Morgan Stanley

THE VOLRATH CASTLE *View*

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THE VOLRATH CASTLE GROUP AT MORGAN STANLEY NEWSLETTER

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AS INTEREST-RATE HIKES END, HIGH QUALITY FIXED INCOME COULD CLIMB IN 2024

BY SHEILA VOLRATH

For bond investors, 2023 was one long Groundhog Day. As the year began, the investment-grade bond market poked its head out of the burrow where it had hibernated since interest rates fell to near zero in 2020. What it saw looked like the end of the Federal Reserve's interest-rate increases and the deep freeze during which investment-grade bonds lost value for an unprecedented 2 years in a row. Instead, the Fed spent the year raising rates, pausing, then raising again and the market resumed its nap. Those higher rates lifted the coupon yields that bonds pay to investors, but they hurt prices, which are also part of a bond's total return. Now 2024 could be the start of a new era of opportunity for investors inside their fixed income allocation. The Fed's campaign of raising rates to battle inflation is mostly over and the central bank has achieved what it set out to do. Bonds can hopefully once again do what they have historically done: deliver income while helping protect the value of investors' portfolios from the ups and downs of the stock market.

Bond mutual funds and Exchange Traded Funds offer a convenient way to own a basket of bonds. The outlook is bright for investors in mutual funds that manage bonds with an eye to making money as prices rise. Funds offer a way for investors to get exposure to bonds with professional management. If you are looking for reliable income, now can be a good time to consider investment-grade bonds. If you prefer to own individual bonds, the Volrath Castle Group has professionally managed taxable and tax-free portfolios available to you. We expect in 2024 that prices of high-quality bonds will recover once the economy and inflation slow, and the Fed begins cutting rates to stimulate growth. Let us help you incorporate bonds into your portfolio to utilize this opportunity today!

A GUIDE FOR 529 TO ROTH ROLLOVERS

BY DREW VOLRATH

529 (college) Plans have provided tax benefits for investors for quite some time. Their structure to help support the cost of secondary education, through tax-free distributions, is something that many investors take advantage of for themselves, their kids, or even grandchildren. Now that the year of 2024 has rolled around, the benefits of these plans just got even sweeter.

The Secure Act 2.0 outlined this provision in 2023, and is now something that you can utilize in your own investment planning. By doing a 529 to Roth Rollover, you can move certain assets held in a 529 account to a Roth IRA that is maintained for the benefit of the same beneficiary.

For example, if Samantha is the beneficiary of a 529 that her mother setup for her, Samantha can now setup a Roth IRA in her name and have funds "rolled over" (ie moved) from her 529 to the newly established Roth IRA.

This Provision is a great way to begin saving for retirement, even after some previous education expenses have already been met. However, keep in mind that there are some key provisions that need to be made note of, to qualify for this 529 to Roth Rollover.

- The 529 account must have been open for more than 15 years.
- The eligible rollover amount must have been in the 529 account for at least 5 years.
- The annual rollover limit is subject to Roth IRA annual contribution limits ($7,000 for 2024; $8,000 for individuals age 50 and older)
- There is a lifetime rollover limit of $35,000 for each 529 account beneficiary.
- Rollovers can only be made to the Roth IRA account owned by the named 529 account beneficiary.

As time moves along and goals reach achievement or even change, keep in mind that there are ways to begin saving for retirement in a tax-free manner with leftover 529 assets. This is just one new feature of the many great features this investment vehicle has to offer. Feel free to reach out to myself or another advisor on the team to discuss this strategy further.

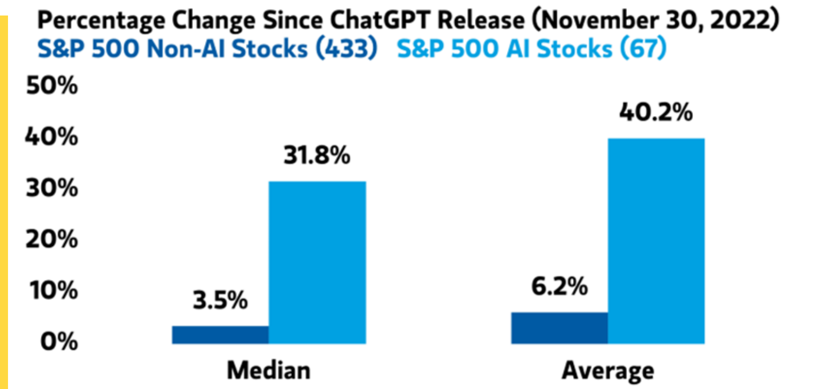
https://www.cnbc.com/2022/12/23/tax-free-rollovers-from-529-plans-to-roth-iras-may-be-allowed-in-2024.html

CASTLE'S CORNER

BY AARON CASTLE

Over the past 6-12 months we have started to get more frequent questions surrounding investments in Artificial Intelligence (AI) as AI has started to garner attention in the media. It's no surprise that interest has picked up on this topic as companies included in the S&P 500 that have an AI component to them have experienced significant outperformance compared to companies in the S&P 500 that don't have an AI component during time frame of 11/30/22 thru 1/19/24 as seen below.

One of the primary questions we have received from clients is if we believe we are in a bubble like what was experienced in the late 1990's and early 2000's. In our view, there are many differences between that period and today's market including the valuation of the Nasdaq-100 Index. According to FactSet, the Forward 12-month P/E on the Nasdaq-100 Index peaked at over 70x the expected earnings of the index during the late 1990's and early 2000's. To put that in perspective, the Forward 12-month P/E of the Nasdaq-100 registers a much lower level of 26.17x of the expected earnings as of 2/23/24. (Source: FactSet)



Source: Bespoke Investment Group, Morgan Stanley Wealth Management GIO. Data as of January 19, 2024.

With AI companies experiencing large gains over the past 12-15 months, we don't know if the valuations of those companies will prove to be overvalued or undervalued in the future. However, we believe that AI has the potential to impact nearly every company in the S&P 500 and is going to be an important investment theme for us to monitor in the years to come.

For more information or any further questions, please reach out to your primary Volrath Castle Group advisor.

2024 RETIREMENT CONTRIBUTION LIMITS

	'23 LIMITS	'24 LIMITS
SIMPLE Contribution Limit	$15,500	$16,000
SIMPLE Contribution Limit (50+)	$19,000	$19,500
401k, 403b, most 457 Contribution Limit	$22,500	$23,000
Catch up (age 50+) contributions	$30,000	$30,500

	'23 LIMITS	'24 LIMITS
IRA/Roth Contribution Limit	$6,500	$7,000
IRA/Roth Contribution Limit (50+)	$7,500	$8,000

	SINGLE FILER	JOINT FILER
IRA Income Ceiling	$77-87k	$$123-$143k
Roth Income Ceiling	$146-$161k	$230-$240k

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MAKIN' THE MOST OF YOUR MEDICAL MONEY

BY KELLEY GIRARDIN, RICP

We're constantly talking about various ways to save for retirement, to fund education, or prepare for estate planning, but what about medical expenses? Where does that fall in the list of financial priorities and what strategies can we arm you with to save for those expenses in the most tax-efficient way possible?

There's two major types of accounts that fit in this space: Health Savings Accounts (HSAs) and Flexible Spending Accounts (FSAs). These accounts can usually be signed up for via your employer sponsored health care plan as part of your benefits package and in certain circumstances through the insurance marketplace. The premise of these plans is that they are funded with pre-taxed money, and when used for a qualified medical expense, will pay out tax free.

Example: You're in the 22% federal tax bracket/5.7% state tax/7.65% FICA tax. This means you would save over 35% on every dollar contributed to an HSA or FSA. With this type of tax savings, why wouldn't you?

Let's dive into the key differences between the two plans.

	Flexible Spending Account (FSA)	**Health Savings Account (HSA)**
Eligibility	This is likely going to depend on your employer and whether they offer this as a benefit or not.	You must be enrolled in a high deductible health insurance plan
2024 Individual Contribution Limit	$3,200	$4,150
When do I have to spend the money?	"Use it or lose it"-Contributions must be spent in the year contributed (though some plans will allow for a small carryover)	HSAs allow you to carry money forward indefinitely, making it an excellent long term planning strategy
Is my money invested?	No	Yes

Major Planning Points

·In most situations, FSAs will not allow for a carryover. If you decide to go with an FSA, try your best to calculate your anticipated medical expenses and allocate appropriately.

·Funding an HSA is a terrific solution for longer term planning. Being able to set aside pretax money, have it invested and grow tax free, and then use it, tax free, to cover medical expenses later in life is an incredible trifecta; however, please educate yourself on whether a high deductible plan is suitable for your situation. If you take expensive medications, see specialists regularly, or are accident-prone, the (potential) long term savings could be overshadowed by present out of pocket costs a high deductible plan could entail.

DON'T FORGET TO FOLLOW US ON FACEBOOK

Or if Linkedin is more your thing, connect with Sheila, Aaron, Drew and Kelley individually.

Reminder

April 15th is the last day to make a 2023 contribution to your traditional or roth IRA

KEY TAX CHANGES FOR 2024

BY GREG POTERACK

Reading through new Tax laws is about as much fun as watching paint dry but there are lots of tax law changes and updates for 2024 that you need to know. To help, I put together a list of some of the more important tax law changes and adjustments for 2024. Pay attention to these changes because they can hurt or help your bottom line. Use this information now so you can hold on to more of your hard-earned cash when it's time to file your 2024 federal income tax return (in early 2025).

Retirement plan changes

The SECURE 2.0 Act of 2022 bolsters retirement savings, with over 90 provisions with different effective dates. Among the changes that take effect this year are the following:

- Leftover funds in 529 education accounts can be rolled over tax-free to a Roth IRA. Read Drew's article on page 2 for more information.
- People under age 59½ can take more penalty-free early withdrawals from IRAs and 401(k)s. Up to $10,000 for domestic abuse victims and $1,000 for emergencies can be taken without paying the 10% additional tax. Income tax still applies.
- Roth 401(k) owners no longer need to take required minimum distributions. This conforms to the rule that applies to owners of Roth IRAs.
- Plan sponsors can create emergency savings accounts for participants, who could then make Roth pay-ins (on an after-tax basis) to that savings account within the plan. A participant's account balance can't exceed $2,500.
- Student loan relief can be offered through workplace retirement plans. SECURE 2.0 allows employer 401(k) matches conditioned on student loan repayments made by employees.
- IRA owners 70½ and older can transfer up to $105,000 in 2024 from their IRAs directly to charity without having to pay tax on the withdrawal.

Gift and estate tax exclusion

The federal gift and estate tax exemption amounts for 2024 have been announced and the annual rise in these figures continues.

- For 2024, the federal estate and gift tax exemption will jump to $13,610,000, an increase of $690,0000 from 2023. This means an individual can leave or gift to non-spouse beneficiaries $13,610,000 without having to pay federal transfer taxes. A married couple will be able to shield $27,220,000. The maximum federal estate and gift tax rate remains at 40% for 2024
- Totally separate from the federal lifetime gift exemption is the annual federal gift tax exclusion, which will be $18,000 in 2024, an increase of $1,000 from 2023. That means in 2024, you can gift up to $18,000 ($36,000 if your spouse agrees) to each child, grandchild or any other person without having to file a gift tax return or tap your lifetime estate and gift tax exemption. Annual gifts over the exclusion amount will trigger filing of a gift tax return for 2024, but no gift tax will be due unless your total lifetime gifts exceed $13,610,000 (Mine will not 😊).

OK I think the paints all dry so I hope you learned something useful that will help you increase your investments or keep that cash in your pocket.

TEAMWORK MAKES THE DREAM WORK

BY ALLIE GIRARDIN

What makes the Volrath Castle Group a team? What sets us apart from other groups? A team is defined as a group of people who perform interdependent tasks to work towards accomplishing a specific objective. Sheila took that definition and cultivated a team that highlights its members' strengths. She knew if one would shine, then we would all shine.

We are composed of four Advisors and two registered Client Service Associate (or CSA for short). Yes, the advisors all give advice, but they also have specific niches that they thrive in. Sheila has an extensive knowledge of insurance and annuity products. Aaron structures and maintains our managed portfolios. Drew is a planning specialist, with a lot of exposure to governmental retirement plans. Kelley is a planning specialist with a focus on retirement income planning (She's also the creative one that edits and puts together our marketing materials like this newsletter).

Then there is Greg and me. We handle the administrative side so the advisors can flourish in their roles. That means between us, we answer all phone lines, prep and process paperwork, and navigate internal procedures and how to accomplish what the advisors and clients decide to execute. We are not advisors, and we will be the first ones to tell you when a question is out of our depth, but we are able to assist with most situations. (Or at least point you in the right direction of who to speak with further) So keep in mind, if you need money sent to your outside bank, want to take a charitable distribution, set up reoccurring contributions, need to update beneficiary information, want to put a Power of Attorney on file, need help logging onto your MSO, want to know account balances and SO MUCH more, we are here to assist not just the advisors, but you too.

Now that our roles are defined, you may wonder how all this comes together? Communication. It doesn't hurt that we genuinely all get along and like each other (or in some cases are related). We all work from our office most days, and sit next to one another. So even when you speak with Greg or myself, and we handle whatever the task you request, the advisors know. We are constantly collaborating. We have daily morning calls to go over each other's schedules and any outstanding questions. We have monthly offsite meetings to focus on larger topics, policy updates, and planning for the next month. We lean on each other when there are questions or scenarios that are out of one's comfort zone. We take our commitment to you, the client, and to each other very seriously, and we know for the best experience then you need a team that functions as just that.

Let our whole team service you. That's what sets us apart from most.

TEAM NAMED ON FORBES BEST-IN-STATE WEALTH MANAGEMENT TEAMS LIST

We're ecstatic to announce that we've once again been recognized by Forbes as one of the Best-In-State Wealth Management Teams.

It's an honor to make the list, a privilege to serve our clients, and a whole lot of fun experiencing it all together!

Cheers to another incredible year! #GladToBeHere

IN OTHER (NON-HEADLINE) NEWS...

Sheila:: Lots of excitement for the Volrath's the past 6 months! Our daughter, Karlee, became engaged to her best friend, Keenan Riesdesel. They will be getting married in November. We are thrilled to have Keenan become part of our crazy family. My husband, Jay, has officially retired and ended his dirt-moving career. He is so happy that he is able to spend more time working on our other businesses. There's one other big surprise that I will let Drew share!

Aaron:: Thank goodness for phones and digital pictures to look back at as the last 6 months seem like a blur! We moved to a new home last October and that process has consumed much of our time and energy as of late. We did, however, find time outside of moving activities for a Polar Express trip to Chicago with the kids, multiple trips to Iowa City to watch Caitlin Clark break record after record, and enjoyed celebrating my 40th birthday. I'm looking forward to all the activities this summer has to offer and just hope I can keep up with my kids now that I'm over the hill!

Drew:: It's hard to believe that Spring is finally here and with it comes a new member of the Volrath family! Jordan and I are so excited to welcome our baby boy to the world in May, Ava might be little shocked when May rolls around, but we think she will be the best big sister! Since our last update, Ava is now walking and she really keeps us on our toes. Traveling hasn't been as frequent for us lately, but we did make our way to Michigan in November for a wedding and very soon we will be headed to Wyoming for a little family vacation. We are looking forward to a busy and eventful 2024!

Kelley:: Hands down, the highlight of the past 6 months, was traveling to South Africa over Thanksgiving. If this country isn't on your bucket list, I urge you to add it right away! We explored Cape Town, drove down Chapmans Peak in an Audi R8, hung out with the penguins on Boulder Beach, drank wine in Stellenbosch, and saw the Big 5 while on safari. We've got some fun travel plans for 2024, but South Africa will be hard to beat!

Greg:: Has it been 6 months already? Well, the Poterack family is still happy and healthy. My son Mitchell is trying to navigate his first year of College and luckily I get to see him most weekends, right before one of his friends call. Thanksgiving and Christmas were spent at my parent's house with other family so those were both very enjoyable this year. Coming up my wife Tonia and I have a couple concerts planned in Chicago this year along with another family trip to Cocoa Beach Florida during Mitchells summer break. Also, I'm looking forward to seeing my high school buddies on our annual Boundary Waters fishing trip in August. Wrapping up my 6-month summary I can't leave out the perfect timing (my wife would adamantly disagree) I had going to Belize in January the week of the big snow falls. Yep, my son and her were shoveling a lot of snow as I was sitting on my Belize Cabana Porch with my father. Hope all is well!

Allie:: The last six months were filled creating wonderful family memories. I went to South Carolina in November to see my mom. We were able to spend quality time together before heading to Alabama to celebrate Thanksgiving with my aunt and cousins. Just a few shorts weeks later and mom was here to celebrate Kelley's birthday and Christmas! We have started new family traditions (like Bingo with festive hats and the silliest of Christmas gifts-Fish Flops, anyone!?) that we are very excited to continue for many years to come. I was also able to go back to South Carolina in February to visit my best friend and meet her newborn baby. It was a much needed girls weekend!

THE VOLRATH CASTLE GROUP AT MORGAN STANLEY
4300 E. 53RD STREET, STE 300
DAVENPORT, IA 52807
563-344-4327
HTTPS://ADVISOR.MORGANSTANLEY.COM/THE-VOLRATH-CASTLE-GROUP
HTTPS://WWW.FACEBOOK.COM/THEVOLRATHCASTLEGROUPMS/

SHEILA VOLRATH
Financial Advisor
Executive Director
Senior Portfolio Management Director

AARON CASTLE
Financial Advisor
Senior Vice President
Senior Portfolio Management Director

DREW VOLRATH
Financial Advisor
Financial Planning Specialist

KELLEY GIRARDIN
Financial Advisor
Financial Planning Specialist

GREG POTERACK
Portfolio Associate

ALLIE GIRARDIN
Registered Client Service Associate

TEAM BONDING IN GALENA

Earlier this year, our team (+significant others) headed to Galena for a weekend retreat. We ate delicious food, attended a magic show, participated in a very impressive scavenger hunt, and spent quality time together outside of our usual hustle and bustle. We were so in the moment having so much fun that we hardly took any photos, but here's a glimpse of the few that we took.