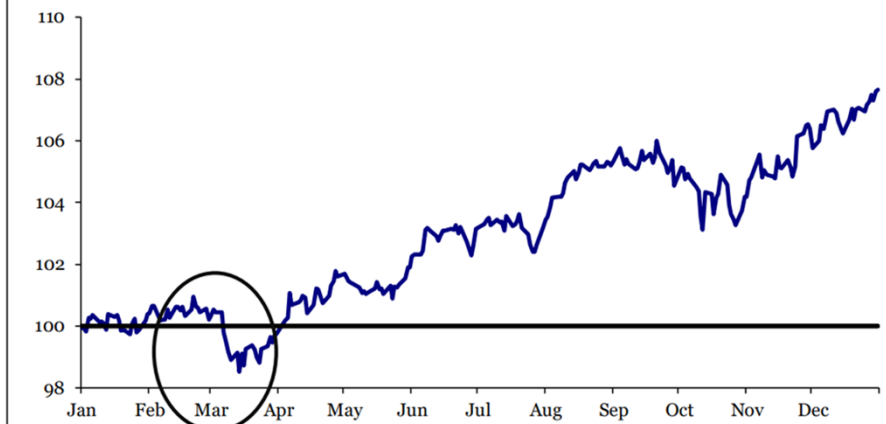
Source: Strategas, FactSet

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But first quarter volatility is common

S&P 500 Avg. Performance: All Presidential Election Years 1960 - 2022



Source: Strategas

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The economy matters

A recessions in the two years before an election has been a determining factor for re-elections

| President | Recession? | Re-elected? |
|------------|------------|-------------|
| Obama | No | Yes |
| W. Bush | No | Yes |
| Clinton | No | Yes |
| Reagan | No | Yes |
| Nixon | No | Yes |
| Johnson | No | Yes |
| Eisenhower | No | Yes |
| Truman | No | Yes |
| Roosevelt | No | Yes |
| Roosevelt | No | Yes |
| Roosevelt | No | Yes |

| President | Recession? | Re-elected? |
|-----------|------------|-------------|
| Trump | Yes | No |
| H.W. Bush | Yes | No |
| Carter | Yes | No |
| Ford | Yes | No |
| Hoover | Yes | No |
| Taft | Yes | No |

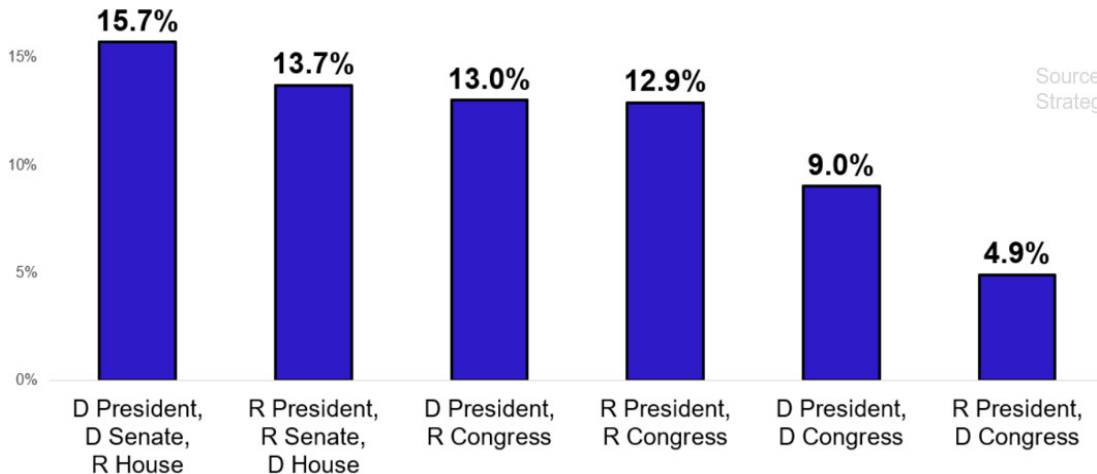
Source: Strategas

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Average S&P 500 Return By Partisan Control

1933 – 2023, excl. 2001-02 (due to Sen. Jeffords changing party mid-2001)

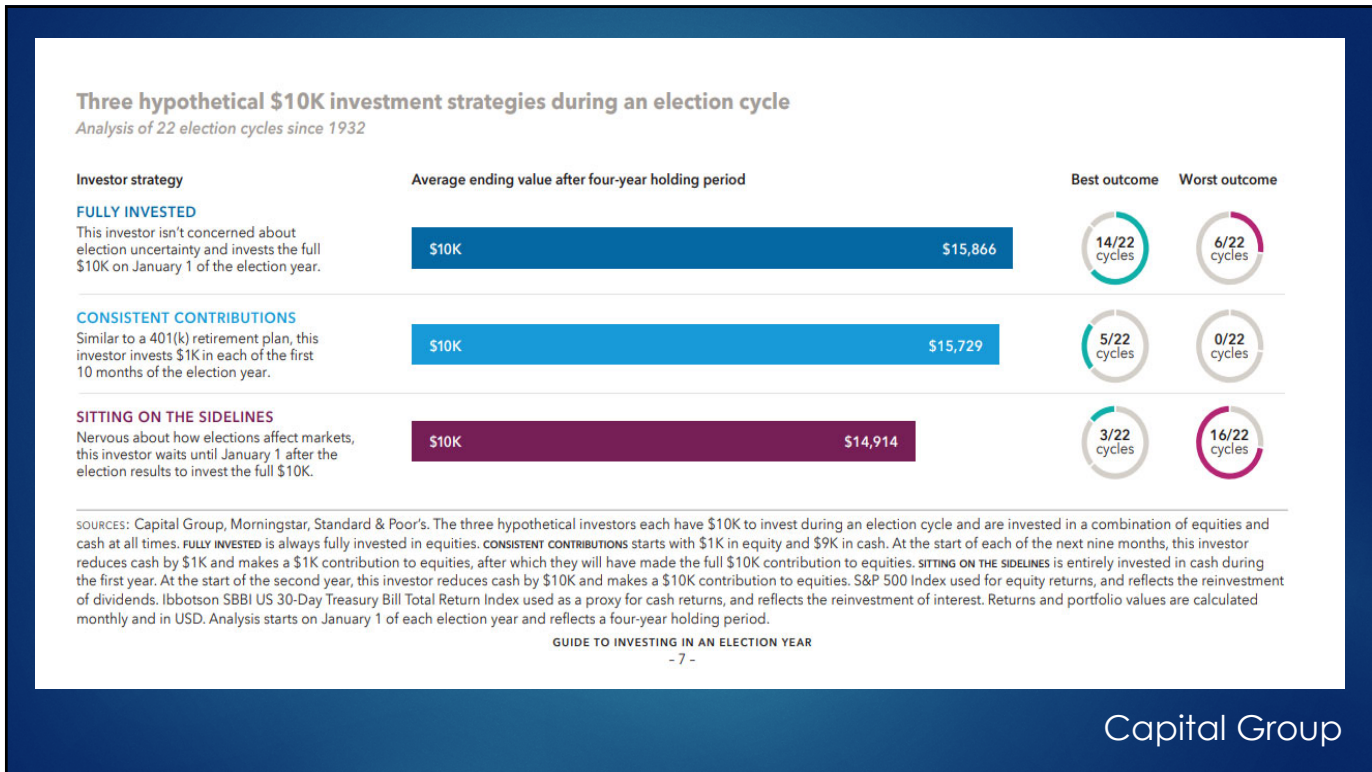


Source: Strategas

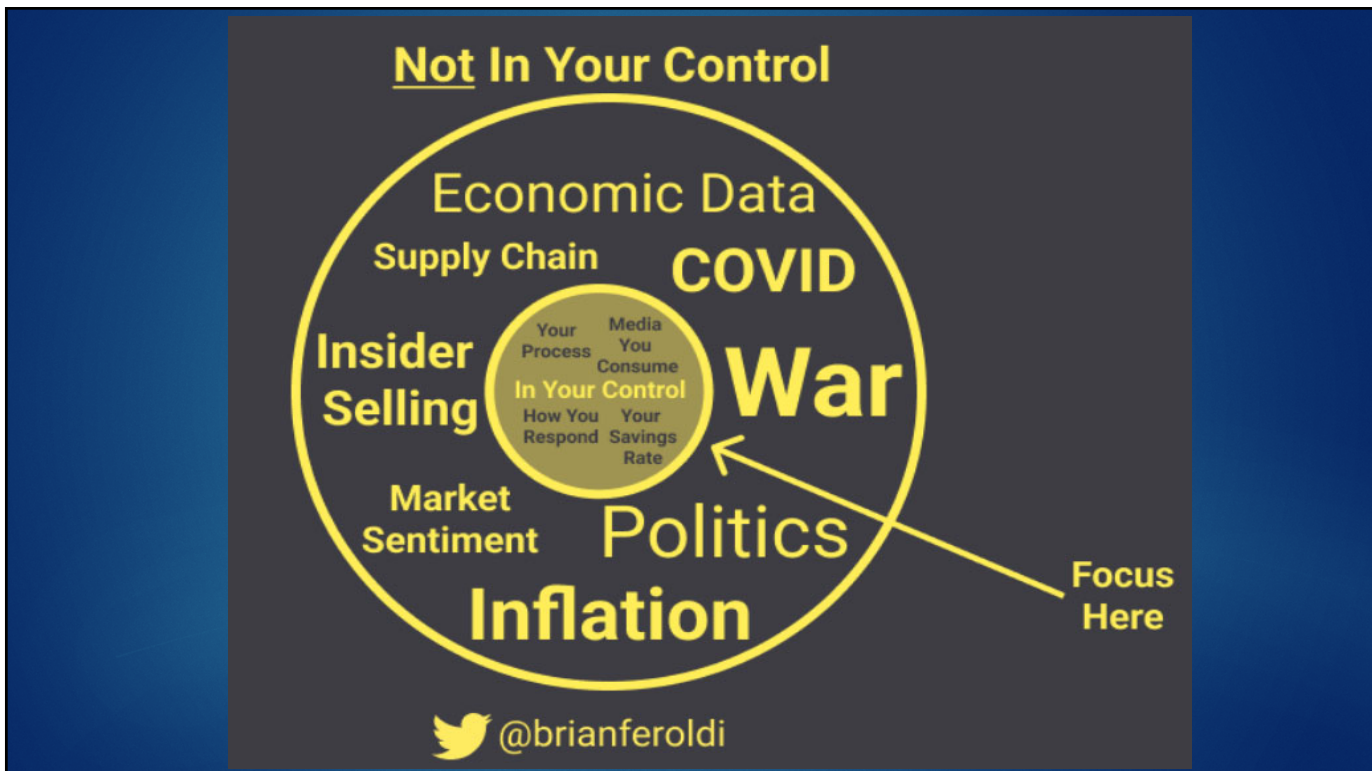
Financial Markets are NOT Partisan

Strategas

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