NORTHSTAR FINANCIAL PLANNERS INC.

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FINANCIAL PLANNING NOTES
CLIENT NEWSLETTER

IN THIS ISSUE:

OVERFUNDED 529 PLAN? A ROTH IRA MAY BE YOUR BEST SOLUTION

Congress approved many financial changes in December 2022's Secure Act 2.0. Many of these changes will not occur for several years because it takes time for the financial industry to adjust. However, as we digest these changes and how they impact our clients, we observe one change that can benefit many people today and in the future: the use of 529 plans.

The 529 plan is a college savings plan that grows tax-free from which you can withdraw money for school-related expenses. Unlike other school-related investment accounts, when the 529 plan beneficiary turns the age of majority—which in Florida is 21 years old—they do not gain full control of the account.

For 2024, the maximum contribution an individual can make is $18,000 (or $36,000 if married filing jointly) toward the beneficiary of the 529. An attractive feature is that multiple people—for example, parents and grandparents—can contribute the limit to a single 529 plan beneficiary.

You can also contribute as much as $180,000 in one year, forwarding five years' worth of contributions at once. Five years of having that money work for your beneficiary could make a significant impact. However, after a particular donor uses this five-year rule, they cannot contribute to the plan until after the fifth year.

Despite the advantages, 529 plans have always had one drawback: What if your child does not go to college or does not use all the 529 plan money? Before Secure Act 2.0, the most common solution was to transfer the assets to another relative, allowing them to use the funds. Another option was to take the 10% penalty for withdrawing the funds for non-related college expenses and pay taxes on the gains.

The good news is that Secure 2.0 has taken the answer to what to do with the funds further than anyone expected. Now, with the remaining money inside 529 plans, you can transfer a lifetime of $35,000 into a Roth IRA for that beneficiary. This is huge! The money that has been growing tax-free for the child will continue growing tax-free for them—but inside a Roth IRA, where they have more accessibility to the funds.

There are a couple of requirements:

- The 529 must be open for at least 15 years before you can transfer to a Roth IRA.
- The Roth IRA owner must be the same as the 529 plan beneficiary.
- You can only transfer the maximum Roth contribution for the given year. This number typically increases every year; in 2024, the

contribution is $7,000, and if over the age of 50, the contribution limit is $8,000. So, if the Roth contribution of $7,000 does not change, it will take five years to reach the maximum lifetime benefit of the rollover from a 529 to a Roth IRA.

This is the first significant change that has happened to 529 plans since they came out. Ideally, we would hope to see the lifetime $35,000 increase. But for now, it's a great start to capitalize on letting your money grow tax-free and getting a head start for your child or grandchild.

— Charles Thomas

2024 FINANCIAL CHECKLIST

While you're busy thinking of New Year's resolutions for 2024, it's a good time to look at your finances and consider what you may want to improve or bring up to date in the new year:

Wills, Trusts, and Living Wills
If you've had any life-changing events, such as births, deaths, marriage, or divorce, you will want to review and update your estate documents. While you're at it, check the beneficiaries on your assets that bypass your will and pass directly to the beneficiaries (such as transfer-on-death accounts and IRAs) to make sure they are still accurate.

Credit Reports
You can get free weekly credit reports from each of the major credit agencies (Equifax, Experian, and TransUnion) through annualcreditreport. com. Check them out online and make sure there are no mistakes that could affect your credit rating.

Retirement Savings
Are you taking full advantage of your employer's retirement benefits? Compare your 401(k) or 403(b) contribution rate to your employer's matching rate and make sure you aren't leaving money on the table.

Also, consider your Roth and traditional IRA contributions. Any year you can max out your contribution, you should do so. You must make contributions to an IRA by the tax-filing deadline to qualify for a deduction on your tax return.

Other contributions, such as to a Simple IRA, must be made by payroll deduction by December 31.

Credit Cards
There is no better financial rule of thumb than to ALWAYS pay off your credit cards in full each month. But if you have some debt carrying over each month, try to find a card rate that isn't usurious, or look into an equity loan or line of credit against your home that might significantly reduce your credit card interest expense.

As always, your Northstar advisor can help assist you in completing checklist items. Just give us a call!

—Northstar Financial Planners

WHICH COUNTRY WILL OUTPERFORM? HERE'S WHY IT SHOULDN'T MATTER

Investment opportunities exist all around the globe, but the randomness of global stock returns makes it exceedingly difficult to figure out which markets are likely to be outperformers. How should investors deal with this kind of uncertainty?

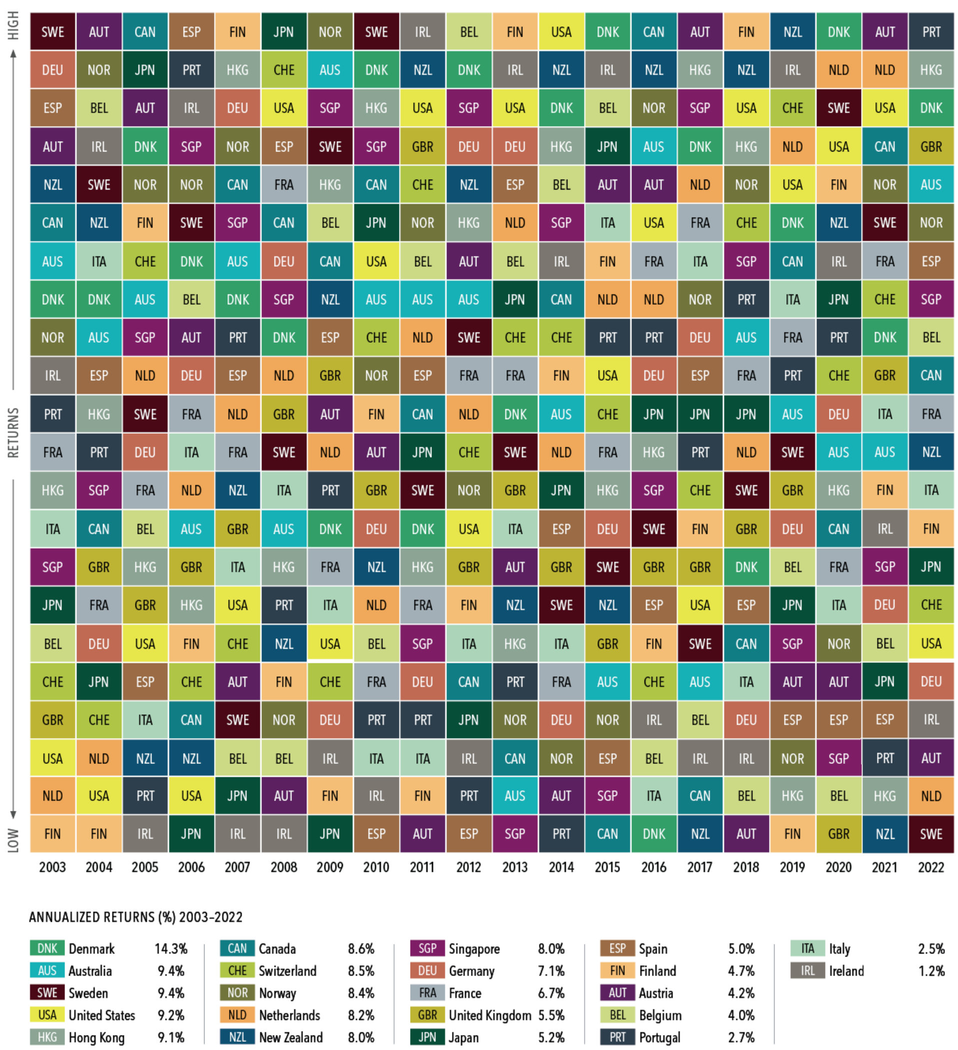
First, they should remember that it's challenging, at best, to predict a country's returns by looking at the past, as shown by the performance of global markets since 2003 (see Exhibit 1).

In the past 20 years, annual returns in 22 developed markets varied widely from year to year. (Each color in the exhibit represents a different country, and each column is sorted top down, from the highest-performing country to the lowest.)

EXHIBIT 1

Most Favored Nations

Annual returns for developed markets, ranked (2003-2022)



Past performance is not a guarantee of future results.

Two examples help make the point well:

- New Zealand posted the highest developed markets return in 2019—but the lowest in 2021.
- The U.S. ranked in the top five for annualized returns over the entire 20 years but finished first in the country rankings just once over that period. In nine calendar years, it was in the lower half of performers.

Investors can benefit from understanding that they don't need to predict which countries will deliver the best returns during the next quarter, next year, or next five years. Why? Holding equities from markets around the world—as opposed to those of a few countries or just one—positions investors to potentially capture higher returns where they appear, and outperformance in one market can help offset lower returns elsewhere.

Put another way, a globally diversified portfolio can help provide more reliable outcomes over time.

— Dimensional Fund Advisors

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