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## THE DUGDALE | HAYES INVESTMENT GROUP

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## Medicare Resources Available Through a New Partnership

Navigating the government’s largest benefit programs, Medicare and Social Security, is a primary focus of planning as clients enter their 60s.. D.A. Davidson has recently partnered with a company called Chapter to provide our clients with Medicare guidance.

**How it works:** We coordinate a call with a Chapter advisor who provides an initial consultation focusing on education, the enrollment process itself and important deadlines. Chapter’s advisors have the ability to search every detail of 24,000+ Medicare coverage options available nationwide to find the best coverage for you. Healthcare needs and insurance plans change all the time. The Chapter team will provide high-touch support and advice year-round to help you improve your coverage as your needs change over time.

There is no cost to you for the consultation and education. We are happy to be involved in the call or we can let it be between just you and the advisor if that is your preference. We have been very impressed with the process and clients that have used the service have been very complimentary. If you are interested in learning more, just email us at: [dugdalehayesgroup@dadco.com](mailto:dugdalehayesgroup@dadco.com)

## Plan Now for Important 401(k) Plan Change in 2026

An important change that has long-term planning implications could impact workers age 50 and older starting in 2026. This will only impact those who are maximizing 401(k) contributions with the “Catch-Up” provision.

Today, 401(k) participants can choose the “type” of contribution they make into their account. Contributions can be done on a pre-tax (Traditional) basis or, if the plan allows, they can make a post-tax (Roth) contribution. This decision also applies to the “Catch-Up” contribution available to individuals age 50 or older. Starting in 2026, all “Catch-Up” contributions made by individuals who earned \$145,000 or more in the previous year will be deemed Roth contributions. This will apply even if the individual has

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# Plan Now for Important 401(k) Plan Change in 2026

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specified that Traditional contributions and they will not get the income tax deduction on the “Catch-Up” portion.

**Long-term implications:** Distributions of the earnings portion of any Roth account are completely tax free only if the account owner is past the age of 59 ½ AND the Roth account has been in existence for five years. Here’s where it gets tricky...the five year “clock” on a Roth 401(k) and a Roth IRA are completely independent. This means that the five-year waiting period will restart if an individual rolls a Roth 401(k) balance into a new Roth IRA.

Consider the following scenario; In 2026, a 60-year-old who is maximizing 401(k) contributions will have the “Catch-Up” portion of that contribution classified as Roth. Five years later they retire and roll their entire 401k balance into newly established individual IRAs. They would open two IRAs to capture the assets. One would be a Traditional IRA and the other would be a Roth to hold the past five years of contributions and earnings due to the new rule. They believe that since the Roth 401(k) account was five years old and they are over the age of 59 ½ that all withdrawals for the Roth IRA are tax-free. Not so fast. The five-year waiting period has restarted since the Roth IRA is new.

This will no doubt surprise many people who believe those distributions should be completely tax free.

**What to do now:** If you will be subject to the new “Catch-Up” rule starting in 2026, you have two options available to make sure you don’t end up in the scenario above. One option is to leave the Roth balance in your 401(k) and take distributions directly from there. There is no rule that you must roll over a 401(k) balance upon retirement. The other option is to open and fund a Roth IRA right away so that the five-year clock starts now. Any rollover of money from a Roth 401(k) into a Roth IRA will follow the “clock” of the IRA. So if that Roth IRA is five years old (even if the initial contribution was minimal), you don’t have to worry about taxation of the earnings portion of the rollover funds as long as you are over the age of 59 ½.

**One more note:** Anyone subject to the new “Catch-Up” rule is likely prohibited from making a direct Roth IRA contribution because the IRS limits those contributions based on income. An income is the determinant factor of the new rule. In that case, you can still establish a Roth IRA through a back-door Roth conversion or a conversion of any portion of a Traditional IRA. Those decisions may have their own set of tax implications so it’s best to just contact us if you have any questions about the new rule.



## Spending vs. Taxes

We wrote this newsletter prior to the election and during a time when there were no strong indicators about the outcome. During the fall campaign we heard lot of different ideas on taxes from Presidential as well as Congressional candidates.

Everything from excluding some sources of income from taxation to higher capital gains tax rates and even the possibility of taxing unrealized gains if people meet a certain Net Worth threshold. We wish that politicians would devote as much time to the discussion of spending as they do about taxes. We continue to run an ever-increasing Federal Deficit despite higher tax revenues. The current total deficit for fiscal year 2024 is \$1.83 trillion <sup>1</sup>. It would be extremely difficult, if not impossible, to simply close this deficit by raising taxes. IRS



data for 2021 shows the top 1% of earners, which represent 1.54 million tax returns and 26% of total income, already account for about 46% of total taxes paid <sup>2</sup>. So tax rates would have to rise for all taxpayers at current spending levels to make a dent

in the deficit. Higher tax rates can be counterproductive for growth since fewer dollars are available for investment. As citizens managing our own budgets, we understand the problems that arise from spending more than you earn. If only government

had the same understanding. To whoever won the Presidency and Congressional seats: please watch the spending!

<sup>1</sup> Source: <https://fiscaldata.treasury.gov/americas-finance-guide/national-deficit/>

<sup>2</sup> Source: First Trust Portfolios <https://www.ftportfolios.com/Blogs/EconBlog/2024/10/10/three-on-thursday---are-the-wealthy-paying-their-fair-share>



Left to right: **Kate Absec**, FPQP®, Senior Registered Associate; **Brad Dugdale**, Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner**, Client Associate; **Darin Hayes**, CPFA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.



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# Team Tidbits

## Darin

Teagan is back at the University of Idaho for her Sophomore year and continues to thrive. She is now getting interested in Plant Genomics and got herself a part time lab job on campus. Did you know there is an Idaho based startup called Light Bio that has produced glow-in-the-dark petunias? Now you do. I can't explain how they work but they have some at her lab and Teagan seems to understand how they were created. We have made our way down to campus for a couple football games and are happy she's so close. We're looking forward to the Holiday Season and spending time with family and friends. Monique and I are going to try to sneak off to someplace warm in February. Don't tell Teagan.

## Brad

The colors outside my window are beautiful. Of course, that means fall is in the air. Summer in Coeur d'Alene this year was wonderful. Moderate temperatures without smoke. My son Bradley and his girlfriend Katie are part of the digital economy. Both can remote work and get out of the heat and humidity of Austin, TX. During the summer we are blessed to have mini family reunions as all the family members spend the weekends together. On Saturdays, Dani attends dance class, and Chase and I play golf. Chase has caught the golf bug. He keeps improving week after week. A couple of times this year he out drove me. Hard to describe the smile on his face. Shariae and I celebrated our 43rd anniversary, I am lucky to have her in my life. My granddaughter Bella continues to amaze all of us. I love spending time with her. She is asking hundreds of questions and is growing too fast. Our whole family is enjoying this new addition to the family and doing our best to give her a great foundation.



## Kate

Oh, what a beautiful summer and autumn we had and continue to have. Officially, the best air quality in our area over the prior nine years due to lack of forest fire smoke and I certainly noticed it. Our family continues to be as busy as we like and we are blessed to be invited along on most of the fun grandchildren excursions. I

recently spent a weekend in Leavenworth with my daughters perfecting our "girl time" which will never get old. I remember traveling with my mom and sisters and cherish those memories as well. Terry keeps busy on the property preparing for winter and always looking forward to World Series season which is paying off this year with his beloved Dodgers participating. We look forward to some time away between Thanksgiving and Christmas to warmer weather and are anxious to turn the page into 2025. Here's to all of you and yours during the upcoming season of "family" and hope you're making the most of it.

## Steph

The end of our summer went out with a quiet hum. I was so happy we were lucky enough to have a warm early fall, that certainly left us with some amazing colors. I wrapped up my first year of my garden and I am happy to say I grew 41 pumpkins and donated them all to Dawson's preschool. The kids were very excited! We have a family trip coming up to Dallas with my sister, her husband, their three kids, and our mom to attend our first pro football game vs. the Philadelphia Eagles. Although Matt and I are definitely not fans of the Cowboys, we do love a good rival game and couldn't pass up the opportunity to make some memories with my family. The trip is an early high school graduation gift for my niece, and she chose it because her parents have been lifelong Cowboys fans and she wanted to experience a game with them on their home field. Anyway, we will button up the fall with continued ballet/jazz dance classes for Daws and start getting ready for the holidays. Next up, Daws and the bunny hill...stay tuned! Be well, Happy Holidays, and as always, stay classy.

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