Q4 2022

Family Vacation Home – What's the Plan?

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

The vacation home where you spent family vacations growing up holds many wonderful childhood memories. For many years, the generation that owns the property (typically your parents) has handled the upkeep and financial responsibilities. However, as time passes, the next generation (you) may wonder, "what's next." Some family members may have strong feelings about keeping the property in the family, and others may be okay with moving on. So what can you do now to preserve the family memories and avoid future conflicts?

Interest

Before bringing other family members into the mix, the parents first need to decide if they want to hold, sell, or transition the property. Continuing to hold onto it or transitioning the property to the next generation will ensure more family memories. Still, the parents must determine if they need the liquidity a sale would provide. If transitioning it to the next generation is the goal, the owners should meet with all family members to determine who is interested in owning the home and willing to be involved.

Even if the plan is to pass it to the next generation after the parents pass away, discussing that transition now can be very beneficial. The parents might assume that all the kids want to keep the home, but the kids may have different ideas. Remember to share the cost of expenses, such as property taxes, HOA fees, annual maintenance, and insurance.

If the decision is to transition the property, the next group of owners should create a plan to address communication, fina ncial responsibilities, and usage.

Communication is Critical

Good communication and understanding of financial obligations can reduce potential problems between second-generation owners. Unless the property can accommodate everyone at one time, there needs to be an agreement regarding who gets to use the property on holidays and how the school vacation months are divided. Have these discussions regularly and create a calendar everyone can reference. Don't wait until July 1st to make it known you want to use the lake house for your 4th of July party!

Many times, distance will not allow one owner to have the same access to the property as another. Or in some situations, one owner may prefer to have a vacation spot in a location offering different amenities and, consequently, rarely uses the inherited property. Talking through your family's situation now can prevent frustrations down the road.

Another major issue involves the cost of maintaining the vacation home. Again, making a fair agreement regarding payment of expenses based on who uses the property versus an equal split will help avoid money arguments. However, expenses that add to the home's value, such as roof replacement, adding a room, or extensive landscaping, are acceptable expenses to be shared by all owners on an equal basis.

Owners may find themselves in different financial situations over time. Some may feel a financial pinch when putting children through college, saving for retirement, and funding vacation home expenses. The new/ future owners need to determine how they will handle disparities if they arise. Look at average annual expenses for the last 3-5 years. You could handle expenses as they arise or have everyone contribute to an account that can be drawn upon as needs arise.

Planning Considerations

First-generation owners should consider including the vacation property in their estate plan. Having the property owned equally by each of the children may or may not be appropriate. However, if it has become obvious that one child is more interested in owning the property, it would be more suitable for that child to inherit the vacation home and the other children to receive other assets of equal value. If the estate does not have sufficient assets to do this, the estate plan can allow the property to be owned equally by the children with the caveat that one child should have the opportunity to purchase the property from their siblings for fair value.

The estate plan should always address the disposition of the property in the event of the death of the current owners. However, the first-generation owners may need to liquidate the property to improve their financial situation.

Continued on page 3

In This Issue

BLT Corner

Welcome, 2023!

The Bedel Financial team is off and running with a few changes for this new year. Near the end of 2022, we added a new team member Marla Cline, who stepped into the Receptionist role. She is quickly becoming a valued member of our team, and we know you'll enjoy getting to know Marla a bit more when you call or visit the office. Welcome, Marla!

In addition to Marla, there have been a few other changes internally. On our Financial Planning Team, Kate Arndt has taken the role of Wealth Advisor. The firm has also named Cassi Vanderpool, Chief Operations Officer; Ryan Collier has added the role of Vice-President, and Evan Bedel as President.

While internal changes will not impact their most important role - working with our wonderful clients, we are excited to share their advancements within Bedel. Congratulations to Kate, Cassi, Ryan, and Evan!

In other news, our very own Kate Arndt was appointed to the Indiana Education Savings Authority Board of Directors, which oversees Indiana's 529 plan. Thank you, Kate, for donating your time to helping Indiana!

Elaine Bedel was named the 2022 Bayh-Lugar Government Leader of the Year by the Indiana Chamber of Commerce for her work with the Indiana Destination Development Corporation. Elaine continues helping the state attract and retain talent, students, and visitors.

As we look into the new year, we want to thank you for the continued trust you place in us as your advisors, and we wish you and yours a happy and prosperous 2023! If we can help you in any way, always reach out to us, we enjoy hearing from you!

Happy New Year!

The Bedel Leadership Team

TIME TO GO DIGITAL?

If you would like to receive our quarterly newsletter digitally, instead of a paper version, please scan the QR code below and sign up.

SCAN ME

Thank You!

Generation NeXt

2023 Contribution Increases

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

The IRS adjusted contribution limits for various accounts in 2023 due to inflation and increased cost of living. Therefore, if you contribute to any accounts with the goal of maximizing your contribution, you will want to take note of the following contribution limit increases:

- **Health Savings Account (HSA)** - $3,850 for self-only coverage and $7,750 for family coverage; individuals age 55 and up can contribute an additional $1,000
- **401(k) / 403(b) Accounts** - $22,500; individuals age 50 and up can contribute an additional $7,500
- **IRA/Roth IRA** - $6,500; individuals age 50 and up can contribute an additional $1,000
- **Simple IRA** - $15,500; individuals age 50 and up can contribute an additional $3,500

In addition to the contribution limit increases, the IRS increased the income ranges for determining eligibility for deductible traditional IRA contributions and Roth IRA contributions. Remember, traditional IRA contributions are fully deductible regardless of income for single tax filers not covered by an employer-sponsored retirement plan and for married couples where an employer-sponsored retirement plan covers neither spouse.

For single tax filers covered by an employer-sponsored retirement plan, the income phase-out range for deductible traditional IRA contributions begins at $73,000 in annual income. For married couples filing jointly where an employer-sponsored retirement plan covers the IRA contributor, the phase-out range begins at $116,000. For married couples filing jointly where the IRA contributor is not covered by an employer-sponsored retirement plan but is married to someone covered, the phase-out range begins at $218,000.

The income phase-out range for single tax filers for Roth IRA contributions increased to $138,000 in annual income. The phase-out range for married couples filing jointly increased to $218,000 in annual income.

If you're an Indiana taxpayer and contribute to a CollegeChoice 529 plan – you're in luck! The maximum state tax credit has increased in 2023 as well.

- **Indiana 529 state tax credit** - Contributions by Indiana taxpayers qualify for a 20% tax credit with a new maximum credit of $1,500 for a $7,500 contribution.

As inflation continues to climb higher (see the Industry News article in this newsletter for more information), it is important to stay on top of these changes. Extra money saved in retirement accounts today can greatly impact your retirement.

Lawmakers impose contribution limits so highly paid employees don't benefit more than the average worker from the tax advantages retirement accounts provide. And while the limits may be confusing or frustrating at times, it's important to follow them closely so you don't end up in trouble with the IRS.

If there must be a positive aspect to higher inflation, increased contribution limits and income thresholds for retirement account contributions are just that. So make sure you take advantage of these opportunities to increase your savings in 2023!

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

Industry News

Update from the Federal Reserve

By: David Crossman, CFA
Sr. Portfolio Manager

The Federal Reserve's Open Market Committee held its final meeting of 2022 on December 13th and 14th. Out of that meeting came one last rate hike for 2022.

After four consecutive rate hikes of 0.75%, December's was a slightly lower 0.50%, bringing the overnight rate to a range of 4.25-4.50%. This move was widely expected after previous comments from Fed governors and based on the most recent inflation readings, which showed moderation in the inflation rate. So does this mean investors now see a light at the end of the rate hike tunnel? Before getting too excited, we recommend a quote from Churchill: "Now, this is not the end. It is not even the beginning of the end. But it is, perhaps, the end of the beginning."

While the switch from a 75-basis point to a 50-basis point hike may not seem like a huge deal, it is an important shift. The problem with interest rate policy is that while rate hikes go into effect immediately, their impact on the economy as a whole takes a lot longer to work through the system. Raising rates by ¾ of a percent at a time is a very blunt approach to a nuanced problem. Perhaps such an approach was prudent at first since the Fed initially dismissed the growing inflation issue as "transitory." However, by lowering the pace of increases, the Fed gains more time to gauge the effect of hikes as their impact works through the economy. This should help them avoid going overboard and inflicting more damage than necessary while fighting the problem of higher-than-desired inflation.

The Fed's forward-looking commentary was possibly more important than the most recent hike itself. The Fed may be slowing the pace of increases, but that is far different from stopping them altogether, let alone reducing them. In fact, on average, the Committee anticipates rates peaking at 5.0-5.5% next year, above the previous estimate of 4.6%. That implies that we still have a ways to go before we get to the end of the current rate hike cycle. This could mean more headwinds for equity and fixed-income markets if the Fed is committed to keeping monetary policy tighter for longer than expected.

As always, the Committee members will react to data as it becomes available. Of course, if we see a continued deceleration of inflation readings, rate hikes may end sooner rather than later. But the finish line remains in the distance.

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

Ask Bedel

What documents do I need for tax prep?

By: Kate Arndt, CFP®
Wealth Advisor

QUESTION: What documents do I need for tax prep?

ANSWER: Tax time is when all aspects of your financial life come together: income, investments, expenses, charitable gifts, and so much more! You'll likely need documents from each area to file your tax return. We cover some of the basics below:

If employed, you'll need a W-2 provided by your employer, which can often be downloaded from your payroll website. The IRS requires employers to send these no later than January 31st.

Self-employed individuals will need to report all earned income for the year on one of several tax returns, depending on their business arrangement. From the earned income, all appropriate business expenses can be deducted – now's your chance to use all the expense receipts you have been keeping!

Individuals who receive Social Security benefits will receive an SSA-1099, which details the total benefits received during the calendar year. The Social Security Administration will mail these out in January, but they can also be found online on the "my Social Security" website.

Investors with brokerage accounts will receive a consolidated 1099 from the custodian. Likewise, investors who withdrew money from a qualified retirement account (including rollovers and Roth conversions) can expect to receive a 1099-R. Custodians will either mail the tax documents or upload them to their website, depending on your selected delivery method when opening the account. These documents are usually ready by mid-February but are sometimes updated in March, so pay attention to such notifications.

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

Featured continued from page 1

This may include selling to children who are interested in maintaining the property. However, if the parents sell the property for more than what they've invested (purchase price + improvements), they'll owe capital gains taxes. If the property is instead inherited, capital gains are not realized, and the cost basis for the new owners is the appraised value as of the date of death.

Another planning tool the new owners could implement is a buy-sell agreement. This agreement documents the terms of the sale if one of the owners passes away. In the absence of such an agreement, the surviving owner may find it necessary to work out details with the deceased owner's children.

Summary

The best advice is for the first-generation owners to talk with family members about the property and find out who is interested in owning it after they're gone. You might be surprised! The owners should also discuss their goals with an estate planning attorney and financial planner to ensure an appropriate plan is in place. Then, with forethought, open communication, and careful documentation, you'll be better poised to accomplish your desires and maintain a close family relationship.

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

BEDELFINANCIAL

Presorted
First Class
U.S. Postage Paid
INDIANAPOLIS, IN
Permit No. 9395

Contact Us!

8940 River Crossing Blvd., Suite 120
Indianapolis, IN 46240
Phone: (317) 843-1358
Toll Free: (888) 843-1358
Fax: (317) 574-5999
Web: BedelFinancial.com
Twitter: Twitter.com/BedelFinancial
FB: Facebook.com/BedelFinancial
LinkedIn: Bedel Financial Consulting, Inc.

Corporate Calendar

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

Jan 16	**Martin Luther King Jr. Day**
May 29	**Memorial Day**
July 4	**Independence Day**

Our Staff

Andriel Adams
Administrative Coordinator
aadams@bedelfinancial.com

Kate Arndt, CFP®
Wealth Advisor
karndt@bedelfinancial.com

Elaine E. Bedel, CFP®
CEO
"Executive On Loan"
ebedel@bedelfinancial.com

Evan D. Bedel, CFP®
President
evbedel@bedelfinancial.com

Meredith Carbrey, CFP®
Sr. Wealth Advisor
mcarbrey@bedelfinancial.com

Marla Cline
Receptionist
mcline@bedelfinancial.com

Ryan Collier, CIMA®
Sr. Portfolio Manager and Director of Investment Management
rcollier@bedelfinancial.com

Dave Crossman, CFA
Sr. Portfolio Manager
dcrossman@bedelfinancial.com

Cindy Garman
Administrative Coordinator
cgarman@bedelfinancial.com

Alex Golding
Operations Specialist and Investment Assistant
agolding@bedelfinancial.com

Anthony Harcourt, CIMA®
Portfolio Manager
aharcourt@bedelfinancial.com

Amy K. House
Technology Manager and Digital Marketing Specialist
ahouse@bedelfinancial.com

Kathryn J. Hower, CFP®
Senior Wealth Advisor and Director of Financial Planning
khower@bedelfinancial.com

Tonya Kee
Operations Specialist and Investment Assistant
tkee@bedelfinancial.com

Jonathan Koop, CFA
Portfolio Manager and Manager of Investment Management
jkoop@bedelfinancial.com

Sarah Mahaffa, CFP®
Sr. Wealth Advisor and Manager of Financial Planning
smahaffa@bedelfinancial.com

Olivia Maynes, CFP®
Financial Planning Coordinator
omaynes@bedelfinancial.com

Nick Rosebraugh
Operations Specialist and Investment Assistant
nrosebraugh@bedelfinancial.com

Mathew Ryan, CFP®, EA
Financial Planning Specialist
mryan@bedelfinancial.com

Austin Stagman, CIMA®
Portfolio Manager
astagman@bedelfinancial.com

Cassi Vanderpool
Chief Operations Officer
cvanderpool@bedelfinancial.com

Abby VanDerHeyden, CFP®
Wealth Advisor and Generation NeXt Team Leader
avanderheyden@bedelfinancial.com

Chris Wakefield
Marketing & PR Coordinator
cwakefield@bedelfinancial.com

William J. Wendling, CFA
Sr. Portfolio Manager, CIO
bwendling@bedelfinancial.com