

TILIA



NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

### Tilia Team Updates



We are pleased to announce that Taylor Wedmore has successfully passed her Series 65 exam and is now officially registered as an Investment Advisor Representative (IAR). This is a significant milestone, reflecting Taylor's dedication to her professional growth and her commitment to providing top-notch service and advice to our clients.

In addition to this accomplishment, Taylor will be stepping into a new role as Operations Manager at the end of the year as Alexis Eubanks, current Operations Manager, will be moving into a new role within the firm.

Taylor's hard work and dedication have consistently been an asset to our team.

## The Window for Long-Term Bonds is Closing

One year ago, in the 37th edition of this newsletter, we made the case for buying long-term bonds. Specifically, we discussed bonds that paid low rates of interest, but were selling for substantial discounts to their "face value". In our view, these bonds provided an opportunity to earn a nice low-risk return in a tax-efficient manner.

The market winds have started to shift recently, with the Federal Reserve beginning to lower the Federal Funds Rate. As it typically does, the bond market has started to price-in expectations for additional rate decreases. At the time of last year's write-up, the referenced Goldman Sachs (2% rate, maturing in 2032) bond carried a yield-to-maturity north of 6.00%. Today, the yield-to-maturity for that same bond has fallen to 4.35%.

While this is great for anyone that bought long-term bonds over the last year, it means that the opportunities for new long-term bond investors aren't nearly attractive as they were just a few months ago. That window may be closing, but we still believe there are some compelling values out there for investors seeking to lock-in rates before they likely drop further. Sixteen to twenty year bonds from stable, long-standing businesses like Kroger, Xcel Energy, Johnson Controls, FedEx & Southern Company still offer yield-to-maturities of 5.0 - 5.25%.

Buying a bond that matures more than sixteen years from now often seems crazy to the average investor. It is important to remember that the investment-grade corporate bond market is highly liquid, and even long-term bonds can be sold in a matter of minutes or even seconds. Long-term bonds are subject to the larger swings in value based on interest rate changes. In an

## 529 to Roth IRA Rollovers

One topic we get a lot of questions about is the pros & cons of contributing to a 529 education savings account for a minor. Thanks to a new law that went into effect in 2024, the “pros” list is now a little bit longer.

One fear that some clients have is over-contributing to the account, and having funds trapped in the 529 when their child or children are done with their education!

In addition to being able to move funds between family beneficiaries, or even pass them down to grandchildren, 529s now allow for funds to be rolled over into a Roth IRA for either the owner of the account or the beneficiary. This allows parents to either “reclaim” leftover funds to bolster their own retirement, or help their kids get a jumpstart on retirement saving.

As with anything involving the IRS, there are some rules to follow. First, the 529 account must be open for 15 years before rolling funds to an IRA.

environment where interest rates are poised to fall, long-term fixed-rate bonds can rise significantly in value if interest rates fall below projected levels. This gives opportunistic investors a chance to earn well-above the stated 5 - 5.25% yield-to-maturity in the event we get a substantial drop in interest rates in the coming years, and the bonds are sold early.

Even taking the attractive near-term setup out of the equation, long-term bonds still make sense as a hedge against an economic slowdown. The Federal Reserve’s primary tool for combating weakness in the economy is to push down interest rates. While a weak economy tends to punish stock prices, these lower interest rates have an immediate positive impact on the prices of long-term bonds. This inverse relationship is what makes a balanced portfolio of stocks & high-quality bonds such a winning combination over long periods of time.

Have questions about how long-term bonds fit within your financial plan? Give us a call or send us an email!

### 529 to Roth IRA Rollovers (*continued*)

Rollovers from a 529 to an IRA are also capped at the annual IRA contribution limit each year, with a \$35,000 lifetime rollover limit per beneficiary. Additionally, 529 contributions made within the last 5 years cannot be rolled over.

For example, a \$7,000 rollover from a student’s overfunded 529 to her Roth IRA would fulfill the \$7,000 annual contribution limit, provided she had at least \$7,000 in earned income. If \$4,000 was rolled over from her 529, she would still be eligible to contribute another \$3,000 towards her Roth IRA on her own.

Don’t let all of the rules deter you from taking advantage of this new law. We’ll ensure that this strategy is incorporated if it makes sense for your financial plan.

Sources:

[https://www.wsj.com/personal-finance/taxes/529-roth-ira-rollover-3e4850aa?mod=personal-finance\\_feat3\\_taxes\\_pos2](https://www.wsj.com/personal-finance/taxes/529-roth-ira-rollover-3e4850aa?mod=personal-finance_feat3_taxes_pos2)