



Q4 NEWSLETTER

Dear Clients and Colleagues:

In this Newsletter we review Third Quarter investment returns and discuss Backdoor Roth IRA's and proposed changes to end them.

3Q 2021 Market Performance¹

US stocks were the only gainers in the Third Quarter with a poor September wiping out gains in July and August.

	<u>3Q2021</u>	<u>2021YTD</u>
S&P 500	.58%	15.92%
MSCI EAFE (Dev.Int'l)	-.45%	8.35%
MSCI EM (EmergingMrkt)	-8.09%	-1.25%
BBgBarc US Agg Bnd	.05%	-1.55%

Trivia

Carl Lewis is the only athlete to win the same event in four consecutive Olympics, winning the Gold Medal in the Long Jump in the 1984, 1988, 1992 and 1996 (at age 35) Olympics.

WHAT IS A BACK DOOR ROTH AND PROPOSED CHANGES TO END THEM

Back Door Roth

A Roth IRA allows for non-deductible contributions that may be distributed tax free (both contributions and any growth) after 5 years have passed and the account holder is age 59.5 or older. However, Roth contributions are not permitted if your adjusted gross income exceeds \$208,000 (couples filing jointly) or \$140,000 (single). In order to avoid the income limits, it is currently permitted to make non-deductible contributions to a traditional IRA (maximum \$6,000 or \$7,000 if 50 or older) and then convert the IRA to a Roth IRA. If there has been no growth in the non-deductible contribution prior to conversion, there is no additional tax.

¹Indices are unmanaged, and one cannot invest directly in an index. Past performance is not a guarantee of future results. MSCI EAFE Index serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia and Southeast Asia. MSCI EAFE Emerging Markets Index is a free float-adjusted market capitalization index designed to measure equity market performance in the global emerging markets. Bloomberg Barclays U.S. Aggregate Bond Index represents the US investment-grade fixed-rate bond market. S&P 500 Index is a market index generally considered representative of the stock market as a whole. The index focuses on the large-cap segment of the U.S. equities market. References to specific securities, asset classes and financial markets are for illustrative purposes only and do not constitute a solicitation, offer, or recommendation to purchase or sell a security.

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Pro-Rata Rule

One potential pitfall to keep in mind is the “Pro-Rata rule.” If you have pre-tax money in a different traditional IRA, only a percentage of the non-deductible IRA contribution may be converted tax free. For example, if you have \$94,000 in a traditional pre-tax IRA and contribute \$6,000 to a non-deductible IRA, the accounts are combined for tax purposes and only 6% of the \$6,000 may be converted tax free.

Proposed Law Change

The latest tax proposal from Congress in the second infrastructure bill would end Back-Door Roths by disallowing the conversion of after-tax dollars in IRA’s starting in 2022. This change may or may not be enacted. Keep in mind that the proposal would not change the current rule allowing conversion of traditional IRA’s to Roth IRA’s, although the bill would disallow Roth conversions beginning in 2032 for those with income over \$400,000 (single) or \$450,000 (married filing jointly).