



WINTER 2024

Tax Refund: Save or Spend?

By: Nick Rosebraugh, CFP®
Financial Planning Coordinator

Most of us aim for a small refund or tax bill when it comes to tax planning. However, you may occasionally receive a larger-than-expected refund for various reasons. That raises an important question: what should you do when you get a large refund?

Pay Off Debt

If you have any debt, specifically high-interest debt, one of the best uses of your tax refund would be to pay down that debt. One of the most expensive types of debt is a type that many Americans have: credit card debt.

According to Investopedia, the median interest rate on credit cards is 24.37%. If you had \$10,000 of credit card debt with an interest rate of 24.37% and you were to make minimum payments equal to the interest owed + 1% of the balance, it would take you almost 30 years to pay off that debt. Additionally, you would pay \$19,332 in interest alone. This is almost double the original balance! Applying the proceeds of a large tax refund to your high-interest debt could have a larger impact than you may suspect.

Often, people have more than one source of debt. In addition to credit card debt, an individual may have a mortgage, student loans,



or auto loans. Interest rates on these loans are typically much lower than interest rates on credit cards. When deciding which debt to apply a payment towards, it makes sense to start with the highest interest rate loan and work down from there.

Save for College

A college education is often one of the largest expenses of an individual's life - right next to retirement and buying a home. Planning for college is becoming more and more important by the year.

A good way to spend your tax return could be to contribute those funds to a 529 college savings plan. The money will grow tax-free and can be withdrawn tax-free for qualifying expenses. To improve things, Indiana residents can claim a 20% tax credit for contributions up to \$7,500 per household if they contribute to the Indiana CollegeChoice Plan.

Save for Retirement

A contribution to a Roth or Traditional IRA is always a wise decision. Depending on your tax situation, a Traditional or Roth IRA can give you decades of tax-deferred or tax-free growth. The maximum contribution for 2024 is \$7,000 for those under 50 and \$8,000 for those over 50. The younger you are, the more impactful those contributions will be.

Save for a Rainy Day

If you don't have any high-cost debt, have saved well for college, and have maxed out your IRA contributions, you can still apply your tax refund effectively. If your emergency fund

is low, consider depositing the funds in that account. A good rule of thumb is to have three to six months of living expenses saved in your emergency fund.

If your emergency fund is at an adequate level, consider investing the funds through a brokerage account so your money can work for you

Prevention

If you are worried about overpaying and receiving large refunds, you should adjust Form W-4. This document gives your employer details regarding how much to withhold from your paycheck. Additionally, you should review your quarterly estimated payments for adjustments, whether employed or retired.

Treat Yourself!

Have you been thinking about a kitchen remodel or maybe a weekend getaway? Your tax refund could be a good source for some fun! Don't be afraid to spend that money on yourself. Life is meant to be enjoyed, after all!

Summary

Spending your tax return as soon as you get it often seems tempting. However, reviewing your financial picture and using your return strategically can have massive long-term benefits.

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

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Winter Wonderland



As we close out 2023, this year has certainly been full of wonder in our financial world. Some are wondering if the FED will raise rates again, while others

wonder if the inflation rate and markets will react as intended. All of this wondering might take away from the joy of the recent holiday season, but we are working to counter that with some good news!

Looking back in 2023, it was a year of several high notes for the Bedel staff! We celebrated the recent marriages of three team members, Abby VanDerHeyden, Austin Stagman, and Anthony Harcourt all changed their tax filing status to married in 2023. In addition to the recent weddings, another celebrated life event, Kate Arndt got engaged this past Fall! Congratulations to them all, and the Bedel Family couldn't be more thrilled.

We experienced personnel growth within the team by adding three team members over the past year and our very own Nick Rosebraugh received his CFP® designation.

Speaking of celebrations, continuing in 2024, Bedel Financial will celebrate our 35th anniversary! We look forward to sharing more details soon on special events to commemorate this occasion and show our appreciation for our clients who have made this possible.

How will you celebrate 2024? Before you jump into your best-intentioned New Year's resolution, take a moment to review the topics in this issue. Maybe you will be receiving a windfall from your tax filing. Nick Rosebraugh, CFP®, provides several well-considered options for using those dollars to ensure your future financial health.

In our Industry News article, David Crossman, CFA, shares insight into the Fed's intentions surrounding rate changes in 2024.

In our Ask Bedel article, Jonathan Koop, CFA, explains what a private equity tender offer fund is and shares how it compares to other investment types, such as traditional private equity and interval funds.

Also in this edition, Abby VanDerHeyden, CFP® explains the latest changes to the CollegeChoice 529 plan. We now have an increased tax benefit, extended contribution deadlines, and a new rollover option starting in 2024. But beware, there are very specific guidelines and fine print.

Whether it's the end of rate hikes from the Fed or the total solar eclipse next year, we are eager to see if 2024 will continue the trend. We hope you will enjoy a Winter Wonderland as we continue the winter months in Indiana and maybe even see a few snowflakes! Snow Angels, anyone!?

Wishing you an amazing 2024!

The Bedel Leadership Team

Generation NeXt Important 529 Plan Changes

By: Abby VanDerHeyden, CFP®
Wealth Advisor

Indiana taxpayers contributing to CollegeChoice 529 plans must be aware of changes for the 2023 and 2024 tax years.

Increased Indiana State Tax Credit

New in 2023, there is an increased state tax credit for Indiana residents contributing to CollegeChoice 529 plans. Before, the 20% state tax credit capped out at \$1,000 for a \$5,000 contribution. Now, Hoosiers can receive the 20% credit on up to \$7,500 in annual contributions for a maximum credit of \$1,500. This state tax credit is refundable.

As a reminder, any Indiana resident contributing to a CollegeChoice 529 plan is eligible for the refundable state tax credit. Being an account owner of a CollegeChoice 529 plan is not a requirement to receive the credit. For example, Kelsey owns a CollegeChoice 529 plan, and her son Jude is the beneficiary. Kelsey's mom, Barbara, can contribute to the CollegeChoice 529 plan Kelsey established for Jude, and Barbara can receive a state tax credit if Barbara is an Indiana resident.

New Indiana 529 Plan Contribution Deadline

New in 2024, funds within 529 accounts can be rolled over to a Roth IRA (federal tax and penalty-free). It's important to note the Indiana Department of Revenue recognizes 529 account rollovers to Roth IRAs as non-qualified education expenses, subject to state taxes, a 10% penalty on earnings, and state tax credit recapture. There are many rules surrounding this new law, summarized below:

- The 529 account beneficiary and the Roth IRA owner must be the same person to be eligible for the rollover.
- The 529 account must exist for 15 years to be eligible for the rollover.
- According to the Indiana Department of Revenue, if a 529 account beneficiary is changed to a different individual, this beneficiary change does not reset the 15 years necessary to be eligible for the rollover (there has not been clarity issued on a federal level surrounding this rule).
- The lifetime maximum amount that can be rolled over from a 529 account to a Roth IRA is \$35,000 per beneficiary.
- The eligible rollover amount must have been in the 529 account for at least five years.

- The total annual amount that can be rolled over from a 529 account to a Roth IRA cannot exceed the annual IRA contribution limits (for tax year 2024, the maximum amount is \$7,000), less any other IRA contributions.
- It's best practice to rollover funds from a 529 account to a Roth IRA in years the beneficiary has earned income (the amount eligible to be rolled over is the lesser of earned income or the annual IRA contribution limit).

Given the rules associated with the 529 account to Roth IRA rollover, it's important to discuss the advantages and disadvantages of a rollover with your Bedel Financial team.

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

Digital Resource

PROTECTING YOUR PERSONAL INFORMATION

As identity theft becomes more prevalent, we have provided a new resource to help you take steps to protect your information.

Go to: BedelFinancial.com/protect

Industry News

Is This Goodbye to Rate Hikes?

By: David Crossman, CFA
Sr. Portfolio Manager

The Federal Reserve's Open Market Committee held its final meeting of 2023 on December 12th and 13th. As at their previous two meetings (in September and October/November), the Fed held rates steady, with the overnight rate remaining in the 5.25-5.50% range.

More importantly for investors, Chairman Powell, for the first time, discussed the possibility of lowering interest rates in 2024 to avoid harming the economy. This was a substantial change from the Fed's previous stance, which was effectively "it's too soon to talk about lowering rates." The shift in tone and message immediately drove markets higher and long-term yields lower.

While we are hesitant to deal in absolutes, it appears the current Fed rate hiking cycle has ended. Inflation continues to trend downward, and barring an unexpected reversal, we expect that to persist (although not necessarily in a straight line). The most recent report in December showed year-over-year inflation of 3.1%, a far cry from the 9.1% peak in July 2022.

While the message has changed, it seems like the Fed wants to ensure the inflation dragon is truly slain before they consent to lower rates. Cutting rates before inflation was tamed was the Fed's big mistake in the 1970s, and it eventually led to the sky-high interest rates of the early 1980s (raise your hand if your first mortgage had an interest rate north of 15%!). Expectations of three rate cuts in 2024 may prove overly optimistic if we see any resurgence of inflation.

Even if the Fed holds rates steady for longer, we could still see volatility in the bond market. Markets are forward-looking, and any change in outlook in the future can have a profound impact immediately.

For example, in the last three and a half months, we have seen dramatic moves on the long end of the yield curve. The 10-year treasury yield went roundtrip from 4% to 5% and back to 4%, all while the Fed stood pat. If those moves do not sound like much, consider that the iShares 20+ Year Treasury Bond ETF fell by nearly 14% due to that rise in rates before recovering that entire loss as rates fell.

We may be done with the current rate hike cycle, but there are still risks out there, which is why maintaining a properly diversified portfolio – even in fixed income — is key to investment success.

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



Ask Bedel

Private Equity Tender Offers

By: Jonathan Koop, CFA
Sr. Portfolio Manager

QUESTION: What is a private equity tender offer fund, and how does it compare with other types of investments?

ANSWER: A private equity tender offer fund is an innovative investment vehicle growing in popularity. It allows investors to access private equity investments while removing some of the barriers that have prevented these investments from being practical for many.

Here's a breakdown of how private equity tender offer funds compare with other types of investments:

Tender Offer Funds vs. Traditional Private Equity

Liquidity: Traditional private equity funds are highly illiquid. Investors cannot easily sell until the end of the investment term, often ten years or longer. Tender offer funds provide the potential for periodic quarterly liquidity events, which allow investors to sell their shares.

Investment Minimums: Traditional private equity funds often have high minimum investment requirements, sometimes reaching millions of dollars, making them inaccessible to most individuals. Tender-offer funds have lower minimums and permit investors to purchase them in retirement accounts.

Tender Offer Funds vs. Interval Funds Liquidity:

Investor Qualification: Interval funds can offer exposure to unique asset classes beyond public stocks and bonds for investors at essentially no investment minimums. Tender offer funds typically carry some investor qualification (e.g., Qualified Purchaser, Accredited Investor) that require certain income or net worth levels.

Liquidity: Tender offer funds employ a discretionary repurchase model where the quarterly redemptions are made only at the fund manager's discretion. Interval funds are required to allow a minimum of 5% of the fund's value to be redeemed each quarter.

Tender Offer Funds vs. Public Equities

Investment Universe: Public equities are traded on exchanges and offer daily liquidity. Tender offer funds invest in private companies that are less liquid. Private companies have increased in number and size over the past decade, making them an important asset class for a diversified portfolio.

Potential Returns: Public equities offer a range of potential returns, depending on company-specific factors. Private equity has historically provided the potential for higher returns and lower volatility than public equities.

While private equity tender offer funds provide several advantages and can be a valuable addition to a diversified investment portfolio, there are risks to consider. Be sure to talk with your Bedel Financial team to determine the most appropriate investments for your situation.

Contact the Jonathan if you have questions or want additional information regarding this topic.

Have a Question For Us?

Submit it to bedel@bedelfinancia.com

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Corporate Calendar

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

Jan 15	Martin Luther King Jr. Day
May 27	Memorial Day
July 4	Independence Day

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