

# Seth's Financial Forum

Plan Smart  
LIVE WELL



**Seth Knudsen, CFP® AAMS®**  
**Founder, Knudsen Wealth Planning**  
394 Wards Corner Rd  
Suite 150  
Loveland, OH 45140  
513-248-1900  
seth.knudsen@raymondjames.com  
www.raymondjames.com/knudsenwp

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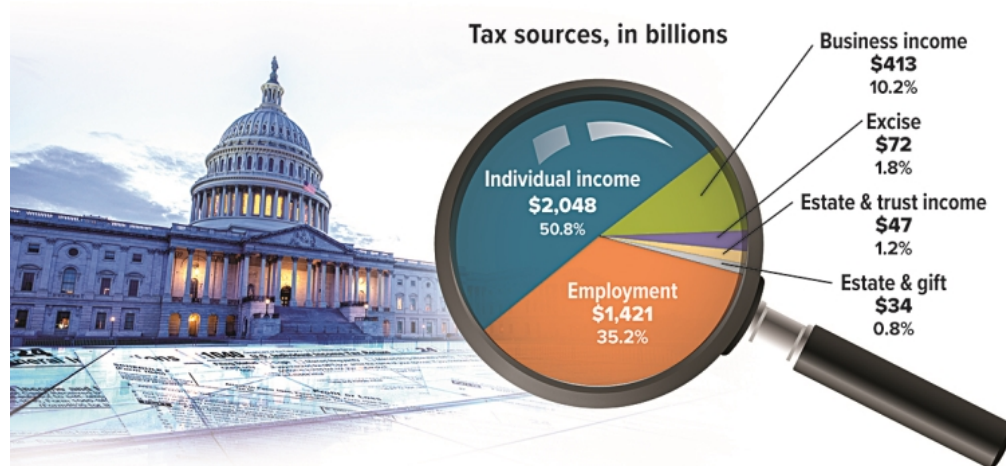
**\$3,138**

Average refund on individual income tax returns in the 2024 filing season. About 64% of individual filers received refunds.

Source: Internal Revenue Service, January 3, 2025

## Funding the Federal Government

The IRS collected a little more than \$4 trillion in net taxes (after refunds) in fiscal year 2023. About half was individual income taxes, and around 35% was employment (payroll) taxes, including Social Security, Medicare, unemployment insurance, and railroad retirement. Business income taxes made up a little over 10% of the total, with relatively small contributions from excise, estate and trust income, and estate and gift taxes.



Source: Internal Revenue Service, April 2024

# Versatile 529 Plans Can Help with More than Just College

529 plans were originally created in 1996 as a tax-advantaged way to save for college. Over the past several years, Congress has expanded the ways 529 plan funds can be used, making them a more flexible and versatile savings vehicle.

## College, plus other education expenses

A 529 savings plan can be instrumental in building a college fund — its original purpose. Funds contributed to a 529 savings plan accumulate tax-deferred and earnings are tax-free if the funds are used to pay qualified education expenses, which now include:

- College expenses: the full cost of tuition, fees, books, and equipment (including computers) and, for students attending at least half time, housing and food costs at any college in the U.S. or abroad accredited by the U.S. Department of Education
- Apprenticeships programs: the full cost of fees, books, and equipment for programs registered with the U.S. Department of Labor
- K-12 tuition expenses: up to \$10,000 per year

If 529 funds are used to pay a non-qualified education expense, the earnings portion of any withdrawal is subject to ordinary income tax and a 10% penalty.

## Estate planning tool

529 plans offer grandparents an opportunity to save for a grandchild's education in a way that accomplishes estate planning goals, while still allowing grandparents access to those funds if needed.

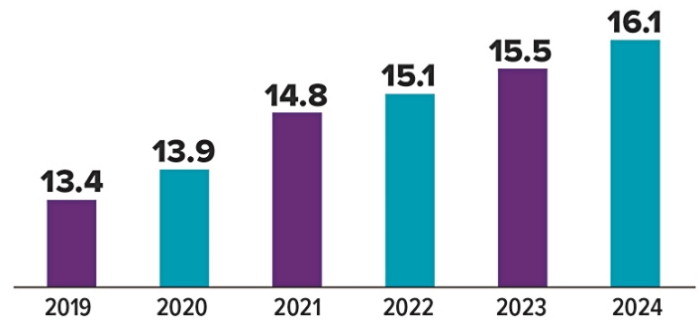
Specifically, due to an accelerated gifting feature unique to 529 plans, grandparents (or other relatives) can contribute a lump sum to a 529 plan of up to five times the annual gift tax exclusion and avoid gift tax by making an election on their tax return to spread the gift equally over five years. In 2025, the gift tax exclusion is \$19,000, so grandparents could gift up to \$190,000 to a 529 plan for their grandchild (\$19,000 x 5 years x 2 grandparents) and avoid gift tax. These funds are *not* considered part of the grandparents' estate for federal estate tax purposes (unless one or both grandparents die in the five-year period, in which case special allocation rules apply). And if a grandparent is also the account owner of the 529 plan (529 plan rules allow only one account owner), then the grandparent will retain control of the 529 plan funds (even though the funds are not considered part of the estate) and can access them for health-care needs, an emergency, or any other reason (but the earnings portion of any non-qualified withdrawal will be subject to ordinary income tax and a 10% penalty).

## Student loan repayment

Nearly 43 million borrowers have student loans, and the average loan balance is approximately \$38,000.<sup>1</sup> To help families who might have leftover 529 funds

after college, Congress expanded the approved use of 529 plan funds in 2019 to include the repayment of qualified education loans up to \$10,000 for the 529 beneficiary or a sibling of the beneficiary. This includes federal and private loans.

## Number of 529 savings plan accounts, 2019–2024, in millions



Source: ISS Market Intelligence, 529 Market Highlights, 2019–2024

## Retirement builder: Roth IRA rollover

As of 2024, 529 account owners can roll over up to \$35,000 from a 529 plan to a Roth IRA for the same beneficiary. Any rollover is subject to annual Roth IRA contribution limits, so \$35,000 can't be rolled over all at once. For example, in 2025, the Roth IRA contribution limit is \$7,000 (for people under age 50) or 100% of annual earned income, whichever is less, so that is the maximum amount that can be rolled over in 2025.

There are a couple of other caveats. For the rollover to be tax- and penalty-free, the 529 plan must have been open for at least 15 years. And contributions to a 529 account made within five years of the rollover date can't be rolled over — only contributions outside the five-year window can be rolled over.

*Participation in a 529 plan generally involves fees and expenses, and there is the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. The tax implications of a 529 plan can vary significantly from state to state. Most states offering their own 529 plans may provide advantages and benefits exclusively for their residents and taxpayers, which may include financial aid, scholarship funds, and protection from creditors. Before investing in a 529 plan, consider the investment objectives, risks, charges, and expenses, which are available in the issuer's official statement and should be read carefully. The official disclosure statements and applicable prospectuses contain this and other information about the investment options, underlying investments, and investment company and can be obtained from your financial professional.*

1) [educationdata.org](https://educationdata.org), 2024

# Are You Missing the Bull's-Eye with a Target-Date Fund?

Two out of three 401(k) participants have assets in a target-date fund — an "all-in-one" fund intended in theory to be the holder's only investment (see chart). These funds are often the default option in workplace plans, so you may have a target-date fund without fully understanding what it is, or perhaps without even knowing you own it.

In fact, target-date funds are not as simple as they appear to be. Like all investment options, they have strengths and weaknesses.

## Focused on time

Target-date funds offer a professionally managed mix of assets — typically a combination of other funds containing stocks, bonds, and cash alternatives — selected for a specific time horizon.

The target date, usually included in the fund's name, is the approximate date when an investor would begin to withdraw money for retirement (or another purpose, such as paying for college). An investor expecting to retire in 2055, for example, might choose a 2055 fund. As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help preserve the value it may have accumulated and potentially provide income.

## One size may not fit all

Target-date funds utilize basic asset allocation principles that are often used to construct more complex portfolios. But the allocation is based solely on the target date and does not take into account the investor's risk tolerance, personal goals, asset levels, sources of income, or any other factors that make an investor unique.

An investor with \$200,000 in a target-date fund has the same asset allocation as an investor with \$20,000 in the fund. An investor who also has a pension and might be comfortable taking more risk with 401(k) investments is placed in the same risk category as an investor who will depend primarily on savings in the 401(k) account.

Considering this one-size-fits-all approach, target-date funds may be especially appealing to novice investors with relatively low assets or to those who prefer a simple set-and-forget option in their 401(k), IRA, or other investment account. But even if simplicity is the goal, it's important for any investor who keeps assets in a target-date fund to learn more about the specific fund and how it operates.

## Glide to or beyond retirement

The transition from more aggressive to more conservative investment allocations is driven by a formula called the glide path, which determines how the asset mix will change over time. The glide path may end at the target date or continue to shift assets

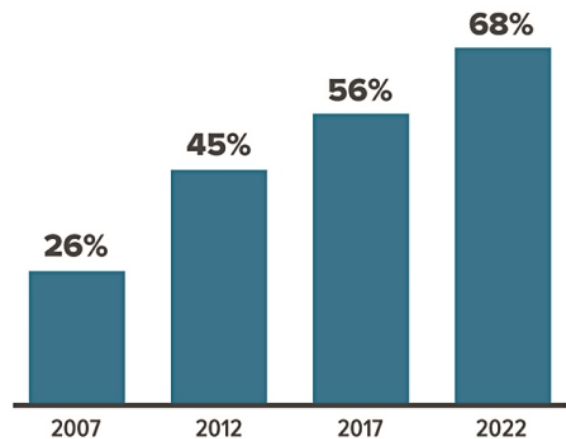
beyond the target date, taking the fund into your retirement years.

Funds with the same target date may vary not only in their glide path but also in the underlying asset allocation, investment holdings, turnover rate, fees, and fund performance. Be sure you understand the asset mix of your fund and how it changes over time. It's especially important to closely examine your target-date fund as you approach retirement. You can find detailed information in the prospectus.

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## Growing Trend

Percentage of 401(k) participants holding target-date funds



Source: Investment Company Institute, 2024 (2022 year-end data, most recent available)

Asset allocation is a widely accepted method to help manage investment risk. It does not guarantee a profit or protect against investment loss, and there is no guarantee that you will be prepared for retirement on the target date or that the fund will meet its stated goals. Keep in mind that investing in other securities outside of a target-date fund may change your overall asset allocation. It's generally wise to consider the allocation strategy of your full portfolio.

The principal value of a target-date fund is not guaranteed before, on, or after the target date. The return and principal value of all mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*



# Concerned About Cyberattacks? The Threat Is Real

According to a 2024 survey, 60% of small businesses believe that cyberattacks are the biggest threat they currently face, and rightly so.<sup>1</sup>

When a data breach occurs, hackers gain access to the personally identifiable information of customers or other individuals, opening the door for identity theft and other financial crimes. Even small companies can be held legally responsible when their customers' personally identifiable information is disclosed. Moreover, the time and expense involved in recovering from any type of cyberattack could be insurmountable.

Does your company handle potentially sensitive information about customers, employees, or competitors? If so, you may want to be proactive about addressing this risk.

## Methods of attack

**Phishing** often involves emails sent to employees. Clicking on a link provides access to the company's network, allowing the installation of malicious code (malware) designed to steal or hijack critical data.

A **watering hole attack** targets individuals or organizations by infecting websites that they frequently visit with malware.

**Ransomware** is a menacing virus that locks businesses out of their computer files and demands payment of a ransom in exchange for the return of company systems and data.

## Fortify your defenses

The Federal Communications Commission has some cybersecurity tips for small businesses.

- Install and update antivirus software on every computer, and maintain firewalls between the internal network and the Internet. Lock up computers, laptops, and tablets to prevent them from falling into the wrong hands.
- If you have a Wi-Fi network, set it up so the network name is hidden and a secure password is required for access. Require passwords to be changed on a regular basis.
- Train employees in security practices, especially not to open emails from unknown senders. Set up a separate account for each user, and provide access only to the data needed for users to perform their jobs. Backup critical data regularly and delete data when it's no longer needed.
- Consider purchasing cyber insurance, which may offer some protection (up to policy limits) from the financial repercussions of a cyberattack, such as the cost of restoring lost or stolen data; liability stemming from a security failure; and in some cases, lost income due to business interruption.

*The cost of cyber insurance depends on the types of coverage selected, and policies have exclusions, terms, and conditions for keeping them in force.*

1) U.S. Chamber of Commerce, 2024

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## IMPORTANT DISCLOSURES

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