

The FINANCIAL UPDATE

DAY & ENNIS, LLC
FEE-ONLY FINANCIAL PLANNING



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Pre-Retirees: Here's How To Catch Up On Retirement Saving

If you're a pre-retiree who needs to catch up on retirement saving, or if you don't need the income from a portion of your IRA or 401(k) accounts and want to leave them to your children, here are important details for planning your future and leaving a legacy to your family: 2022 limits on contributions to federally qualified defined contribution retirement plans.

DC Basics. Defined Contribution (DC) plans are accorded tax advantages by the U.S. Government to encourage Americans to save and invest for retirement. Federally qualified retirement plans include a variety of employer-sponsored 401(k), 403(b), SEP IRA plans, as well as individually sponsored IRAs, SIMPLE IRAs, and Roth IRAs.

system has been adapted by other major economies and is a model for the world, but new rules and regulation continue to refine and improve the American retirement saving system.

Investments in DC plans grow tax deferred, based on a promise from the Federal Government. You do not pay tax on the capital appreciation or dividends earned on investments in DC plans until you take withdrawals from your account. Essentially, the accounts grow tax-free until you start taking withdrawals. Planning properly enables many individuals to take withdrawals from a DC plan account only after retirement, when you are likely to be in a lower income tax bracket.

2022 Limits. The overall limit on contributions to DC plans in 2022 is \$61,000. That's up \$3,000 from 2021. For baby boomers in the workforce trying to a create a larger nest egg, DC plans may provide a way to accelerate savings in federally qualified

retirement accounts. Here's what changed in 2022:

- You can contribute up to \$20,500 to a 401(k) plan now, \$1000 more than in 2021.
- The contribution limit on SIMPLE IRAs is \$500 higher than in

2022 Defined Contribution (DC) Plan Limits

IRA / ROTH IRA CONTRIBUTION LIMIT	\$ 6,000
IRA / ROTH IRA "CATCH UP"	\$ 1,000
401k ELECTIVE DEFERRAL	\$ 20,500
401k ELECTIVE DEFERRAL "CATCH UP"	\$ 6,500
SIMPLE IRA CONTRIBUTION LIMIT	\$ 14,000
SIMPLE IRA "CATCH UP"	\$ 3,000
SEP IRA EMPLOYEE PERCENTAGE MATCH LIMIT	25%
SEP IRA SELF-EMPLOYED PERCENTAGE MATCH LIMIT	20%
OVERALL LIMIT ON DC PLAN CONTRIBUTIONS	\$ 61,000

Source: Advisors4Advisors, Jan 13, 2022

In the 1980s, as the U.S. grew more prosperous and litigious, corporations sought to shift responsibility of retirement planning from company-sponsored pension plans to individuals. Instead of guaranteeing workers a pension, DC plans enabled companies to shift the responsibility of retirement planning to individuals. The U.S.

Why Professional Financial Advice Has Grown More Important

At almost any moment, investor sentiment almost always is capable of swinging stock prices 10%, up or down. Eventually, however, fundamental economics bend market sentiment closer to reality, away from emotional swings. Economic conditions lately are surprisingly strong.

Economists surveyed by *The Wall Street Journal* in early January predicted U.S. gross domestic product growth of 5.8% for the fourth quarter of 2021. In a big surprise, it came in at 6.9%, and the surge helped propel the growth rate for all of 2021 to 5.7% – the highest since 1984!

With economists underestimating the strength of the U.S. economy at the end of 2021, it's likely their forecasts for the first quarter of 2022 are also low. This could set up a positive surprise in the first half of 2022.

Meanwhile, changes in tax laws make personal advice on tax-sensitive investment strategies more important. Roth IRA conversion, for instance, is going to make a lot of sense for many individuals in 2022. In addition, the exemption from gift and estate tax is scheduled to be slashed in half to \$6.5 million January 1, 2026. Multimillion dollar estates need to plan for this now.

The speed of change in the world has accelerated due to the internet. Consequently, advice from a financial planning professional has grown more important.

Sincerely,
Day & Ennis, LLC

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Make This Financial Resolution For 2022

The U.S. stock market's 133% five-year return dominated this diverse group of 13 securities investments. None of the other asset classes came even close to the total return of the Standard & Poor's 500 stock index.

With another year passing, the financial media is naturally talking a lot about the spectacular returns on stocks and real estate, and there's a

smattering of coverage about the big losers – investments in energy and commodities. The coverage will get talked about at business luncheons, cocktail parties, and investment seminars. We suggest resolving not to get caught up in the talk in 2022.

The spectacular returns of stocks are causing speculation – not just speculation in risky investments but speculation in the media that the stock market is in for a lackluster year in 2022 or even a loss. For example, *The Wall Street Journal's*, January 3, 2022, print edition, led with a story



entitled, “Stocks Confront Rockier Course In 2022.” Similarly, *The New York Times*, led its business section on Jan. 1, 2022, with the headline, “The Big Uneasy.” “Shares soared as interest

rates stayed low and stimulus programs helped the economy,” *The Times* reported. “But expected changes could make investors wary.”

Despite the unprecedented

crosscurrents, the stock market could go much higher in 2022. It also could go down. However, the economy is roaring and there is certainly no sign of a recession on the horizon.

If you rely on our advice, resolve in 2022 not to get caught up in the financial zeitgeist. ●



2022 Estate & Gift Tax Planning

The federal exemption from gift and estate taxes doubled from \$5.5 million in 2017 to a whopping \$11.2 million in 2018! and under current law, the exemption has been continuing to rise annually. Here's what you need to know if you have a multimillion-dollar estate.

In 2022, the exemption from paying gift, estate, and generation skipping taxes, is \$12.1 million, and, under current law, it is scheduled to rise to almost \$12.9 million in 2025! At the end of 2025, the exemption will be slashed in half! and individuals will only be entitled to a \$6.5 million exemption from estate

and gift taxes. To be clear, individuals with an estate of \$6.5 million estate or more are going to be subject to tax on what they leave their children, according to the current Internal Revenue Code.

With real estate, stocks, and other capital-gain investments appreciating highly in recent years and the after-inflation yield on a 10 Year Treasury bond negative, it's vitally important for individuals with multimillion-dollar estates to take full advantage of the current exemption rules.

The exemption from estate tax could be lowered in 2022, but

Congress could also leave it intact through 2025. Either way, if you want to reduce taxes on the wealth you leave to your family and protect those assets from creditor risk for decades to come, you need to plan it out now, while you have this chance.

To protect your six-year-old granddaughter in a divorce from her future ex-husband 35 or 45 years from now, or to shield your children's assets from professional liability- or business-lawsuits they may face as a doctor or landlord in the decades ahead, years after you're gone, planning right now is wise, while this opportunity is open to you. ●

Special Report: Long-Term U.S. Equity Investments And Demographics

Population trends of the United States versus other countries rarely make headlines in the financial press, but a population bust has been in the news this week.

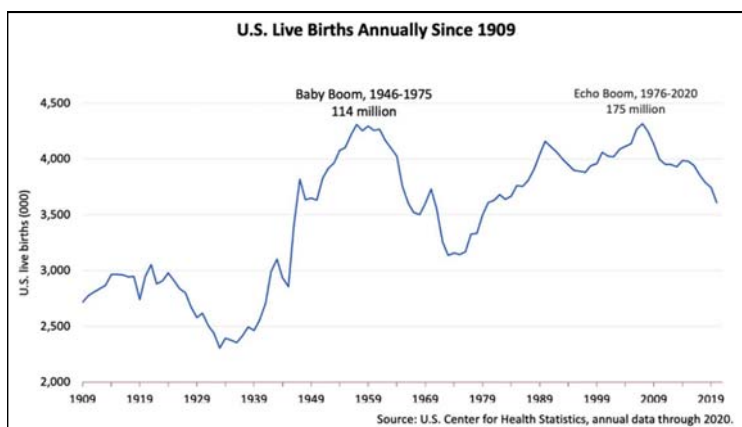
According to a newly released Pew Research study of U.S. adults, 44% of non-parents ages 18 to 49 say it is “not too or not at all likely that they will have children someday,” an increase of seven percentage points from the 37% who said the same in a 2018 survey. That sounds frightening, but is it?

Pew also reported that, unchanged since 2018, 74% of adults younger than 50 who are already parents say they are “unlikely to have more kids”. To be clear, the same number of parents are not planning to have more children now versus pre-pandemic.

Moreover, though the pandemic may have caused a larger proportion of 18- to 49-year-olds to say they are not too or not-at-all likely to have children someday, the larger demographic trend in the decades ahead is very positive for the United States compared to other global economic powers. Here’s why U.S. demographics are a highly favorable and influential factor in the forecast for U.S. equity investments for the long run.

The size of a nation’s labor force is one of the two factors in the equation for calculating an economy’s growth potential. Productivity growth plus growth in the working age population, combined, determine the growth potential of an economy. So, how will demographics boost the potential growth of the U.S. economy and U.S. equity investments in the years ahead?

Here’s the answer: This chart shows the change in live births in the U.S.



annually since 1909. It tells us that the demographic story of the U.S. now is driven largely by these two peaks -- the Baby Boom, which started after World War II, and the Echo Boom, which started in 1976 and encompasses Gen X, Gen Y millennials, and Gen Z millennials. Since 2008, the story has been somewhat gloomy. Growth in the U.S. working-age

population has been declining. But look at the long-term forecast.

While the proportion of 18- to 49-year-olds saying it is “not too or not-at-all likely that they will have children someday,” grew by seven percentage points, they are on the margins of a larger wave reverberating from the Baby Boom.

In the near-term, the number of baby boomers set to retire is peaking now through 2026. Then, growth of the labor

force is expected to slow to a crawl through 2030. In the early 2030s, just a decade from now, the trend shifts, and the U.S. workforce is expected to begin to grow again, and steadily at that, through 2050.

Despite the growing proportion of adults less likely to have children, according to Pew Research, investors should be mindful of the favorable demographics expected to swell the ranks of

the working age population in the U.S. at the same time as other global economic powers will be experiencing slowdowns in the rate of growth of their workforces.

By comparison, the economic growth rate for the United States in the decades ahead is going to look attractive to investors globally, because the other major economies that compete for investment dollars -- Europe, China, and Japan -- are all now in the throes of declines in the size of their working age population.

As a result, the U.S. is likely to remain an attractive investment destination for the foreseeable future. The U.S. is widely expected to continue to benefit from a continued inflow of capital from investors worldwide -- a portion of which undoubtedly can be expected to flow into the stock market.

Math driving economic and investment growth is hard and is further complicated by the non-stop, 24/7, never-ending cycle of news and social media streaming to our smartphones. The information explosion, ironically, makes it easier to overlook the proverbial forest of evidence crucial to success of your investment plan. ●



Rebalancing Helped Since Covid Struck

The 12-month returns for the past six quarters on stocks classified by industry sectors shown here illustrate why a portfolio rebalanced periodically by a professional is so important to investor success.

During the pandemic, the Standard & Poor's tech sector index was a big winner because shopping online was safer health-wise. So was watching Netflix. Google ads suddenly were attracting more eyeballs. Apple and Microsoft earnings growth was four times earnings growth on the average S&P 500 stock, according to Fritz Meyer, an independent economist. The stock market's ebullience was totally unexpected, of course.

The tech sector was the only one of the 11 industry sectors that make up the S&P 500 index to show a gain (10%) in the first quarter of 2020, when Covid hit. That was just the start. For the next three quarters, tech sector 12-month returns came in at an astonishing 37%, 47%, and 44%,

respectively. It was an historic bull market kicked off by government transfer payments to consumers. But tech stocks for the past two quarters have not been dominating. They returned to the middle of the pack of the 12-month 11-sector index performance.

Successive quarters of outperformance would have allowed your tech stock position to grow unchecked and dominate your portfolio results. With leadership shifting, a rebalanced portfolio is better able to benefit from the change in leadership in the past two quarters through the end of 2021.

The past six quarters poignantly illustrate why periodic rebalancing is about as important to investor success as personal advice on tax-efficiency. Rebalancing is not a sexy-sounding benefit of working with a professional, but it might affect your portfolio's terminal value about as much as tax-smart investing advice, which is another important reason to hire an investment professional.

Automated calculators for rebalancing may get the math right but getting an investor to use a calculator to rebalance once a year requires a

commitment of time and an interest in personal finance as well as behavioral change. Working with a qualified professional who knows your financial goals and risk-tolerance, thus, came in handy in the period since Covid hit the U.S.

There are many ways to rebalance a portfolio. Rebalancing based on a portfolio's industry sector weightings is shown for illustration purposes. ●



How To Catch Up On Retirement Saving

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2021, rising to \$14,000 in 2022.

Maximizing contributions to DC plans is a fundamental of financial planning for architects, engineers, physicians, lawyers, dentists, and other professionals and business owners, not only because it allows tax-advantaged growth but also because of professional liability.

An LLC or corporate entity does not limit a professional's exposure. But federally qualified DC plans do protect those assets from creditors, including lawsuit judgments resulting from a malpractice lawsuit. The protection from liability lawsuits and other creditors generally begins a year after you make a contribution to

the plan. So, it is best to make DC plan contributions as early in the year as is feasible.

Maximizing contributions to a

federally qualified retirement plan for a far-off retirement is hard behaviorally. We can coach you on this. ●

