This Has Been a Test…

Think back to December 2019. The economy was humming. Unemployment, interest rates, and inflation were at historically low levels. But then what happened?

- A global pandemic hit. The S&P 500 dropped nearly 20%
- FAANG stocks soared…before giving up a lot of gains
- Meme stocks shot way up….and fell
- Bitcoin reached record highs…then crashed
- Inflation spiked to the highest levels most of us have ever experienced
- And Russia invaded Ukraine, sparking a humanitarian crisis and geopolitical uncertainty

We don't know anyone who predicted all of that back in December 2019. But what if someone had? What would you have done?

Next question: What if that person told you that, despite all that news, the Russell 3000 would average a return of 10% a year over the next three years? Would you have believed them? Would you have stayed in the market?

Because that's what happened. A yearly return of 10%! That's pretty darn close to the stock market's historical average over the past century.

The conclusion we hope you reach is that it's unrealistic to think you can outguess markets. You're probably better off expecting that markets will do their job of capturing the human ingenuity taking place every day across thousands of publicly traded companies around the world.

What do we mean by markets doing their job? When news of the pandemic hit, markets adjusted, and prices went down. In other words, when uncertainty peaked around March 2020, investors needed assurance before jumping back into the market. Then, when news of a vaccine spread, investors adjusted accordingly. In the short term, there are often wild swings up or down. Making a change during either can be dangerous.

The past three years were a good test for the prudence of your investment plan. Take a moment to think about why you did what you did and prepare for next time. Because the next three years may be just as uncertain.

First, we made sure your investment plan is sensible and based on financial science. Second, we made sure it's realistic for you and your unique situation. Even the greatest plan is insufficient if you can't stick with it during tough times.

We don't make predictions, but we do believe in the power of human ingenuity to fix problems big and small, innovating the whole way. What has stayed constant is the power of people to make progress in the face of challenges.

We've seen it in the fight against COVID-19—vaccines developed at lightning speed are now being administered around the world. We've seen it in the continued progress of gene therapy, which is revolutionizing the treatment of multiple diseases. As we start 2023, let's remember the lessons of the past three years. Let's reinforce—and stick to—plans that take us through the short-term ups and downs of market fluctuations so we can capture the long-term benefits of human ingenuity.

SECURE Act 2.0

On December 29, 2022, President Biden signed the Consolidated Appropriations Act of 2023, an omnibus spending bill that included the long-anticipated retirement planning updates known as SECURE Act 2.0. A "sequel" to the original SECURE Act from 2019, there are many more provisions this time around. While it's fair to say that we don't see any singular change with the same impact as the elimination of the stretch IRA, SECURE 2.0 does contain more changes that could potentially have an impact on your financial plan. The sheer size of the bill, clocking in at 4,126 pages with SECURE 2.0 accounting for 350 of those pages, can make digesting all these nuances rather challenging. Our goal here is to distill it to what we see as the most salient topics with the biggest potential planning opportunities for you and your family.

Delayed Required Minimum Distributions

A Required Minimum Distribution (RMD) is the amount a taxpayer must withdraw from qualified retirement accounts each year, commencing upon the attainment of a certain age. While the Tax Reform Act of 1986 first established RMDs to begin at age 70.5, the original SECURE Act of 2019 moved that age to 72. SECURE Act 2.0 further pushes back the age at which RMDs begin.

The new ages at which RMDs are generally required to begin are as follows:

Birth Year	***RMD Age***
1950 or earlier	*72**
1951-1959	*73*
1960 or later	*75*

** 70.5 for those who turned 70.5 before 2020*

This means that if you turn 72 in 2023, your first RMD is pushed back to 2024. Please note that if you are already in the RMD phase, there are no planning changes for you to consider. It is also worth noting that there is a drafting error in the bill that we expect Congress to correct; the summary table above reflects the intention of the law.

Enhancements to Qualified Charitable Distributions

Since 2006, Qualified Charitable Distributions (QCDs) have been a powerful gift planning tool. While many advisors and tax professionals have long suspected this strategy would go away, it instead received enhancements in SECURE 2.0, so it appears that it is here to stay. A QCD allows an individual age 70.5 or older to make a chartable distribution – up to $100,000 – directly from his or her retirement account without recognizing income from the distribution. If you are at RMD age, this distribution counts toward satisfying the current year's RMD and can be used to reduce your overall tax liability. For individuals who are over age 70.5 but not yet at RMD age, a QCD can help you reduce the tax burden on future IRA distributions. Certain charities, including donor-advised funds and private foundations, are not eligible to receive QCDs.

SECURE 2.0 enhanced this strategy in the following 2 ways:

1. Beginning in 2024, the QCD limit will be linked to inflation. Since the creation of QCDs in 2006, the limit has remained level at $100,000.

2. Beginning this year, you may take advantage of a one-time opportunity to use a QCD to fund a charitable remainder unitrust, charitable gift annuity, or a charitable remainder annuity trust with $50,000. The distribution will only count if the trust is funded exclusively by the QCD, and the only income beneficiaries of the trust are either the IRA owner or their spouse. Given the limitations, it is hard to imagine a scenario where it is worth the effort, but it is an enhancement, nonetheless.

Roths Everywhere!

An overriding theme is the prevalence of Roth-related changes throughout the bill. The bill does not restrict existing Roth strategies but instead creates several new, compelling ones.

Roth Catch-Up Contributions

If you are 50 years or older, you are able to make catch-up contributions to your tax-advantaged accounts. The theory is that, being closer to retirement, the government gives you the ability to save more for your retirement in a tax-advantaged manner. The bill creates a mandatory approach to catch-up contributions. Starting in 2024, if you earned at least $145,000 the prior year from your current employer (will be adjusted for inflation going forward) then your catch-up contributions must go into a Roth account within your employer-sponsored 401(k), 403(b), or 457(b) retirement plan. This new rule does not apply to IRA-based retirement plans, such as SIMPLE or SEP IRA.

This raises an issue. What if the employer plan does not offer a Roth component to its 401(k)? The bill states that if the plan does not allow individuals to make contributions to a Roth account, they will not be able to make catch-up contributions. Given that this does not take effect until next year, our assumption is that employers that don't currently offer a Roth component will feel pressure to add one beginning in 2024 so that this will, hopefully, be a non-issue, as the law gives employers ample time to make the necessary update.

SIMPLE and SEP IRAs

Effective this year, taxpayers can now open Roth SIMPLE accounts as well as Roth SEP IRAs. These types of accounts previously could only include pre-tax funds. We see this largely as added efficiency rather than as a new planning opportunity for SEP owners since SEP contributions have long been convertible to a Roth dollars. However, this does enhance the options available for SIMPLE accounts. Please note that it will take time for custodians, employers, and the IRS to implement these new elections so stay tuned.

529 to Roth Rollover

Of all the changes, this one has already received a disproportionate amount of media coverage. Beginning in 2024, individuals will have the ability to move 529 plan funds directly into a Roth IRA. This could be an intriguing opportunity, but it comes with many caveats:

1. The 529 plan must have been open for more than 15 years.
2. The Roth IRA must be owned by the beneficiary of the 529 plan.
3. The contributions to the 529 plan must have been made more than 5 years ago.

4. The annual limit for movement to a Roth IRA is the IRA contribution limit for the year less any other contributions made in that year.
5. The lifetime maximum for movement to a Roth IRA is $35,000 per individual.

The good news is that these transfers are not subject to income limits that control other Roth IRA contributions. Unfortunately, the bill is not clear on a few factors. For instance, we don't know whether a change in the 529 beneficiary will trigger a new 15-year holding period before a transfer can occur. It also appears that the parent could change the 529 plan beneficiary to themselves and transfer the funds to their own Roth IRA, but we will need additional guidance from the IRS and/or Congress before we are clear on a number of these issues.

ABLE Expansion

First created through the Achieving a Better Life Experience (ABLE) Act of 2014, ABLE accounts are tax-advantaged savings accounts to which contributions can be made to cover qualified disability expenses for the owner or designated beneficiary. One of the major drawbacks to date was that the prior law only covered individuals who became disabled prior to turning age 26. SECURE 2.0 moves this age to 46 beginning in 2026, which is significant because many mental health conditions that qualify as a disability develop after age 25. It is unclear why Congress decided that this implementation won't occur until 2026, but this is still a positive development if you or a loved one has a disability.

Summary

Our quick summary of the bill barely scratches the surface of the 350 pages of legislative nuance. Our goal was to focus on the planning changes that are most likely to impact the largest number of people. We did not even address the changes related to emergency access to funds, plan sponsor requirements, catch-up contributions for participants aged 60 through 63, or potential relief for mistakes made with retirement accounts throughout the year.

Your advisory team knows your unique situation and is fully prepared to discuss any new or evolving planning opportunities that emerge from SECURE Act 2.0 and they will be sure to highlight those changes in an upcoming Progress Meeting. In the interim, feel free to reach out with any questions.

www.RockwoodWealth.com
(267) 983-6400

John R. Augenblick, MBA, CFP®, CEO
Sam W. Feldbaum, MST, CFP®, Principal
Megan J. Lottier, CPA, MST, Principal
Matthew B. Borish
Jupiter Bridge, CFA
Maxwell V. Dalavai
Courtney L. Durham, CFP®
Najeedah Ghias, CFP®
Anibal Guerrero Russo, CFP®
Brian M. Hansen, CPA, CFP®
Joe Houk
Adam R. Klazmer, CFP®
Elizabeth V. Loew, MBA
Paige E. Marlow
Catherine P. Morgan, CFP®
Krista Parsons
Courtney Ripp, MAcc, CPA
Renee A. Schuster, MBA, CFP®
Rob T. Stephenson, CFP®, AIF®
Robert M. Vogel, CFP®
Kenny B. Bauer, EA, CFP®, Principal
Mark T. Kelly, CPA, CAIA, MST, Principal
Mark Arcidiacono, Jr., CFP®
Dominic A. Bova, CFP®
Geraldine Broadbent
Maureen C. Donahue, CFP®
Kimberly A. Evans
Alaina M. Gilbert, CFP®, CPWA®
John T. Hagan, CFP®, MSF
John Helvie
Scott H. Kelley, MBA
Jeff B. Llewellyn, MBA, CFA, CFP®
Jennifer Malinowski, SHRM-CP
Jade A. Meier
Craig E. Morgenstern, CFA, CFP®
Kyle D. Quigley, MBA
Travis Roe-Raymond, CFA, CFP®
James A. Smith
Patti A. Vidakovic