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# DELISO FINANCIAL NEWS DIGEST

## MONEYLINE

### Does A Roth Conversion Make Sense For You?

*Courtesy of Jean M. Deliso, CFP®*

I receive many inquiries about retirement accounts. One area of particular interest is Roth conversions. This can be an effective strategy for some and not for others. The following questions are helpful in the consideration process:

**Question 1:** When will you need the funds you are considering converting? If you are not looking at a 10- to 15-year time horizon, you probably should not be considering a conversion.

**Question 2:** Do you believe that future tax rates, when you will be likely to withdraw funds, will be higher than current tax rates? If you believe that it is likely that future tax rates will be higher than current tax rates, then you have more of an incentive to do a conversion.

**Question 3:** Where will the money come from to pay the tax if you do a conversion now? Do you have the funds available to do a conversion? Before you convert, it is essential that you determine what the income tax liability will be if you do a conversion. Naturally, you need to know what your marginal tax bracket will be, based on all of the other income you will be reporting in the year of conversion. It's most cost-effective if your funds are available from non-IRA funds. ↗



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### What homeowner's insurance doesn't cover:

Injuries to protect people who work at your home - you may be liable for the medical bills of caretakers, cleaners, gardeners, and anyone else injured on your property who is not covered by workers compensation insurance. Mold and pest damage caused by rodents, bees, and termites is not covered if it is considered minor rather than structural or the result of poor maintenance. Sewer back-up damage - even if it floods your home. Buried utility line damage involving water pipes and powerlines. Injuries caused by dog breeds considered dangerous, such as Pit bulls, Rottweilers, Doberman pinschers and German shepherds. Very high value personal properties such as collectibles or wine usually require additional coverage. Review your policy carefully with your insurance agent to make sure it covers what you need.

Source: [aarp.org](http://aarp.org)

**"A good plan today is better than a great plan tomorrow."**

-General George S. Patton



## Pros And Cons Of The 'Guardrails' Approach

*Simon Constable, Kiplinger's Personal Finance*

One of the biggest challenges for many people in retirement is making sure their retirement investments last for the rest of their lives and leave a bequest to heirs. It's a tough knot to untangle.

Part of the problem is that assets such as stocks and bonds are prone to be volatile. Some years offer solid double-digit returns and others are distinctly poor with tremendous losses. For instance, in 2022 the SPDR S&P 500 exchange-traded fund, which tracks the performance of the large cap stocks, fell 18%. That same year the bond market also declined, with U.S. 10-year Treasuries also falling 18%, according to data from New York University. Yet inflation spiked. Of course, past market performance is not indicative of the future.

So, what can you do? Jonathan Guyton and William Klinger, a financial planner and computer whiz, respectively, developed an investment methodology known as the "guardrails approach." It's designed to lower the risk of retirees running out of money.

"Guardrails focuses on lifetime spending," says Amy Arnott, portfolio strategist for Morningstar. "And it means you are able to spend more money during your lifetime." And it's also likely to help maintain assets to be left over for bequests to family and charities.

She estimates that someone starting with a \$1 million portfolio — taking 4%, or \$40,000, income initially and following the guardrails approach — could potentially have a portfolio of \$1.3 million

when they die.

In the simplest terms, the amount you take out of your retirement pot each year will rise and fall based on the annual swings of the portfolio's value and inflation.


If the portfolio grows by 40% to \$1.4 million at the end of the first year then the retiree gets to withdraw \$45,021, according to Morningstar. If at the end of the first year the portfolio drops by 30% to \$672,000, the retiree gets to withdraw \$36,835.

"It can be challenging to understand the ins and outs of the actual guardrails calculations," Arnott says. However, financial advisers should be able to help crunch the numbers.

The guardrails approach is a good one, but it has flaws, says Richard Rosso, director of financial planning at Real Investment Advice.

He notes that how much money is required in retirement is not static. It tends to begin with increased spending at the beginning of retirement when people take multiple vacations. After the trips, spending falls for a while, sometimes to as much as one-fourth of what it was the first year of retirement, he says. And the money not spent could then remain in the portfolio.

Eventually, many retirees see their financial needs increase as their health deteriorates, and they need increased medical care. "Everyone's spending varies," Rosso says.

Rosso also recommends those using the guardrails approach to evaluate the portfolio every quarter, rather than annually. He says most clients understand the need to spend less when the markets are falling. "This dynamic system of guardrails is not a bad thing," he says. "It's a good way for clients to see what's going on with the portfolio and the spending." 



# Selling Your Vacation Home? Watch Out For These Surprises

By John Waggoner, Kiplinger's Money Power

Given the growth in home prices, you could pay big taxes on your gains if you sell a home that isn't your primary residence. Below, we outline four surprises to prepare for, as well as tips to



lower (or defer) your tax liability.

**Surprise one:** No capital-gains exclusion. When you sell your primary residence, you get a huge tax break. Couples filing a joint return can exclude \$500,000 of the gain from taxes, while single filers can exclude \$250,000.

You don't get that tax break for a vacation home, or rental unit. You'll pay federal and state capital gains taxes on your entire profit. Federal capital gains top tax rate is 20%.

Flippers, beware: These are long-term capital gains rates, which apply only if you've owned the property for more than a year. If you've owned your property a year or less, your gain will be taxed as ordinary income, which can be as high as 37%.

**Surprise two:** Digging up old files. You'll need some records from the entire time you owned the house. Why? Because you can deduct the cost of major improvements you've made over the years. "Things have to be general improvements — a new kitchen, bathroom, things like that," says Michael Hansen, a certified financial planner in Walnut Creek, Calif. To get those deductions, you'll need to document your

improvements. Otherwise, the IRS could disallow your deduction.

**Surprise three:** Tax on depreciation. If you have rented your vacation home, you can typically get an annual deduction for depreciation. You'll have to pay income taxes on your depreciation (capped at 25%) when you sell. So, if you claimed \$50,000 of depreciation over the years, you'd pay ordinary income tax, up to 25%, on \$50,000.

## How to reduce your tax liability:

If you were thinking about downsizing, consider selling your current house and moving into your vacation home. If you live in your vacation home for two years out of five, you'll get the same tax breaks

you'd get if you sold your primary home. If you have a rental property, you might consider a 1031 exchange, which lets you swap properties tax-free with someone who has a property of about the same price. This will let you sidestep the tax on your current home gains and defer them to the future.

The drawback: You must keep your new property for at least two years. Otherwise,

you may be liable for the capital gains tax you were trying to sidestep. And if part of your decision to sell your property is because you were tired of fixing the plumbing and chasing raccoons out of the attic, owning another property through a 1031 exchange won't necessarily help.



**Safe deposit boxes are being eliminated** by big banks. Banking chains have concluded that these boxes don't generate sufficient income to justify their costs. Consumers who want safe deposit boxes should try credit unions, community banks, and regional bank chains, many of which continue to offer boxes to attract customers away from the big banks and online banks. Consumers might have to open an account with a local bank or credit union to qualify for a safe deposit box there.

Source: sdspec.com

**Cut your electrical bill** with "time-of-use" pricing. Also called "dynamic" pricing, time of use (TOU) plans allow you to pay different rates for electricity depending on how busy the grid is at the time of use. **Example:** You may pay less to run your clothes dryer late at night when usage is off its peak. Check to see if your utility offers TOU plans and what times of day are considered peak. These vary according to region of the country and time of year. Some companies offer a "partial-peak" TOU, offering rates that are more than off-peak, but less than peak. Confirm what your peak rates will be if you choose a TOU program.

Source: cnet.net

**"Never spend your money before you have it."**

-Thomas Jefferson

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## Timing The Market Still Does Not Work

*By Jill Schlesinger, Jill on Money*

It has been said that history does not repeat itself, but it rhymes. One obvious takeaway from history is that unpredictable things can happen at any time and can upend your plans, both personal and financial.

The funny thing about risk is that it's easy to gloss over when things are going well. When the mood changes and markets drop, your frayed nerves can't stand one more minute of pain. After a downturn, I get asked about what to do, and whether to sell out and go to cash. Notably, I do not receive these kinds of questions when stocks are rising, only AFTER they tank. Which brings me to another important lesson from turbulent times: market timing (still) does not work.

Timing the market can be alluring. Who would not want to be the person – or hire the financial professional, who knows the exact moment when to get in and out of an investment?

But timing the market does not work because it requires two perfect decisions: when to get out and when to get back in. According to research by Charles Schwab, “the cost of waiting for the perfect moment to invest typically exceeds the benefit of even perfect timing... the best strategy for most of us is not to try to market-time at all.”



Here's the thing: Nobody knows what is going to happen in the short term. What we do know is that over the longer term (decades not months!), those who can persevere and stick to their game plans are usually rewarded.

That's why it's important to make sure that you can live with your investment portfolio in good *and* bad times, because there will always be uncomfortable days, months, and even years ahead. The key is not timing the market, but time *in* the market. 