BEDELFINANCIAL

## Q4 2021

# Want to Earn 7% Risk-Free? There's a Catch

*By: Bill Wendling, CFA*
*Sr. Portfolio Manager and*
*Chief Investment Officer*

Last month, the U.S. Treasury updated the interest rate for its Series I Savings Bonds. The new rate is 7.12%. The previous rate was closer to 3.5%.

This is a great yield for an investment that is considered to be risk-free. By comparison, most savings and money market accounts earn close to 0%. If you are willing to jump through a few hoops and are comfortable with the maximum allowable purchase, you should consider making this investment.

**What is an I Bond?**

An I Bond is a U.S. government savings bond tied to inflation. Since inflation has been much higher than usual lately, the yield of the I Bond has also risen. The yield resets every six months. The new yield will be based on the current inflation rate in May. If inflation remains high, the yield will stay high. If inflation moves lower, so will the yield.

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**Qualifications**

A few qualifiers are important to note:

- You must open an online account with Treasury Direct. There is a way to purchase the Bond by filing your tax return, but that seems unnecessarily complicated. I was able to open an online account within a few minutes.
- You must hold the Bond for at least twelve months.
- If you sell the Bond before holding it for five years, you forfeit the most recent three months of interest. This is not much of a penalty, as you still will have easily outperformed other cash investments over the entire holding period of the Bond.

There is an annual maximum purchase amount of $10,000 per owner. This might be the biggest deterrent. For some people, the hassle of maintaining another account for recordkeeping and tax purposes might not be worth earning 7% for a relatively modest investment. On the positive side, the $10,000 limit is per owner per year, not per household.

- In addition, these bonds make great gifts to children. Still, each owner would need to establish an online account.
- We cannot help you set up the accounts. Bedel Financial cannot open accounts or purchase them in existing brokerage accounts.

**How to Purchase?**

Once you open an account online, you will enter your electronic banking instructions (bank name, routing number, and account number). Next, go to the BuyDirect tab, select Series I, and follow the prompts. When titling the Bond in someone else's name, you can indicate the Bond is a gift.

Once the purchase is entered, TreasuryDirect will transfer the purchase amount from your bank account on the following day, and the Bond will show up as an investment in your online account.

**How to Redeem?**

I am taking a leap of faith by assuming this will be easy. Several years ago, I redeemed savings bonds that were a gift from my grandmother through the TreasuryDirect program, and the process was straightforward. I selected the bonds to redeem, and the proceeds were moved to my bank account.

The process should be similar today.

The 7% yield is very attractive. It will probably change in May, but even then, the new yield will still likely be well above any other yields that you can get on cash alternatives. If you are comfortable with opening an account online and the minimum annual investments, then the I Bonds are a good investment.

*Contact Bill if you have questions or want additional information regarding this topic.*

# BLT Corner

## Reflections of 2021

BLT CORNER

Even though the Pandemic continues to be a part of our lives, we are all starting to see more normalcy both professionally and personally. For example, year-end tax and estate planning allowed us to see quite a few of our clients and partner advisors in person during the second half of the year.

The year 2021 also allowed Bedel to again enjoy in-person philanthropic events for organizations we support personally and professionally. Most recently, we were proud to support the Greater Indiana Alzheimer's Association's Chocolate Sunday event at the Scottish Rite Cathedral. Did you know that approximately 110,000 Hoosiers have been diagnosed with Alzheimer's disease? Fortunately, the Greater Indiana chapter is working hard to enhance care and support for those impacted and back the research to end Alzheimer's disease.

If you or someone you know is caring for a loved one with this disease, the Alzheimer's Association has a universal helpline that offers support and guidance. The number is 800.272.3900, and the experienced counselors taking the calls are available 24/7 across the country.

On a lighter note, Bedel had the pleasure of sponsoring the Parry Mansion in this year's Midtown Holiday Home Tour. Funds raised from this event helped support Midtown Indy's efforts to redevelop Tarkington Park and its surrounding area, making it a safer and desirable place to live and visit. If you haven't yet experienced this home tour that supports great endeavors in the Indianapolis area, you must go! It's a great way to kick off your holiday season and get fun decorating ideas for your home.

Finally, I want to give a shout-out to our fantastic staff for all their hard work and dedication to Bedel Financial and our clients. Your efforts have elevated us to CNBC's list of Top 100 Financial Advisors in America!

As all of you ring in the New Year, we hope that you too can enjoy some more normalcy in your lives. Make it a great year, hold your loved ones close, and stay safe.

***Cheers to 2022!***

*The Bedel Leadership Team*



# Generation NeXt

## Home Equity Decisions

*By: Abby VanDerHeyden, CFP®*
*Wealth Advisor & GenerationNext Team Leader*

Maybe you want to renovate your home to avoid having to buy a new house in today's cutthroat market. Perhaps you wish to pay off higher interest credit card or student loan debt. Whatever the reason, if you are interested in tapping into your home's equity, you need to know a few things first.

**How much home equity do you have?**

To determine home equity, a homeowner first needs to know the home's current value. All lenders will require a home appraisal with costs normally paid by the homeowner. Generally, lenders will only allow homeowners to borrow up to 80% of the home's value.

For example, your home appraised for $350,000 and your mortgage balance is $190,000. Your home equity is $160,000 ($350k - $190k = $160k). Knowing you can only borrow up to 80% of the appraised value, or $280,000 (80% of $350k = $280k), the total amount you can access is $90,000.

**Which lending option works best for you?**

**Cash-Out Refinance.** The homeowner essentially pays off the existing mortgage and replaces it with a new (and bigger) mortgage. For example, if you want to access the maximum amount of equity, you would take out a new mortgage on your $350,000 home for $280,000; pay off your current mortgage balance of $190,000, and receive $90,000 in cash.

**Home Equity Line of Credit.** A HELOC is a separate loan on top of an existing mortgage. The interest rate will be variable and higher than the interest rate on your first mortgage. For example, you retain your $190,000 mortgage on your $350,000 home. You now have a line of credit available to draw up to $90,000 with the flexibility to use as much or as little as you need.

**Home Equity Loan.** Like the HELOC, a home equity loan is a separate loan in addition to the existing mortgage. In our example, you would retain your $190,000 mortgage and receive a $90,000 lump sum payment upfront. You will have a separate home equity loan of $90,000 at a fixed rate and will have a second monthly payment.

**What are the risks of tapping home equity?**

- Regardless of how you access your home's equity, your home is the collateral. Don't do it if it will be difficult to make the larger mortgage payment or the additional loan payment.
- If using equity to consolidate debt, there could be a temptation to run up credit card debt again.
- Borrow only the amount necessary to meet a specific need. If you borrow the maximum of your home's equity without a plan, you may misspend the extra money.
- Suppose a new mortgage loan is secured via the cash-out refinancing option, and the term of years for the loan to be repaid is extended. In that case, you prolong the amount of time and increase the amount of interest necessary to pay off the loan. This may postpone or eliminate achieving your other goals.

*Contact Abby if you have questions or want additional information regarding this topic.*

# Industry News

## Inherited IRAs: Do You Know The Rules?

*By: Sarah Mahaffa, CFP®*
*Sr. Wealth Advisor & Manager of Financial Planning*

Are you an owner of an Inherited IRA account? Do you know the different rules about distributing the dollars in that account? In addition, the rules have changed with the passage of the SECURE Act in 2019. Are you grandfathered into the "old rules," or do the "new rules" apply?

Let's start with the most common scenario. If you are the beneficiary of your spouse's IRA, you can treat it as your own IRA and even combine it with your current IRA accounts.

- Annual required minimum distributions are based on your age and can be "stretched" over your lifetime. This is the simplest scenario. Combining the inherited account with your retirement account means that you can defer distributions until age 72, but also means that distributions before age 59 ½ will be penalized. If you are under the age of 59 ½ and need the income, you may opt to move the assets to an Inherited IRA account instead of combining them with your current IRA. There is no early withdrawal penalty for distributing funds from Inherited IRA accounts.

Maybe you are a child, sibling, or friend instead of the IRA account owner's spouse, otherwise known as a non-spouse beneficiary.

- Your share of the decedent's IRA is then transferred into an Inherited IRA. This account is separate from other retirement assets you may have and should not be commingled with other retirement savings. Most (not all) non-spouse beneficiaries are required to take distributions from the Inherited IRA. However, the amount and frequency of the distributions are based on when the original account holder passed away. For example, if the original account holder died on or before December 31, 2019, non-spouse beneficiaries are required to take annual distributions based on their life expectancy. This allows the beneficiary to stretch out distributions for the rest of their life.
- If the original account holder died after December 31, 2019, then the non-spouse beneficiary must distribute the account's balance within ten years of the account owner's death. Distributions can be made as frequently or infrequently as needed as long as the balance is zero at the end of year ten. You should also coordinate distributions with your tax planning. For example, if you know you will be in a lower tax bracket in a few years, it may be beneficial to delay distributions until that year.

There are a few exceptions to the ten-year distribution rule.

- Beneficiaries who are minors, disabled, chronically ill, or not more than ten years younger than the account holder may still be able to stretch out the distributions over their lives. If you think one of these definitions applies to you, you should talk with your financial planner or tax advisor to determine what distribution options are available.

When the SECURE Act first passed, the rules seemed straightforward. In practice, we are now encountering individuals who have more than one Inherited IRA account and possibly different distributions plans for each one. Again, the key is to know which rules apply to you.

*Contact Sarah if you have questions or want additional information regarding this topic.*

# Ask Bedel

## No More Backdoor Roth?

*By: Mat Ryan, MBA, CFP®, EA*
*Financial Planning Specialist*

**QUESTION:** I make non-deductible contributions to my IRA and convert those assets to my Roth IRA each year. Recently, I've read that strategy may no longer be allowed? Will all Roth conversions be restricted going forward?

**ANSWER:** What you describe is better known as a 'backdoor' Roth contribution or conversion. Named so because the IRS has provisions in place, ultimately disallowing those whose modified adjusted gross incomes (MAGI) exceed certain thresholds from contributing directly to a Roth IRA. However, there are no income limitations for those wanting to make non-deductible IRA contributions, nor for those wishing to convert to a Roth IRA. Hence, the incorporation of the backdoor Roth IRA strategy evolved.

As of this writing, nothing has been finalized, though one component of the Build Back Better bill (approved by the House on November 19) calls for the elimination of the allowance for backdoor Roth conversions. While Senate revisions could strip this restriction from the bill, it may behoove you to act expeditiously in making your non-deductible contributions and subsequent conversions before year-end as, upon passage of the bill, this strategy could be eliminated effective at the start of 2022.

Additionally, for the time being, not all Roth conversions are restricted. As touched on above, only non-deductible or after-tax assets would be restricted. Conversely, any pre-tax qualified assets could be converted. One caveat proposed to take effect on January 1, 2022, is the Build Back Better Act would prohibit Roth conversions for certain high-income filers (with MAGI of $400,000 and $450,000 for single and joint filers, respectively).

All that in mind, nothing is set in stone, and it's likely the Senate will have revisions of their own that could warrant the points above moot. More should be known in the coming weeks, so be sure to stay abreast of potential modifications and subsequent bill finalization and work closely with your financial advisors to incorporate the appropriate strategies.

*Contact Mat if you have questions or want additional information regarding this topic.*

The Bedel Team wishes you

*a prosperous & joyous New Year!*

Here's to a safe and healthy 2022.

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## Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

| | |
|---|---|
| **Dec. 24** | **Christmas Day (Observed)** |
| **Dec. 31** | **New Year's Eve** |
| **Jan. 17** | **Martin Luther King Jr. Day** |
| **May 30** | **Memorial Day** |
| **July 4** | **Independence Day** |



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