



4th Quarter 2022 Newsletter

- After soaring in 2021, the tech-heavy NASDAQ declined 33% in 2022, with Tesla down 65%, Amazon down 50%, and Meta down 64%.
- Historically, both the economy and the stock market experience natural, yet unpredictable, economic cycles, expanding for 8 out of 10 years and contracting for 2 out of 10. When wages and prices soar, the Fed raises interest rates to slow these down.
- In December of 2021, many major market “forecasters” predicted great returns ahead for stocks in 2022. As predicting the stock market has proven to be an exercise in futility, staying invested, appropriately diversifying, and strategically rebalancing have historically been keys to long-term growth.
- Value stocks significantly outperformed growth stocks in 2022, with the Russell 3000 Growth index down 29%, while the Russell 3000 Value index was down only 8%.
- As the Fed slows the pace of their rate hikes, we will look to lengthen the duration of our bond portfolios to lock in higher yields for longer periods of time. If the US economy enters a recession in late 2023 or 2024, the Fed may pivot and lower interest rates.
- According to the Wall Street Journal, the cost of servicing the US federal debt may rise above \$1 trillion this year due to rising interest rates. Interest expense could surpass Social Security as the largest item in the federal budget.¹

News and Observations

- In 2023, the standard deduction increases to \$13,850 (single) / \$27,700 (joint filers), and Social Security benefits increase by 8.7%.
- The annual gift tax exclusion increases to \$17,000 per person, while the estate tax exemption increases to \$12.92 million per person.
- The maximum IN 529 CollegeChoice tax credit increases to \$1,500/year on a \$7,500 contribution. The HSA contribution limit increases to \$3,850 single / \$7,750 family (+\$1,000 if 55+).
- 401(k) / 403(b) employee contribution limits increase to \$22,500 (\$30,000 if 50+). Traditional and Roth IRA contribution limits increase to \$6,500 (\$7,500 if 50+), while Simple IRA limits increase to \$15,500 (\$19,000 if 50+).
- Medicare premiums increase for those whose 2021 income exceeded \$97,000 (single) / \$194,000 (joint filers). If you are paying increased premiums but your income has declined due to a life-changing event, such as retirement or death of a spouse, consult with your advisor on whether you can appeal these surcharges.
- Short-term bonds have seen smaller declines than long-term bonds, and many are currently yielding 5%.

Market Index Returns

	<u>Q4</u>	<u>YTD</u>
<i>S&P 500 (Large Cap)</i> _____	7.6%	-18.1%
<i>Russell 2000 (Small Cap)</i> _____	6.2%	-20.4%
<i>MSCI International Index</i> _____	16.3%	-13.8%
<i>MSCI Emerging Markets</i> _____	9.8%	-19.7%
<i>US REIT Index</i> _____	4.8%	-26.0%
<i>Bloomberg Commodity Index</i> _____	2.2%	16.1%
<i>BofA 1-3 yr Corporate & Govt. Bond Index</i> _____	0.9%	-3.8%

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We sincerely appreciate your business and referrals.

SECURE Act 2.0 – Summary of Key Changes

Effective in 2023

- For those turning 72 in 2023 or later, beginning IRA Required Minimum Distribution (RMD) age increased to 73. Beginning IRA RMD age will increase further to age 75 on January 1, 2033. Qualified Charitable Distributions (QCDs) from your IRA can continue to be made once age 70½.
- Employers can now deposit new matching or nonelective contributions to employees' Roth accounts, but the employer contributions must be included in the employee's income and may not be subject to vesting.
- Individuals and employers can contribute to Roth SIMPLE and SEP Roth IRAs, although it may take time for employers and custodians to establish procedures necessary to offer this option.

Effective in 2024

- The IRA catch-up contribution limit (currently \$1,000) and the annual QCD limit (currently \$100,000) will be indexed to inflation.
- RMDs will no longer be required from Roth employer retirement plans (Roth 401(k), Roth 403(b), etc.).
- High wage earners (\$145,001+) must utilize the Roth option for catch-up contributions to 401(k), 403(b), and 457(b) plans. If no Roth option is available, no catch-up contributions can be made.
- Employers have the option to match employee student loan payments with contributions to a retirement account.
- For 529 plans open for more than 15 years, plan assets can be rolled over to a Roth IRA for the beneficiary, subject to annual Roth contribution limits and an aggregate lifetime limit of \$35,000. Contributions made in the last 5 years and their earnings are not eligible. Normal Roth IRA income limits do not apply, but the beneficiary must have earned income in order to transfer funds to the Roth. It is unclear whether state tax credit "clawback" rules would apply.
- Small businesses can offer a starter 401(k) or safe harbor 403(b) plan with a default contribution from 3% to 15% of compensation. These plans would follow the same contribution limits as IRAs, and would not be subject to the same rigorous requirements of traditional 401(k)s.

Effective in 2025

- Many new 401(k) and 403(b) plans will be required to automatically enroll employees with at least a 3% contribution rate. Participants will have the ability to opt out.