VWG WEALTH MANAGEMENT
A Hightower Company

September 2021 Ponderings and Musings - Trying to Make Cents of it All

“A penny saved is two pence clear.”

- Benjamin Franklin

“I have always thirsted for knowledge,
I have always been full of questions.”

- Hermann Hesse, “Siddhartha”

“Nonsense is so good only because
common sense is so limited.”

- George Santayana

“What you do after you create content is what truly counts.”

- Gary Vaynerchuk

Please Welcome Brandi Dickey

VWG is excited to introduce the newest member of our team, Brandi Dickey. Brandi joins us as a Private Wealth Associate. With her deep passion for detail and service, she will greatly strengthen our efforts to interact with clients and respond to their needs and requests. Her experience training other client service associates and leading team building initiatives will also be positive for the VWG team and our clients. Brandi has over 12 years industry experience, and she holds Series 7 and Series 66 securities licenses. She most recently worked for Morgan Stanley in their McLean, Virginia office.

Brandi and her husband welcomed their first child, Gordon, in July. Their nights are currently filled with feedings and diaper changes, and sleep is a precious commodity. We are so happy for the young family that includes their two dogs Oliver and Charlotte.

Brandi is a native of Wichita, Kansas. She relocated to the east coast to attend Mary Washington University. As a student, while taking a study break and playing kickball, she met her future husband, Alex. Upon graduating with a Bachelor of Arts in American Studies, Brandi began her career with Diamond Resorts International working in sales support and contracts. Brandi and Alex live in Northern Virginia. They enjoy barbequing with friends, watching University of Michigan football, and travelling to Austin, TX to enjoy the music scene. Brandi is an avid reader, so we expect to supercharge next year's Summer Reading list. Please welcome Brandi to our team, we can't wait for you to meet her!

Introducing Our Blog: VWG Makes Cents

VWG has always prioritized educating our clients on a variety of financial planning and investment topics. This Ponderings & Musings newsletter, our quarterly investment commentaries, and our webinars serve as platforms to augment our ongoing one-on-one conversations with clients. Given the varying needs of our client base, and the increasing technical and regulatory complexity, we decided we needed an additional channel to relay information more regularly without bombarding your email inboxes.

Thus, we are extremely excited to announce our new blog VWG Makes Cents. As we hope the name conveys, the goal of the blog is providing straightforward information from a team you trust. Team members will take turns writing these posts, showcasing the breadth of our expertise and our individual personalities.   Posts will address a range of topics. Some will be event driven such as new tax legislation, while others may tackle ongoing planning recommendations or answer frequently asked questions from clients. VWG Makes Cents also gives us the flexibility to provide tips to the specific groups of clients we serve, including business owners, veterans, women professionals, and multigenerational families.

Here are a few of our recent posts:

College Grad to Young Professional: A Financial Checklist for Your First Job by Ryan Verfurth

EV vs. ICE – The Battle is Over by Jeff Grinspoon

VWG's Guide to Executive Compensation by Ryan Torguson

Raising Financially Responsible Kids by Ona Bolton

While we always want to speak directly with you to address your personal financial issues and questions, we hope this blog will serve as a catalyst for conversations with us, your partner, and your family. Check out ***VWG Makes Cents*** on our website. To be notified of new posts, please subscribe to our blog or follow us on LinkedIn, Facebook and Twitter.

Getting a Jump on Year-End Planning:

Understanding Roth IRA Conversions as a Tax Planning Strategy

A Roth conversion is the strategic process of transferring funds from an existing pre-tax retirement plan (Traditional IRA, 401k, 403b, etc.) into a Roth IRA. As a reminder, a Roth IRA is a retirement account that is funded with after-tax dollars, whose growth and future withdrawals are tax-free. When converting pre-tax retirement account assets to a Roth IRA, the amount converted is treated as taxable income. It will be added to a given year's total taxable income and will be treated as such. Withdrawals will be tax-free when taken later during retirement. Please note that the withdrawals will be tax free and penalty free if you are 59 ½ or over and the Roth IRA has been established for at least 5 years. (There are exceptions to this rule however).

Maximizing the tax efficient funding of retirement is the typical reason to evaluate the use of Roth IRAs. There are other planning and life situations in which Roth IRA conversion tactics can produce significant benefits. Almost all should be tailored to an individual's specific situation and future goals. Often these will require time to fully study and consider expectations and potential outcomes.

Pros and Cons of Roth IRA Conversions

One key benefit of a Roth conversion is that it will allow investments to grow tax-free for a longer period. This is because Roth IRAs are not subject to conventional IRA Required Minimum Distributions (RMDs) which must begin at age 72. Thus, the longer you fund and hold assets in a Roth IRA, the greater the potential benefit.

Taking distributions from a Roth IRA to help fund retirement expenses could help lower one's annual tax bill.   However, taxable IRA distributions, combined with Social Security benefits, capital gains, income, and dividends, can push you into a higher tax bracket. Depending on the size of your IRA, this can become challenging in later retirement years as RMD amounts (as a percentage of the IRA) are increasingly larger. If it is expected that tax rates will be higher in the future, converting IRA funds to a Roth IRA, paying the taxes on the distribution at current rates, will result in a lower amount of taxes paid over the owner's lifetime.

Roth IRA conversions can also have a meaningful impact on beneficiaries who inherit remaining retirement assets.   By law, a non-spousal beneficiary of a Roth IRA must withdraw the full amount in 10 years or less. However, the beneficiary can choose to wait until the end of the 10th year, earning further tax-exempt compounding. The distribution (and any other withdrawals made) will NOT be subject to federal income tax. In contrast, distributions made from (non-spousal) inherited IRAs are taxed as current income.

Drawbacks of Roth IRAs conversions center around tax liability and how it will be paid. Consultation with your tax advisor is important. In almost all cases, it is most advantageous to use other funds and savings to pay for the taxes due. Doing so will in effect 'increase' the resulting amount of tax-sheltered assets. If you do not have access to outside funds and must use part of the converted IRA to pay the tax bill, the benefit of the Roth conversion is significantly reduced. If you use part of the converted IRA to pay taxes and are under age 59 ½, an additional 10% early IRA withdrawal penalty will be imposed. Depending on the size of a given year's Roth IRA conversion, it could push your tax bracket for that year higher, increasing the cost of the conversion.

A Roth IRA conversion can create unintended outcomes. A conversion may not be cost effective if the marginal tax rate paid in the year of conversion is greater than in the year of distribution or if the Roth IRA owner dies prematurely, before experiencing a long period of growth. Alternatively, tax laws could change to mandate RMDs for Roth IRAs after you have paid taxes on the conversion, diminishing the benefits discussed above.

Sizing and Timing Considerations

Determining how and when to convert to a Roth is not a clear-cut decision. It depends on your current and future spending goals, future income from social security and other pensions, the future direction of tax rates, and other factors. Because Roth conversions generate income, this strategy should be coordinated with your overall retirement plan.

Many choose to make conversions early in their retirement before their required minimum distributions begin at age 72. In such a case, proper sizing to avoid "bracket jump" is important. Stretching a conversion over two or three years may be prudent. Others may choose to make a Roth IRA conversion when one or both spouses retire and household income declines. In both situations you might have a year that your household income could fall to a lower tax rate than normal. Here the tactic "filling up your bracket" could be considered.   This entails calculating how much additional taxable income can be taken in a given year without causing an advance to the next higher bracket.   Slightly less than that amount would then be converted to a Roth IRA.

Bottom Line

Properly utilizing conventional retirement plans, IRAs and Roth IRAs is essential to the success of your financial journey. Tax planning is a critical component.   Roth IRA conversions could have significant advantages in helping to manage taxes, make retirement distributions, and plan your estate.   Speak with your VWG Wealth Advisor about your specific situation and future goals. Let them know if any unexpected changes occur. Roth IRA conversions should be coordinated with your tax advisor and must be implemented carefully and strategically.

VWG's Ponderings and Musings LIVE webinar series continues September 29

Please Register now for **Navigating College Admissions in 2021 and Beyond**

The pandemic has disrupted the college experience and the college application process. Changing standardized testing requirements, hybrid school years, limited college tours and unpredictable admissions has created more stress and uncertainty for college bound kids and their families. Join our webinar featuring Jodi Gershoni, Independent Educational Consultant at College Unlimited, for inside tips on navigating the college prep/search and application process for your student. Jodi will walk through the "big picture" of how the world of college admissions is changing, while providing some specific advice on navigating the process based on insights and data from the past few admission cycles.

Following the presentation, VWG's wealth advisor Ryan Verfurth will join Jodi for a Q&A session to answer specific questions on funding your child (or grandchild's) college education. As this webinar will be held during the school day, a replay will be available to share and discuss with your future college freshman.

Join us via Zoom for this virtual event on Wednesday, September 29th at 12:00 pm EST. You can register via this link.

In Memoriam

The pain and despair emanating from the terrorist attacks on September 11th twenty years ago have not faded. VWG honors all who responded, sacrificed, and served during and after these events. We are connected to many clients, family and friends who were involved or touched. We are eternally grateful for their bravery and courage in standing up for American freedom and values.

Best wishes to all in enjoying the last few weeks of summer, and in successfully getting “Back to School.” We look forward to talking and connecting soon!

Take care, remain safe!

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Who we are

Please reach out to us if you have any questions or comments.

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