



What To Know About Converting To Roth IRAs

The Federal debt is projected to increase to 110% of the size of the economy in 2032 — higher than it's ever been. In the following two decades through 2052, growing deficits are projected to push the federal debt much higher still, to nearly twice the size of gross domestic product. Based on these projections from the nonpartisan Congressional Budget Office, it's fair to say the interest owed on the federal debt skyrockets and becomes unsustainable by 2052.

No one can predict the future, but it seems likely the federal government will need to hike income tax rates in the U.S. in the years ahead to avert going over a fiscal cliff. As a result, converting assets to Roth IRAs is a compelling retirement tax move to consider in 2023.

Converting assets from traditional IRAs to Roth IRA accounts could allow you to pay income tax at today's

presumably lower rates instead of at higher tax rates likely to apply in the years ahead, and it would also set you up for tax-free withdrawals late in life.

Tax rates in the U.S. are low relative to large, developed economies, like Germany and France, according to the Organization for Economic Cooperation and Development, an alliance of advanced economies. If you believe a tax rate hike is likely, it's wise to consider converting assets now held in traditional IRAs to Roth IRAs.

Conversions from traditional IRAs to Roth IRAs involve selling assets in a traditional IRA and paying income tax on the withdrawn amount and then investing the proceeds in a Roth IRA, which is not subject to income tax annually or upon withdrawal.

Traditional IRAs are not taxed until you withdraw the money in retirement. At age 73, you are required to start taking distributions, with minimum

MFI Markets Outlook 4Q 2023

With the composite US Treasury curve yield rising to over 5% and coupon yields back to their historical norms, we believe that fixed income securities will produce positive normalized total returns for the next 12 months. As such, we will be favoring intermediate-term investment grade bonds.

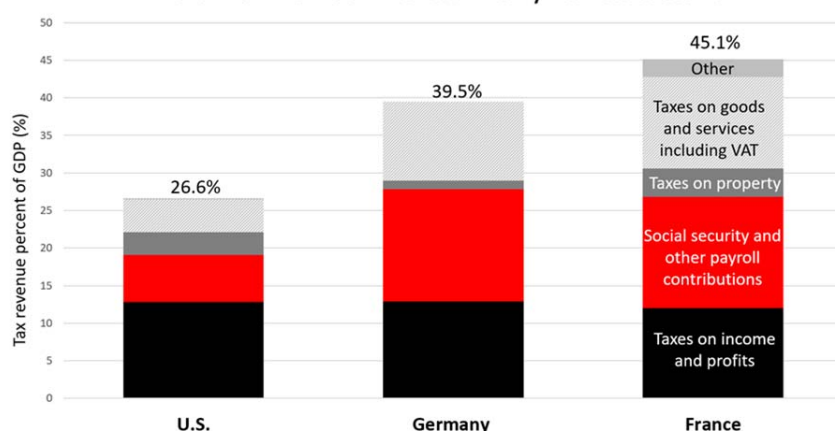
We're projecting that equities will produce normalized total returns. Therefore, we will be prioritizing domestic and developed-market international stocks over fixed income securities.

If you have questions about our outlook and portfolio allocations, please call 800-372-9117 or go to www.menchfin.com for a more detailed presentation of market and economic conditions.

The information shown here was taken from what we believe to be reliable sources. None of this information is or should be construed as a projection of actual returns or an investment recommendation. Mench Financial, Inc. does not assure that this information is accurate.

T.S.M.

U.S. vs. France And Germany Tax Structure



Source: OECD Revenue Statistics 2022, published November 30, 2022. Data for 2021.

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The 2023 Boom That Has Legs To Power A Positive Outlook

The U.S. economy has been much stronger than expected in 2023. As measured by gross domestic product, the U.S. is growing even though residential housing construction, a key driver of previous U.S. expansions, has been in a slump.

The expansion under way is different from previous expansions because of pandemic-related stimulus payments in 2021 and 2022 and the passage of legislation funding improvements to roads and bridges as well as boosting construction of plants for manufacturing computer, electronics, and electrical equipment. The boom in construction of facilities for making computers, electronics and electrical equipment helps explain the surprising strength of U.S. economic growth.

The expansion of 2023 was not expected. The consensus forecast of top Wall Street strategists interviewed in the December 19, 2022 issue of Barron's, was for the Standard & Poor's 500 index to end 2023 at 4000. Except for the last three weeks of March, the stock index has been higher than 4000 all year long.

The unexpected boom in U.S. construction of manufacturing facilities gets little press but makes

sense. The Infrastructure Investment and Jobs Act passed of November 2021, Inflation Reduction Act and CHIPS Act, enacted in August 2022, provided funding and tax incentives for clean energy, lowering prescription drug prices, and construction of factories for making high-tech products.

Since the beginning of 2022, after-inflation spending on construction of facilities for manufacturing computers, electronics, and electrical equipment nearly quadrupled in the U.S., according to a June 2023 Treasury Department report.

Compared with November 2021, real nonresidential construction spending increased by about 15%.

Computer-electronics is the dominant segment of the U.S. manufacturing construction boom. Importantly, the boom has not come at the cost of reduced spending on other segments of manufacturing construction.

In fact, construction spending for chemical, transportation, and food-beverage manufacturing plants is also up from 2022, albeit at much lower level than spending on the construction of new computer-

electronics manufacturing facilities, according to U.S. Treasury data.

The Infrastructure Investment and Jobs Act authorized the federal government to distribute new funds to state and local governments for infrastructure needs tied to roads, bridges, public transit, water, and broadband. That funding has begun to be translated into spending, the Treasury Department says, explaining the surprising growth in nonresidential construction. It is worth noting that other advanced economies have not experienced similar increases in manufacturing construction, according to roughly analogous data sets examined by U.S. Treasury analysts.

The U.S. economy is very different than it was in previous decades. The effects of the pandemic still reverberate, and massive federal spending programs to promote or make direct investments in infrastructure and high-tech manufacturing help explain why the economic boom no one expected in 2023 has legs to power a strong outlook for 2024. ●

The Coming Reversal Of Tax Cuts Deals A Financial Blow to High-

When the Tax Cuts And Jobs Act (TCJA) was signed into law on December 22, 2017, it was the most sweeping rewrite of U.S. tax law since the Tax Reform Act of 1986. Now, it's about to be undone.

On December 31, 2025, tax rules changed by TCJA affecting individuals will expire. Reversal of the seismic shift wrought by TCJA is widely expected because TCJA increased the U.S. Government debt and materially weakened the nation's balance sheet. Now, two years before expiration of TCJA, it is time to begin financial planning moves to minimize the impact of the coming reversion to pre-TCJA tax rules.

In the financial press and among

tax nerds, the expiration at the end of 2025 is often referred to as a "sunset" of TCJA, misleadingly conjuring up a proverbial day at the beach. Far from it, the expiration will be jarring financially for many wealthy individuals.

To appreciate the depth and breadth of the changes just ahead, consider these key reforms ushered in by TCJA:

- Before TCJA, 68.7% of individual filers claimed the standard deduction, and about a third of all individual returns itemized deductions. After TCJA became effective in tax-year 2018, IRS data show nearly 90% of individuals claimed the standard deduction; only 11% of individual

filers itemized deductions — vastly simplifying tax-filing.

- TCJA permanently slashed the maximum corporate income tax rate by 40%, from 35% to 21%, but tax cuts for individuals would be temporary, lasting from 2018 through 2025.

- Most income-tax brackets for individuals were reduced, but only from 2018 through 2025.

- For high-income earners, TCJA reduced the top marginal tax bracket from 39.6% to 37%.

- The amount exempt from estate tax doubled to \$11.2 million, and after annual adjustments for inflation, now is \$12.9 million.

- Owners of sole proprietorships, partnerships, S corporations, and some

Year-End Tips For High-Income Or High Net-Worth

Year-end tax planning in 2023 may make a major financial difference in retirement funding and in how much you leave your heirs. However, identifying the opportunities is not so easy because it always comes down to your personal situation. To make things easy, here are tips about common situations for year-end tax planning maneuvers for high-income earners and elders of affluent families.

Basics. Year-end planning changed drastically since 2018, when The Tax Cuts and Jobs Act ("TCJA") became effective. TCJA changed rules for individuals on itemizing deductions as well as rules affecting business-owner depreciation, expensing, and tax credits. For tax year 2023, the standard deduction increases to \$13,850 for single filers and \$27,700 for married couples filing jointly. The old rubric of year-end tax planning was to accelerate deductions. However, since TCJA became effective, the new guideline is to time deductions. It's the same with recognizing income. With itemizing deductions no longer possible for almost all taxpayers, timing deductions is now the central goal. This may allow itemizing once every few years to maximize tax savings. Point is, year end tax planning now requires a more strategic, long-term approach

tailored around events in your financial life.

Back-Door Roth IRAs. Whether you can generate tax-free income in retirement by contributing to a Roth IRA in 2023 hinges on your modified adjusted gross income. High-income earners cannot contribute to a Roth IRA account if they earn more than \$228,000 in 2023 and file jointly

under IRS rules.

Instead of contributing directly to a Roth IRA account, a three-step process is involved: (1) contribute to a traditional IRA account, (2) withdraw all or part of the traditional IRA account and pay income tax on the withdrawal, and (3) place the withdrawn funds in a Roth IRA account.

Paying income tax on the amount withdrawn from the traditional IRA may be a bitter pill to swallow right now, but it converts funds in IRAs to a tax-free account. Tax-free income will become more valuable in the next decade if tax rates rise, which is widely expected because of the long-term debt of the U.S. is projected to soar around 2030. As a result, the three-step process of a back-door conversion is a sensible financial strategy for locking in tax-free income at today's tax rates.

College-Funding Overflow.

Parents and grandparents who overfunded a 529 College Savings Plan account are permitted to convert the leftover amount to a Roth IRA. Perhaps your child or grandchild received a scholarship or elected to attend a state school with lower tuition than expected, the assets left in the account are eligible to be transferred to a tax-free Roth IRA. To be precise, up to \$35,000 of 529 assets left over after a child attends undergraduate and graduate studies can be placed in a Roth IRA account, where it will never again be taxed, according to current federal tax law.

Think Ahead. Reducing federal taxes in 2023 and 2024 is going to depend on what's going on in your life. Do you have a wedding to pay for coming up in 2024? Are you expecting a grandchild? Are you changing jobs? Will your income rise sharply? While these questions may sound random, these are typical situations that open tax-saving opportunities. The idiosyncratic and personal nature of year-end tax planning is a good reason to seek tax advice from a qualified financial professional advisor familiar with your personal situation. ●

Act Before Tax Opportunities Disappear



(\$153,000 for single filers). Roth eligibility rules are complicated but followed properly reward you with tax-free income in retirement. A Roth IRA also may provide heirs favorable tax treatment if you name them as beneficiaries.

The back-door route is a strategy designed to sidestep the income limitation on contributing directly to a Roth IRA. Despite its somewhat sinister sounding name, the back-door Roth IRA route is a completely legal method

Income And High-Net-Worth Individuals

trusts and estates, have been eligible to deduct up to 20% of income from a qualified trade or business, but reversion to pre-TCJA rules ends that tax break after 2025.

The nonpartisan Congressional Budget Office (CBO), the research arm of Congress, has projected TCJA will increase U.S. budget deficits by about \$1.5 trillion between 2018 and 2027, raising the federal debt from 91.2% of annual gross domestic product (GDP) in June 2017 to 97.5% of annual GDP in 2027.

CBO estimates TCJA reduced federal revenue by \$0.47 trillion over 10 years, before accounting for the modest GDP growth it spawned.

TCJA's negative impact on the

long-term federal debt makes it more likely reversion to pre-TCJA laws will spur Congress to enact new legislation to reduce the impact on some taxpayers while hiking taxes for others. Examining the impact on your personal situation of the expiration of TCJA will better prepare high-income-earning and high-net-worth individuals for any new tax rules.

The rewards of planning for expiration of TCJA's sweeping changes are significant for many clients and prospects, as are the consequences of failing to plan. ●

Market Data Bank: 2nd Quarter 2023



A NEW BULL MARKET JUST BEGAN

From its 1/3/22 record high, the S&P 500 plunged 10½-months, dipping into a bear market in June 2022. On 6/10/2023, stocks closed more than 20% higher than the bear market low of October 2022, beginning a new bull market cycle. At the end of 2Q 2023, stocks were only about 7% lower than its all-



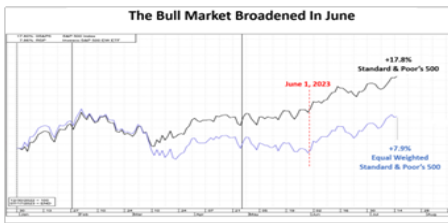
THE BEAR MARKET OF 2022

The economy and stock market were stronger than expected in the 12 months ended June 2023. In March 2022, the Federal Reserve began its most aggressive tightening campaign in modern history, raising rates 10 times 15 months. Stocks boomed anyway! The S&P 500 returned 19.6% in the 12 months ended June 30, 2023.



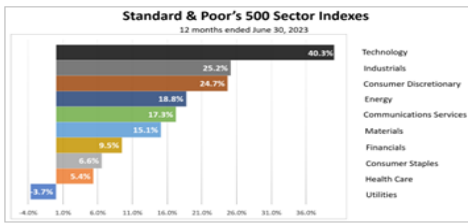
FOUR BEAR MARKETS IN FIVE YEARS

In the five years ended June 30, 2023, the S&P 500 stock index total return, including dividends, was +79%. A \$1 investment grew to \$1.79. However, it required staying invested in stocks through four bear markets. It's easy to see why sticking to a strategic plan was the best way to manage portfolio risk.



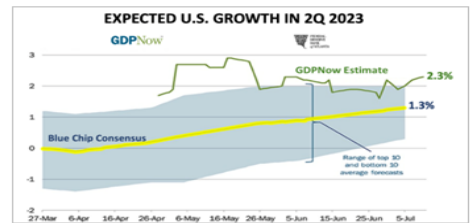
THE NEW BULL MARKET BROADENED

Tech giants Apple, Microsoft, Amazon, NVIDIA, Tesla, Alphabet (Google), and Meta (Facebook) outperformed the other 492 companies in the S&P 500 index from mid-March through the end of May. However, since June 1, the other companies in the S&P 500 index have begun to close the performance gap, as shown in the chart.



ARTIFICIAL INTELLIGENCE ADVANCES

On 3/26/2023, an advancement in artificial intelligence was released that promised increased U.S. productivity and benefit American tech giants. The 19.6% surge in stock prices in the 12 months ended June 30, 2023, was propelled largely on the 40.3% gain on technology stocks.



THE BIG FAKE OUT OF 2023

Throughout 2Q 2023 economists surveyed by Blue Chip Economics hiked their forecasts. On April 6, the consensus forecast was for the economy to shrink slightly. By July 5, the consensus forecast was for gross domestic product to grow by 1.3%. The preliminary estimate: GDP grew by 2.4%, in a big surprise.

Past performance is not a guarantee of future results. Indices and ETFs representing asset classes are unmanaged and not recommendations. Foreign investing involves currency and political risk. Bonds offer a fixed rate of return while stocks fluctuate. Investing

in emerging markets involves greater risk than investing in more liquid markets with a longer history. Indices are unmanaged and not available for direct investment. Investments with higher return potential carry greater risk of loss. Sources: Sector performance data from

Standard and Poor's. S&P 500 versus equal weighted S&P from Fritz Meyer Economics. 500 from, GDPNow and Blue Chip Consensus from Federal Reserve Bank of Atlanta.

ConvertingTo Roth IRAs

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required distributions set by actuarial estimates of how many years you are expected to live.

In contrast, Roth IRAs have no required minimum distributions. Thus, they can continue to benefit from tax-free compounded growth after you're 73. In addition, unlike traditional IRAs, withdrawals from Roth IRAs are tax-free. Plus, your children and other beneficiaries of Roth IRAs have the option to spread their inheritance in equal installments over as long as 10 years, giving the inherited Roth IRA additional time to compound tax-free.

With stock prices and the economy much stronger than expected for many

months, this is a good time to consider converting assets to Roth IRAs

accounts. But don't wait too long.

Planning to take a distribution from a traditional IRA, pay tax on the income withdrawn, and use the amount withdrawn to fund a Roth IRA is a fairly straightforward process, but it can easily take two or three weeks. So doing before the 2023 tax year ends — the busiest time of the year for tax and financial advisors — is prudent.

The process involves calculating the right amount to convert without pushing you into a higher tax bracket and paperwork must be completed and submitted to your IRA custodian. Plus, the new Roth IRA account will need to specify your beneficiaries.

Keep in mind, to qualify for a tax-

free withdrawal, you must own a Roth IRA five years and it must be made on or after you turn age 59½, or in the event of a qualifying disability, your death, or if you are using the proceeds to buy a home for the first time. State income tax treatment of Roth IRAs also must be planned.

A number of factors should be considered before converting, including whether paying taxes on the withdrawal today outweighs the benefit of income tax-free distributions in the future. This is an area of financial planning where consulting with tax and legal advisor about your personal situation can pay off and you may decide to begin a multi-year strategic plan to lock in tax-free income for retirement. ●