CHRISTOPHER WEIL & COMPANY, INC.
A Wealth Management & Financial Advisory Firm

MID-QUARTER NEWSLETTER

FROM THE TEAM AT WEIL

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Unlocking the SECURE Act 2.0

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I recently completed the most stressful and difficult exam of my life – the CERTIFIED FINANCIAL PLANNER™ exam. It took two years of rigorous graduate-level classes and 340 hours of additional study time (yes, I counted). In July 2022 (on my first try!) I passed! The exam itself lasted almost an entire day, and it was incredibly challenging. Passing the exam, for me, meant that not only do I get to enjoy my summers and weekends again, but that I am armed with the financial expertise to assist our clients in attaining financial peace of mind, reaching their financial goals, and securing their financial legacies. However, as luck would have it, right after becoming a CFP® professional, the Federal government made massive changes to the rules I had just spent hundreds of hours learning and I had to start studying again.

The Setting Every Community Up for Retirement Enhancement (SECURE) Act 2.0 was signed into law at the end of 2022. It contains 92 provisions and hundreds of pages of legal terminology that even me, a person who enjoys financial planning, finds daunting. However, our role as financial planners is to keep up with new rules and regulations so that we can advise our clients accordingly. So, we analyzed the entire document and came away with interesting tidbits we want to share with you.

We have a wide variety of clients; different ages, different financial circumstances, in different phases of their careers, and in different stages of retirement. We have attempted below to summarize the items of the legislation we feel most affect our clients. Though it may be tempting to skim through and read only what you think applies to you, we encourage you to read on because some of the changes may affect someone you know.

For Retirees or soon-to-be Retirees

Required Minimum Distribution Rules

The primary impact to retired folks comes in the form of Required Minimum Distribution (RMD) rules for retirement accounts. When you reach a certain age (as described below), the IRS "forces" you to take a distribution from your retirement account (a tax-sheltered account) effectively imposing a tax on an account that has enjoyed tax-deferred gains for what is probably a substantial period of time. There are no free lunches in the tax code. Retirement accounts are funded with pretax dollars and enjoy tax-deferred gains for the life of the account. However, any withdrawals from retirement accounts (after age 59 ½) are taxed as ordinary income (Roth IRAs are an exception as they are taxed upon funding.) The changes to RMD rules are as follows:

- Beginning in January 2023, the RMD age was pushed from 72 to 73 years old. In 2035, the RMD age will increase to 75. For some retirees, this change has benefits. It allows account assets to grow longer without the burden of taxation. It extends the opportunity to convert (or partially convert) IRAs to Roth IRAs. (Roth IRAs are funded with after-tax dollars and then remain untaxed for the life of the account and post-withdrawal.) Lastly, with delayed RMDs, retirees may be able to minimize their taxable income, thus making Medicare Part B and D premiums potentially lower as well. (Note: If you started taking RMDs prior to January 1, 2023, these changes do not affect you.)

- The penalty for a taxpayer who has not taken their full RMD will decrease from 50% to 25% of the amount not withdrawn. The penalty is further reduced to 10% if the mistake is corrected in a timely manner. Fortunately, it is extremely rare for clients of WEIL to incur RMD penalties, as we track the retirement accounts on our platform requiring RMDs and remind clients to do the same for any accounts off our platform.

Qualified Charitable Distribution Rules

For those who are philanthropically inclined and over the age of 70 ½, the Qualified Charitable Distribution (QCD) is one of our favorite charitable giving tools. This is because a QCD allows you to donate to a qualified non-profit organization directly from an IRA. This not only fulfills the Required Minimum Distribution but also provides a tax-efficient way to support your favorite causes (regardless of if you take a standard or an itemized deduction).

The changes from the SECURE Act 2.0 are the following:

- The QCD age requirement of 70 ½ remains the same, but the IRA QCD limit of $100,000 will no longer be flat. Instead, it will be indexed for inflation after 2023. We consider this good news for philanthropically inclined retirees.

- Retirement account holders are now permitted to make a one-time QCD of up to $50,000 from each spouse to fund a Charitable Remainder Trust (CRT) or a Charitable Gift Annuity (CGA), both of which are gifting vehicles that permit the donor to take lifetime income. This type of QCD counts towards the QCD limit for the year. Given the legal fees required to establish CRTs and CGAs relative to the benefits of this specific strategy, we do not imagine this type of gifting will gain much popularity.

Catch-Up Contributions

Catch-up contributions enable people over age 50 to make extra deposits into their retirement accounts above and beyond the standard contribution limit. Allowing people to make catch-up contributions gives them a chance to bolster their retirement savings if they have not been able to save as much as they would have liked in the past.

- Effective in 2024, catch-up contributions for people who earn more than $145,000 a year will be treated as Roth contributions (which requires opening a separate Roth account), which is to say they

will no longer be tax deductible. However, as with all Roth accounts, future withdrawals will be tax-free.

- Effective in 2025, further "catch-up" contributions will be introduced for individuals 60 to 63 years of age. The contribution limit will be the greater of $10,000 or 150% of whatever the catch-up amount for those 50 or older is at the time of the catch-up contribution.

For People Earlier in their Careers and Years

Enhancements introduced by the SECURE Act 2.0 can make it easier for employees to build their retirement nest eggs, and for small businesses to entice staff with more benefits.

For Participants in Employer-Sponsored Retirement Plans

- Starting in 2025, part-time employees who have worked two consecutive years and completed at least 500 hours of service each year will be eligible to enroll in their company's retirement plan.

- Also starting in 2025, the Act will require auto-enrollment for eligible employees in new 401(k)s and 403(b)s. Employees will need to opt-out if they prefer not to participate. This feature makes us particularly happy as it encourages people who might not otherwise contribute to begin saving for their retirement.

- Employers can make contributions to an employee participant's 401(k) or 403(b) that match the amount of the participant's qualified student loan payments. This is a huge deal for people with student loan debt because they will no longer have to choose between making a student loan payment and saving for their retirement. Note that this is not a requirement but rather an option for employers which can be utilized to both attract talent and strengthen the financial wellness of their workforce.

- Employer contributions can now be elected as Roth contributions at the employee's discretion. This of course results in taxation of the contribution to the employee at the time it is made, but, as with all Roths, any growth is tax-free.

For Small Business Owners and Self-Employed People

- The Roth option is now permitted for SEP IRAs and SIMPLE IRAs. Previously, SIMPLE and SEP plan contributions could only be made through pre-tax deferrals. While this feature became effective as of January 1, 2023, we are discovering that it may take a while before custodians (like Fidelity) are able to develop procedures and policies to accommodate these types of accounts.

- Small business owners may qualify to receive a tax credit of up to 100% of the administrative costs associated with establishing a retirement plan. The administrative costs incurred by employers for making contributions may also be eligible for a tax credit. While costs to start retirement plans vary based on business size and the type of plan, the enhanced tax credits could help cover a majority of an employer's out-of-pocket costs for the first few years of the plan.

- Beginning 2024, "Starter 401(k) Plans" will be made available for small business owners. In reality, this is not that different from an IRA (it has similar contribution limits and no employer contribution requirement). The benefit lies in making saving for retirement being accessible to people who may not otherwise establish a retirement account.

We believe the legislators may be right in believing that plans offering potential tax credits and less administrative responsibility will make firm-sponsored retirement plans more attractive to employers.

College Planning

Easily one of the most talked about changes in the SECURE Act 2.0 revolves around 529 Plans. Starting in 2024, 529 Plan holders can roll residual funds into a Roth IRA. Imagine having the flexibility to redirect unused education funds to a retirement plan enabling the beneficiary of the 529 to kickstart their own retirement savings. Although it sounds enticing (and it is for the target audience), do not get too excited yet as there are meaningful requirements and restrictions.

- For starters, your 529 Plan must be at least fifteen years old, and the Roth IRA must be registered in the name of the 529 beneficiary.
- Additionally, these transfers will count towards the annual IRA and Roth IRA contribution limits ($6,500 for people under 50 in 2023) and will be limited to $35,000 in lifetime transfers.
- The beneficiary must also have earned income equal to or greater than the amount being transferred in the year when the rollover occurs.

Wholesale changes to the tax code, estate laws, and retirement account regulation are nothing new and the SECURE 2.0 will be far from the last of those changes. Fortunately, a meaningful part of our work at Christopher Weil & Company, Inc. is understanding these changes and utilizing an integrated approach to financial planning, retirement planning, insurance, education saving, estate planning, philanthropy, and tax sensitivity to ensure we meet our clients' financial advisory needs.

If you would like to discuss how these changes affect your financial life, please reach out to any of the advisors at WEIL.

2022 TAX FILING NOTICE

By the way, speaking of periodic changes, the IRS and the California Franchise Tax Board recently announced that the 2022 tax filing deadline has been extended to October 16th for California residents affected by recent storms, including those living in San Diego, Los Angeles, San Francisco, and 48 other counties. Eligible taxpayers now have until October 16, 2023 to file their 2022 Federal and California tax returns, make tax payments, as well as make prior-year contributions to IRAs and HSA accounts. We recommend you consult with your tax professional to determine how the announcement impacts your 2022 tax filings.