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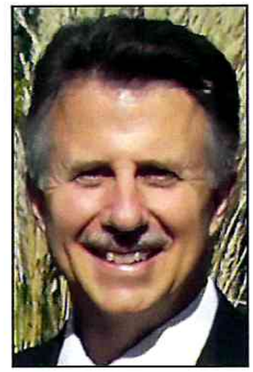

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SECURE 2.0: Highlights for Retirement Plan Investors

By Ed Slott, CPA

The $1.7 trillion appropriations bill passed by Congress at the end of last year included some notable provisions affecting workplace retirement plans and IRAs. Dubbed the SECURE 2.0 Act of 2022, the new legislation builds on the sweeping Setting Every Community Up for Retirement Enhancement Act that was passed in 2019.

The following provisions — though far from a complete list of the Act's changes — are intended to help workers save more money for retirement and let retirees leave their savings untouched and untaxed for longer.

Looser RMD Rules

The 2019 SECURE Act raised the age at which retirement savers must begin taking taxable distributions from their traditional IRAs and most work-based retirement accounts to 72. SECURE 2.0 raises that age again to 73 beginning in 2023 (for individuals who reach age 72 after December 31, 2022) and to 75 in 2033.

Current law requires those who fail to take their full RMD by the deadline to pay a tax of 50% of the amount not taken. The new law reduces that tax amount to 25% in 2023; the tax is further reduced to 10% if account holders take the full required amount and report the tax by the end of the second year after it was due and before the IRS demands payment.

Bringing Roth 401(k)s and similar employer plans in line with Roth IRAs, the legislation eliminates the requirement for savers to take minimum distributions from their workplace Roth accounts (starting in 2024).

Expanded QCDs

The amount eligible for a qualified charitable distribution from an IRA ($100,000) will be indexed for inflation starting in 2024. In addition, beginning in 2023, investors will be able to make a one-time charitable distribution of up to $50,000 from an IRA to a charitable remainder annuity trust, charitable remainder unitrust, or charitable gift annuity.

Not all charitable organizations are able to use all possible gifts, so it is prudent to check first. The type of organization selected can also affect the tax benefits the donor receives.

Rising Catch-up Contributions

Individuals who are age 50 and over can make an additional catch-up contribution of $1,000 to their IRA. Starting in 2024, this amount will be indexed annually for inflation, similar to employer plan catch-up

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If you have any questions about the topics in this newsletter or about your financial future, call us. We are available to help.

Creating Your Own "Operation London Bridge"

"London Bridge is down." On September 8, 2022, those words were reportedly used to launch what were arguably the most complex end-of-life proceedings the world had ever witnessed: the funeral arrangements for Queen Elizabeth II. The plan, known as Operation London Bridge, laid out in exacting detail how the ensuing days would unfold. Although most families don't need a playbook as intricate as the royals, a comprehensive end-of-life plan can significantly ease the burden on family members during a highly emotional period.

Guidance in a Medical Crisis

What would happen if you became incapacitated and could not make financial or medical decisions for yourself? To help ensure that your affairs continue to be managed by someone you trust and according to your wishes, you might consider creating a durable power of attorney (DPOA) and an advance medical directive.

What Might a Letter of Instruction Include?

- Funeral instructions or how to find them
- The location of your will and other estate planning documents, as well as other legal documents (e.g., Social Security cards, birth and marriage certificates, titles, deeds)
- Contact information for attorneys and financial professionals
- Financial institution names, account numbers, usernames, passwords, and PINs, with beneficiaries and account balances (as of a given date)
- Bills, credit, and loan account information
- Life insurance policy information, including beneficiaries
- A list of all tangible assets (e.g., jewelry, antiques, art), their location, and related inheritance instructions not included in your will
- Location of keys to safes or safe-deposit boxes
- Social media usernames and passwords
- Care instructions for your pets
- Preferred charities

A DPOA authorizes someone to manage your finances on your behalf, while a medical directive documents your wishes for medical care, such as whether you want extraordinary measures to prolong life if there is no chance of recovery. There are several types of DPOAs and advance medical directives; each has its own purpose, benefits, and drawbacks and may not be effective in some states.

Funeral Instructions

Planning your funeral or similar commemoration can relieve significant stress on your family members. Decisions would typically cover whether you want a burial or cremation, a wake with or without viewing, a religious ceremony or secular event, and could include details such as music, readings, speakers/clergy, flowers, venues, and an obituary. You might discuss thoughts with family members, taking their ideas into consideration. You might also consult a trusted funeral director who can help you navigate the various options, decide whether to prepay for arrangements, and become a valuable resource to your family when the time comes.

Estate Management

The most fundamental components of an estate plan are also among the most important: a will and a letter of instruction.

A will states how you wish to disburse your assets, names an executor to act as your legal representative, provides guidance for the management of your financial affairs, and (if appropriate) identifies who you want to be guardian of your minor children and their assets. A letter of instruction has no legal status but provides vital details that complement your will (see graphic).

You might also familiarize yourself with the death-related tax rules at both the federal and state levels. The 2023 federal estate tax exemption is $12.92 million. Although that sounds like a lot, 17 states impose their own estate and/or inheritance tax — most at much lower thresholds. When you consider that an estate includes the value of your home, insurance policies, retirement plans, and other assets, it may be easier than you'd expect to trigger a taxable situation. (Estate tax is imposed on the estate of the deceased, while an inheritance tax is imposed on the beneficiary.)

Seek Assistance

For more information on how to create your own Operation London Bridge, contact an estate planning attorney. Once your plan is established, store all documents in a safe place and communicate its location to your executor.

Key Retirement and Tax Numbers for 2023

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2023.

Estate, Gift, and Generation Skipping Transfer Tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2023 is $17,000.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2023 is $12,920,000.

Standard Deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2023, the standard deduction is:

- $13,850 for single filers or married individuals filing separate returns
- $27,700 for married joint filers
- $20,800 for heads of household

The additional standard deduction amount for the blind and those age 65 or older in 2023 is:

- $1,850 for single filers and heads of household
- $1,500 for married couples filing jointly or separately

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,500 in 2023, with individuals age 50 or older able to contribute an additional $1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges (see chart). For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges (see chart). The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

MAGI Ranges: Contributions to a Roth IRA

	2023
Single/Head of household	$138,000–$153,000
Married filing jointly	$218,000–$228,000
Married filing separately	$0–$10,000

MAGI Ranges: Deductible Contributions to a Traditional IRA

	2023
Single/Head of household	$73,000–$83,000
Married filing jointly	$116,000–$136,000

Note: *The 2023 phaseout range is $218,000–$228,000 when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is $0–$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.*

Employer-Sponsored Retirement Plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $22,500 in compensation in 2023; employees age 50 or older can defer up to an additional $7,500 in 2023.
- Employees participating in a SIMPLE retirement plan can defer up to $15,500 in 2023, and employees age 50 or older can defer up to an additional $3,500 in 2023.

Kiddie Tax: Child's Unearned Income

Under the kiddie tax, a child's unearned income above $2,500 in 2023 is taxed using the parents' tax rates.

The Potential Benefits of Roth IRAs for Children

Most teenagers probably aren't thinking about saving for retirement, buying a home, or even paying for college when they start their first jobs. Yet a first job can present an ideal opportunity to explain how a Roth IRA can become a valuable savings tool in the pursuit of future goals.

Rules of the Roth

Minors can contribute to a Roth IRA as long as they have earned income and a parent (or other adult) opens a custodial account in the child's name. Contributions to a Roth IRA are made on an after-tax basis, which means they can be withdrawn at any time, for any reason, free of taxes and penalties. Earnings grow tax-free, although nonqualified withdrawals of earnings are generally taxed as ordinary income and may incur a 10% early-withdrawal penalty.

A withdrawal is only considered qualified if the account is held for at least five years and the distribution is made after age 59½ (unless an exception applies). Penalty-free early withdrawals can also be used to pay for qualified higher-education expenses; however, regular income taxes will apply.

In 2023, the Roth IRA contribution limit for those under age 50 is the lesser of $6,500 or 100% of earned income. In other words, if a teenager earns $1,500 this year, his or her annual contribution limit would be $1,500. Other individuals may also contribute directly to a teen's Roth IRA, but the total value of all contributions may not exceed the child's annual earnings or $6,500 (in 2023), whichever is lower. (Note that contributions from others will count against the annual gift tax exclusion amount.)

Lessons for Life

When you open a Roth IRA for a minor, you're giving more than just an investment account; you're offering an opportunity to learn about important concepts that could provide a lifetime of financial benefits. For example, you can help explain the different types of investments, the power of compounding, and the benefits of tax-deferred investing.

The young people in your life will thank you — sooner or later.

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contributions (limited to $7,500 in 2023). Also, starting in 2025, the catch-up contribution for people age 60 to 63 will increase to a minimum of $10,000 for 401(k) and similar workplace plans ($5,000 for SIMPLE plans). However, beginning in 2024, all catch-up contributions for workers with incomes above $145,000 will be after-tax (Roth) contributions.

New Penalty Exceptions

Distributions from retirement savings accounts are generally subject to ordinary income tax. In addition, distributions prior to age 59½ may be subject to an early-withdrawal penalty of 10%, unless an exception applies. SECURE 2.0 ushers in several new exceptions to the early-withdrawal penalty, including an emergency personal expense, terminal illness, domestic abuse, to pay long-term care insurance premiums, and to recover from a federally declared disaster. Amounts, rules, and effective dates differ for each circumstance, though many take effect immediately.

Changes to Employer Plans

Beginning in 2025, the Act requires most new employer-sponsored plans to automatically enroll employees with contribution levels between 3% and 10% of income, and automatically increase their savings rates by 1% each year until they reach at least 10% (but not more than 15%) of income. Workers will be able to opt out of the programs.

The new law also permits employer matches to be made to Roth accounts. Currently, employer matches must go into an employee's pre-tax (traditional) account. This provision takes effect immediately; however, it may take time for employers to amend their plans to include this feature.

Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb...And How to Defuse It* and many other books about IRA planning.

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