

LIFE & MONEY

THE BODNAR FINANCIAL QUARTERLY NEWSLETTER



Finding better benchmarks

By John Bodnar, CFP®

Nobody likes seeing an investment account balance lower than it was the month before. There's something unpleasant about watching it miss the mark, even when we know it is temporary and won't really change the way we live our lives that month.

We pay attention to our monthly statements because they are easy to measure and compare. But what is your benchmark? Is your only point of reference the prior month?

Comparing "this month with last month" is an easy thing to do, but it is not a valuable metric to measure the overall success of investors acting on a long-term financial plan.

Monthly balances are like an EKG. They give a snapshot of the rhythm of a portfolio in real time, but not a full picture of our financial health. True financial success is harder to fit into a formula, but far more significant.

Are you achieving goals with financial peace of mind? Can you afford to spend time and money on the people and things that are important to you? Or are you waking up every morning and worrying about money?

A monthly account balance, relative to an arbitrary benchmark, is largely irrelevant to our quality of life. We take our incomes to the grocery store each week, not our account values.

So what are you investing for? What are the metrics and goals that matter to you? Finding the right benchmarks for financial success is not about your month, it's about your life.

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The markets are down. That's not a bad thing.

“Every decade or so, dark clouds will fill the economic skies, and they will briefly rain gold.” – Warren Buffett

Over 35+ years in the financial planning industry, I have advised clients through the 1987 crash, the end of the Dot-Com era, the Sept. 11 terror attacks, and the Financial Crisis. We navigated a quarantine, which was on nobody's Bingo card. The details are different each time, but the story is always the same. Like Buffett said, the sky darkens but it never falls. Here are two things you can do to resist the herd and take advantage of a temporarily down market:

1) Tax Loss Selling: We can help you look for opportunities to sell stocks, bonds, mutual funds, and other investments at a loss to reduce your capital gains tax burden. Investors can deduct up to \$3,000 of losses per year and carry any remaining losses over to future years. Gains are taxed differently depending on your tax bracket and how long you held the investment. Dec. 31 is the deadline for tax loss selling, but there is no reason why you have to wait. Let's do it now while the market is down.

2) Keep Investing: The great companies of the U.S. and the world are on sale. Buy the bargains. If possible, increase 401(k) and 403(b) contributions by 1-2% for the next few months. Up your 529 plan contributions for the kids and grandkids. Fund any IRAs and self-employed retirement plans. Investing takes many forms. Let's look at your balance sheet for opportunities.

WE ARE BACK! JOIN US AT THE MORRISTOWN FESTIVAL OF BOOKS

My fellow book enthusiasts, it brings me great joy to write that we will sponsor an author at the Morristown Festival of Books this year! **Save the dates: October 7 and 8, 2022.**

We have not selected an author yet. But! In keeping with tradition, we plan to invite the author to join us all for a breakfast to kick off the day at the Dublin Pub in the heart of Morristown.

Aside from a hiatus in 2020 and 2021, we have sponsored the festival since 2014 to welcome new and seasoned authors to NJ, including Pulitzer Prize winners, National Book Award winners, New York Times bestsellers, and more.

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5 quick facts about 529 plans

A 529 plan allows people to save money for education with tax-deferred growth and tax-free withdrawals. They are one of the most powerful tools out there for college savers. But did you know:



- 1) They aren't just for college.** 529s can be used on qualifying educational expenses at eligible vocational and trade schools. Families can also use them to pay for up to \$10,000 in tuition expenses at elementary and secondary public, private, or parochial schools. The SECURE Act further expanded the scope of 529 plans to be used for apprenticeship programs and the repayment of student loan debt.
 - 2) Anyone can open a plan and contribute.** If you have a Social Security number and a permanent address, you can open a 529 and name a beneficiary. There are no contribution minimums or income requirements. Once the plan is open, anybody can contribute.
 - 3) There are contribution maximum limits.** A common misconception of 529s is that a plan has no contribution limits. However, states impose limits that vary each year. We can help you figure out what your 2022 limits are. Parents have started "crowd-sourcing" their children's education savings by encouraging family to contribute as a birthday or holiday gift. This is great, just make sure family members don't accidentally overfund the account.
 - 4) The beneficiary does not control the money.** The account owner (aka. the person who opened the account) has complete legal ownership of the money in the plan, even after the beneficiary turns 18 years of age. Beneficiaries can switch, but account owners cannot. There are upsides and downsides to who owns the account--read more about this on the back page of the newsletter!
 - 5) You can open a plan in another state.** You can use a 529 plan from any state to pay for eligible schools in any state. However, some states offer special financial aid benefits for students who have a 529 plan in the state, such as not counting the plan as an asset when determining eligibility for state grants and other state aid.
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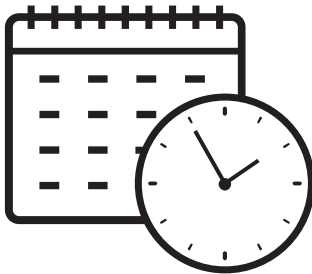
Key financial dates

May 29: National 529 College Savings Plan Day! (5/29.... get it?)

June 15: Deadline for 2022 federal and NJ second quarter estimated tax payments.

June 19: Father's Day (ahem.)

June 30: Last day to submit a FAFSA (federal student aid) form for the 2021–22 academic year.



Grandparent-owned 529 plans will no longer hurt financial aid eligibility

Big changes are coming to the Free Application for Federal Student Aid (FAFSA).

Starting with the 2024–2025 school year, students will no longer have to disclose “cash support” used for education expenses. Instead, all data on student income will be taken from the student’s tax return. This is a game-changer.

Grandparent-owned plans have been considered cash support that counts toward student income. Since half of student income (over \$6,840) is considered fair game for college use according to the FAFSA eligibility formula, these plans could create big problems for students.

Not anymore. Grandparent-owned plans are officially off the FAFSA grid.

Now grandparents can take advantage of the gifting and estate planning benefits of a 529 account while also having peace of mind they aren’t accidentally sabotaging their grandchild’s financial aid eligibility.

Meanwhile, only up to 5.64% of parent-owned 529 plans are considered fair game for college use when determining eligibility for financial aid. That is a pretty good deal, but it nothing beats ZERO.

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