# OAKCREST INSIGHT

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## SECURE ACT 2.0: AN OVERVIEW

In the final days of 2022, Congress passed a new set of retirement rules designed to facilitate contribution to retirement plans and access to those funds earmarked for retirement.

The law is called SECURE 2.0, and it is a follow-up to the Setting Every Community Up for Retirement Enhancement (SECURE) Act passed in 2019.

The sweeping legislation has dozens of significant provisions; here are the major provisions of the new law.

### New Distribution Rules

**Required minimum distribution (RMD) age will rise to 73 years in 2023.** By far, one of the most critical changes was increasing the age at which owners of retirement accounts must begin taking RMDs. Further, starting in 2033, RMDs may begin at age 75. If you have already turned 72, you must continue taking distributions. However, if you are turning 72 this year and have already scheduled your withdrawal, we may want to revisit your approach.[1]

**Access to funds.** Plan participants can use retirement funds in an emergency without penalty or fees. For example, 2024 onward, an employee can take up to $1,000 from a retirement account for personal or family emergencies. Other emergency provisions exist for terminal illnesses and survivors of domestic abuse.[2]

**Reduced penalty.** Starting in 2023, if you miss an RMD for some reason, the penalty tax drops to 25 percent from 50 percent. If you promptly fix the mistake, the penalty may drop to 10 percent.[3]

### New Accumulation Rules

**Catch-up contributions.** From January 1, 2025, investors aged 60 through 63 years can make annual catch-up contributions of up to $10,000 to workplace retirement plans. The catch-up amount for people aged 50 and older in 2023 is

$7,500. However, the law applies certain stipulations to individuals with annual earnings more than $145,000.[4]

**Automatic enrollment.** In 2025, the Act requires employers to automatically enroll employees into workplace plans. However, employees can choose to opt-out.[5]

**Student loan matching.** In 2024, companies can match employee student loan payments with retirement contributions. The rule change offers workers an extra incentive to save for retirement while paying off student loans.[6]

## Revised Roth Rules

**529 to a Roth.** Starting in 2024, pending certain conditions, employers can roll a 529 education savings plan into a Roth individual retirement account (IRA). Therefore, if your child receives a scholarship, goes to a less expensive school, or does not go to school, the money can get repositioned into a retirement account. However, rollovers are subject to the annual Roth IRA contribution limit. Roth IRA distributions must meet a five-year holding requirement and occur after age 59½ to qualify for the tax-free and penalty-free withdrawal of earnings. Tax-free and penalty-free withdrawals are also allowed under certain other circumstances, such as the owner's death. The original Roth IRA owner is not required to take minimum annual withdrawals.[7]

**SIMPLE and SEP.** 2023 onward, employers can make Roth contributions to savings incentive match plans for employees (SIMPLE) or simplified employee pension (SEP).[8]

**Roth 401(k)s and Roth 403(b)s.** The new legislation aligns the rules for Roth 401(k)s and Roth 401(b)s with Roth IRA rules. From 2024, the legislation no longer requires minimum distributions from Roth accounts in employer retirement plans.[9]

## More Highlights

**Support for small businesses.** In 2023, the new law will increase the credit to help with the administrative costs of setting up a retirement plan. The credit increases to 100 percent from 50 percent for businesses with less than 50 employees. By boosting the credit, lawmakers hope to remove one of the most significant barriers for small businesses offering a workplace plan.[10]

**Qualified charitable donations (QCDs).** 2023 onward, QCDs will adjust for inflation. The limit applies on an individual basis; therefore, for a married couple, each person who is 70½ years and older can make a QCD as long as it remains under the limit.[11]

The change in retirement rules does not mean adjusting your current strategy is appropriate. Each of your retirement assets plays a specific role in your overall financial strategy, so a change to one may require changes to another.

Moreover, retirement rules can change without notice, and there is no guarantee that the treatment of specific rules will remain the same. This article intends to give you a broad overview of SECURE 2.0. It is not intended as a substitute for real-life advice. If changes are appropriate, your trusted financial professional can outline an approach and work with your tax and legal professionals, if applicable.

Citations

1. Fidelity.com, December 23, 2022
2. CNBC.com, December 22, 2022
3. Fidelity.com, December 22, 2022
4. Fidelity.com, December 22, 2022
5. Paychex.com, December 30, 2022
6. PlanSponsor.com, December 27, 2022

7. CNBC.com, December 23, 2022

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11. FidelityCharitable.org, December 29, 2022

## RETURNS (AS OF 12/31/22)

| ASSET CLASS | INDEX | 4 WEEK | YTD | 1 YEAR | 3 YEAR |
|---|---|---|---|---|---|
| US Large Cap | S&P 500 TR | -5.90% | -19.44% | -19.44% | 5.92% |
| US Large Cap | Dow Jones TR | -4.17% | -8.78% | -8.78% | 5.12% |
| US Small Cap | Russell 2000 TR | -6.64% | -21.56% | -21.56% | 1.82% |
| International | MSCI EAFE NR USD | -0.01% | -16.79% | -16.79% | -1.55% |
| Taxable Bonds | Barclays US Agg Bond TR | -0.87% | -13.02% | -13.02% | -2.80% |

## EIGHT MISTAKES THAT CAN UPEND YOUR RETIREMENT

Pursuing your retirement dreams is challenging enough without making some common, and very avoidable, mistakes. Here are eight big mistakes to steer clear of, if possible.

1. **No Strategy:** Yes, the biggest mistake is having no strategy at all. Without a strategy, you may have no goals, leaving you no way of knowing how you'll get there—and if you've even arrived. Creating a strategy may increase your potential for success, both before and after retirement.

2. **Frequent Trading:** Chasing "hot" investments often leads to despair. Create an asset allocation strategy that is properly diversified to reflect your objectives, risk tolerance, and time horizon; then make adjustments based on changes in your personal situation, not due to market ups and downs.[1]

3. **Not Maximizing Tax-Deferred Savings:** Workers have tax-advantaged ways to save for retirement. Not participating in your employer's 401(k) may be a mistake, especially when you're passing up free money in the form of employer-matching contributions.[2]

4. **Prioritizing College Funding over Retirement:** Your kids' college education is important, but you may not want to sacrifice your retirement for it. Remember, you can get loans and grants for college, but you can't for your retirement.

5. **Overlooking Healthcare Costs:** Extended care may be an expense that can undermine your financial strategy for retirement if you don't prepare for it.

6. **Not Adjusting Your Investment Approach Well Before Retirement:** The last thing your retirement portfolio can afford is a sharp fall in stock prices and a sustained bear market at the moment you're ready to stop working. Consider adjusting your asset allocation in advance of tapping your savings so you're not selling stocks when prices are depressed.[3]

7. **Retiring with Too Much Debt:** If too much debt is bad when you're making money, it can be deadly when you're living in retirement. Consider managing or reducing your debt level before you retire.

8. **It's Not Only About Money:** Above all, a rewarding retirement requires good health, so maintain a healthy diet, exercise regularly, stay socially involved, and remain intellectually active.

Citations

1. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are approaches to help manage investment risk. Asset allocation and diversification do not guarantee against investment loss. Past performance does not guarantee future results.
2. Under the SECURE Act, in most circumstances, you must begin taking required minimum distributions from your 401(k) or other defined contribution plan in the year you turn 73. Withdrawals from your 401(k) or other defined contribution plans are taxed as ordinary income, and if taken before age 59½, may be subject to a 10% federal income tax penalty."
3. The return and principal value of stock prices will fluctuate as market conditions change. And shares, when sold, may be worth more or less than their original cost. Asset allocation is an approach to help manage investment risk. Asset allocation does not guarantee against investment loss. Past performance does not guarantee future results.

## ESTIMATING THE COST OF COLLEGE

It doesn't take a degree in finance to see that the cost of college continues to rise.

In its 2021 report, the College Board showed that in-state tuition and fees at public four-year institutions increased by 9% in inflation-adjusted dollars between the 2011-12 and 2021-22 school years.[1]

For many families, the lion's share of education costs falls on the parents, and in some cases, the grandparents. Families rely on a combination of scholarships, grants, financial aid, part-time jobs, and parental contributions to help cover the cost. There are also a number of resources that can help individuals prepare for college, such as the College Board website and the government student aid website.

If your child is approaching college age, a good first step is estimating the potential costs. The accompanying chart can help you get a better idea about the cost of college.

Citations

1. CollegeBoard.org, 2022

## IMPORTANT BIRTHDAYS OVER 50

Most children stop being "and-a-half" somewhere around age 12. Kids add "and-a-half" to make sure everyone knows they're closer to the next age than the last.

When you are older, "and-a-half" birthdays start making a comeback. In fact, starting at age 50, several birthdays and "half-birthdays" are critical to understand because they have implications regarding your retirement income.

**Age 50**

At age 50, workers in certain qualified retirement plans are able to begin making annual catch-up contributions in addition to their normal contributions. Those who participate in 401(k), 403(b), and 457 plans can contribute an additional $6,500 per year in 2022. Those who participate in Simple Individual Retirement Account (IRA) or Simple 401(k) plans can make a catch-up contribution of up to $3,000 in 2022. And those who participate in traditional or Roth IRAs can set aside an additional $1,000 a year.[1,2]

**Age 59½**

At age 59½, workers are able to start making withdrawals from qualified retirement plans without incurring a 10% federal income-tax penalty. This applies to workers who have contributed to IRAs and employer-sponsored plans, such as 401(k) and 403(b) plans (457 plans are never subject to the 10% penalty). Keep in mind that distributions from traditional IRAs, 401(k) plans, and other employer-sponsored retirement plans are taxed as ordinary income.

**Age 62**

At age 62 workers are first able to draw Social Security retirement benefits. However, if a person continues to work, those benefits will be reduced. The Social Security Administration will deduct $1 in benefits for each $2 an individual earns above an annual limit. In 2022, the income limit is $19,560.[3]

**Age 65**

At age 65, individuals can qualify for Medicare. The Social Security Administration recommends applying three months before reaching age 65. It's important to note that if you are already receiving Social Security benefits, you will automatically be enrolled in Medicare Part A (hospitalization) and Part B (medical insurance) without an additional application.[4]

**Age 65 to 67**

Between ages 65 and 67, individuals become eligible to receive 100% of their Social Security benefit. The age varies, depending on birth year. Individuals born in 1955, for example, become eligible to receive 100% of their benefits when they reach age 66 years and 2 months. Those born in 1960 or later need to reach age 67 before they'll become eligible to receive full benefits.[5]

**Age 73**

In most circumstances, once you reach age 73, you must begin taking required minimum distributions from a traditional Individual Retirement Account and other defined contribution plans. You may continue to contribute to a traditional IRA past age 70½ as long as you meet the earned-income requirement.

Understanding key birthdays may help you better prepare for certain retirement income and benefits. But perhaps more importantly, knowing key birthdays can help you avoid penalties that may be imposed if you miss the date.

Citations

1. If you reach the age of 50 before the end of the calendar year.
2. IRS.gov, 2022
3. SSA.gov, 2022
4. SSA.gov, 2022. Individuals can decline Part B coverage because it requires an additional premium payment.
5. SSA.gov, 2022

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