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SECURE 2.0 will usher in many changes for retirement plans and IRAs over the next several years.

This information is not intended for tax, legal, investment, or retirement advice or recommendations.

Retirement Investors Get Another Boost from Washington

Amid the 1,650-page, $1.7 trillion omnibus spending legislation signed into law on 12/29/22 were several provisions affecting work-sponsored retirement plans and, to a lesser degree, IRAs. Dubbed the SECURE 2.0 Act of 2022 after the similarly sweeping Setting Every Community Up for Retirement Enhancement Act passed in 2019, the legislation is designed to improve the current and future state of retiree income in the United States.

What Does the Legislation Do?

The following is a brief summary of some of the most notable initiatives. All provisions take effect in 2024 unless otherwise noted.

- **Later age for required minimum distributions (RMDs).** The 2019 SECURE Act raised the age at which retirement savers must begin taking distributions from their traditional IRAs and most work-based retirement savings plans to 72. SECURE 2.0 raises that age again to 73 beginning in 2023 and 75 in 2033.

- **Reduction in the RMD excise tax.** 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.

- **No RMDs from Roth 401(k) accounts.** 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 work-based plan Roth accounts.

- **Higher limits and looser restrictions on qualified charitable distributions from IRAs.** The amount currently eligible for a qualified charitable distribution from an IRA ($100,000) will be indexed for inflation. 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.[1]

- **Higher catch-up contributions.** The IRA catch-up contribution limit will be indexed annually for inflation, similar to work-sponsored catch-up contributions. Also, starting in 2025, people age 60 to 63 will be able to contribute an additional minimum of $10,000 for 401(k) and similar plans (and at least $5,000 extra for SIMPLE plans) each year to their work-based retirement plans. Moreover, beginning in 2024, all catch-up contributions for those making more than $145,000 will be after-tax (Roth contributions).

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

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

- **Emergency savings accounts.** The legislation includes measures that permit employers to automatically enroll non-highly compensated workers into emergency savings accounts to set aside up to $2,500 (or a lower amount that an employer stipulates) in a Roth-type account. Savings above this limit and any employer matching contributions would go into the traditional retirement account.

- **Matching contributions for qualified student loan repayments.** Employers may help workers repaying qualified student loans simultaneously save for retirement by investing matching contributions in a retirement account in the employee's name.

- **529 rollovers to Roth IRAs.** People will be able to directly roll over up to a total of $35,000 from 529 plan accounts to Roth IRAs for the same beneficiary, provided the 529 accounts have been held for at least 15 years. Annually, the rollover amounts would be subject to Roth IRA contribution limits.[2]

- **New exceptions to the 10% early-withdrawal penalty.** Distributions from retirement savings accounts are generally subject to ordinary income tax. Moreover, distributions prior to age 59½ also may be subject to an early-withdrawal penalty of 10%, unless an exception applies. The law provides for 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.

- **Saver's match.** Low- and moderate-income savers currently benefit from a tax credit of up to $1,000 ($2,000 for married couples filing jointly) for saving in a retirement account. Beginning in 2027, the credit is re-designated as a match that will generally be contributed directly into an individual's retirement account. In addition, the match is allowed even if taxpayers have no income tax obligation.

- **More part-time employees can participate in retirement plans.** The SECURE Act of 2019 required employers to allow workers who clocked at least 500 hours for three consecutive years to participate in a retirement savings plan. Beginning in 2025, the new law reduces the second component of that service requirement to just two years.

- **Rules for lifetime income products in retirement plans.** The Act directs the IRS to ease rules surrounding the offering of lifetime income products within retirement plans. Moreover, the amount that plan participants can use to purchase qualified longevity annuity contracts will increase to $200,000. The current law caps that amount at 25% of the value of the retirement accounts or $145,000, whichever is less. These provisions take effect in 2023. Qualified annuities are typically purchased with pre-tax money, so withdrawals are fully taxable as ordinary income, and withdrawals prior to age 59½ may be subject to a 10% penalty tax.

- **Retirement savings lost and found.** The Act directs the Treasury to establish a searchable database for lost 401(k) plan accounts within two years after the date of the legislation's enactment.

- **Military spouses.** Small businesses that provide immediate enrollment and vesting to military spouses in an eligible retirement savings plan will qualify for new tax credits. This provision takes effect immediately.

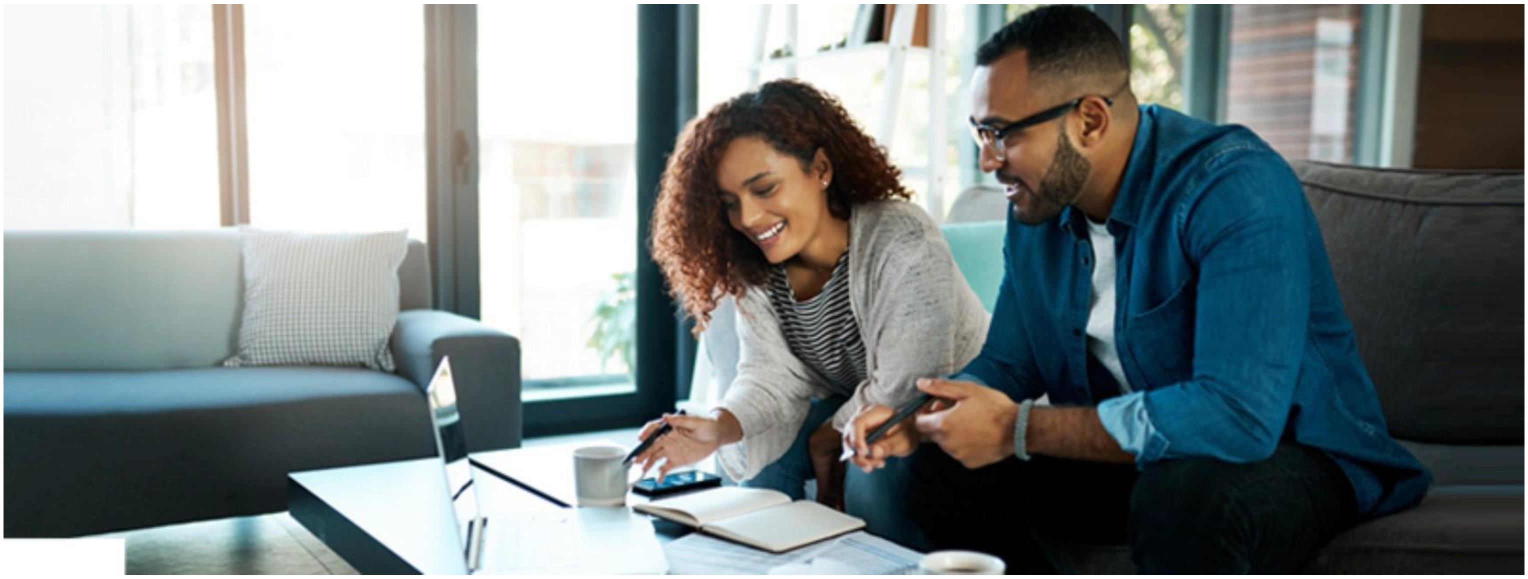
These provisions represent just a sampling of the many changes that will be brought about by SECURE 2.0.

Sources: *The Wall Street Journal,* CNBC, Bloomberg, *Kiplinger, Fortune, Plan Sponsor* magazine, National Association of Plan Advisors, and the SECURE 2.0 Act of 2022

[1] Bear in mind that not all charitable organizations are able to use all possible gifts. It is prudent to check first. The type of organization you select can also affect the tax benefits you receive.

[2] As with other investments, there are generally fees and expenses associated with participation in a 529 savings plan. There is also the risk that the investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free as long as they are used for qualified education expenses. For withdrawals not used for qualified education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% tax penalty. The tax implications of a 529 savings plan should be discussed with your legal and/or tax professionals because they can vary significantly from state to state. Also be aware that most states offer their own 529 plans, which may provide advantages and benefits exclusively for their residents and taxpayers. These other state benefits may include financial aid, scholarship funds, and protection from creditors. *Before investing in a 529 savings plan, please consider the investment objectives, risks, charges, and expenses carefully. The official disclosure statements and applicable prospectuses - which contain this and other information about the investment options, underlying investments, and investment company - can be obtained by contacting your financial professional. You should read these materials carefully before investing.*

Choosing an Income Tax Filing Status



Selecting a filing status is one of the first decisions you'll make when you fill out your federal income tax return, so it's important to know the rules. And because you may have more than one option, you need to know the advantages and disadvantages of each. Making the right decision about your filing status can save money and prevent problems with the IRS down the road.

The five filing statuses and how they affect your tax liability

Your filing status is especially important because it determines, in part, the tax rate applied to your taxable income, the amount of your standard deduction, and the types of deductions and credits available. By choosing the right filing status, you can minimize your taxes.

The five filing statuses are single, married filing jointly, married filing separately, head of household, and qualifying widow(er) with dependent child. There are seven income tax brackets for 2023. Your tax rate depends on your filing status and the amount of your taxable income. For example, if you're single and your taxable income is more than $11,000 but not more than $44,725 (in 2023), it's taxed at a top rate of 12 percent. If you're a head of household filer, though, your taxable income can climb to $59,850 and still be taxed at a top rate of 12 percent. So, some filing statuses are more beneficial than others.

Although you'll generally want to choose whichever filing status minimizes your taxes, other considerations (such as a pending divorce) may also come into play.

You're single if you're unmarried or legally separated from your spouse on the last day of the year

This one's pretty straightforward. And, depending on your circumstances, it may be your only option. Your filing status is determined as of the last day of the tax year (December 31). To use the single status, you must be unmarried or separated from your spouse by either divorce or a written separate maintenance decree on the last day of the year.

Married filing jointly may result in tax savings for married couples

You may file jointly if, on the last day of the tax year, you are:

- Married and living together
- Married and living apart, but not legally separated under a divorce decree or separate maintenance agreement, or
- Separated under an interlocutory (i.e., not final) decree of divorce

Also, you are considered married for the entire tax year for filing status purposes if your spouse died during the tax year.

When filing jointly, you and your spouse combine your income, deductions, and credits. Filing jointly generally offers the most tax savings for married couples. For one thing, there are many credits that you can take if you file a joint return that you can't take if you file married filing separately. These include the child and dependent care credit, the adoption expense credit, the American

Opportunity credit (the Hope credit), and the Lifetime Learning credit.

Still, this filing status is not always the most advantageous. If your spouse owes certain debts (including defaulted student loans and unpaid child support), the IRS may divert any refund due on your joint tax return to the appropriate agency. To get your share of the refund, you'll have to file an injured spouse claim. You can avoid the hassle by filing a separate return.

You don't have to be separated to choose married filing separately

You and your spouse can choose to file separately if you're married as of the last day of the tax year. Here, you'd report only your own income and claim only your own deductions and credits. Filing separately may be wise if you want to be responsible only for your own tax. With a joint return, by comparison, each spouse is jointly and individually liable for the full amount of the tax due. So, if your spouse skips town, you'd be left holding the tax bag unless you qualified as an innocent spouse.

Filing separately might also be the best tax move if one spouse has significant medical expenses. Your ability to take this deduction is tied in to the level of your adjusted gross income (AGI). For example, medical expenses are generally deductible only if they exceed 7.5% of your AGI. By filing separately, the AGI for each spouse is reduced. Keep in mind that if you and your spouse file separately and your spouse itemizes deductions, you'll have to do the same.

Remember, though, that you won't qualify for certain credits (such as the child and dependent care tax credit) and can't take certain deductions if you file separately. For example, you cannot deduct qualified education loan interest if you're married, unless you file a joint return.

Head of household status offers certain income tax advantages

Those who qualify for the head of household filing status get special tax treatment. Not only are the tax rate thresholds higher for head of household filers than for single filers and married filing separately filers, but the standard deduction is larger as well. However, you'll have to satisfy the following requirements:

- Generally, you should be unmarried at the end of the year (unless you live apart from your spouse and meet certain tests)
- You must maintain a household for your child, dependent parent, or other qualifying dependent relative
- The household must be your home and generally must also be the main home of a qualifying relative for more than half of the year
- You must provide more than half the cost of maintaining the household
- You must be a U.S. citizen or resident alien for the entire tax year

Qualifying widow(er) with dependent child offers the advantages of a joint return

You may be able to select the qualifying widow(er) with dependent child filing status if your spouse died recently. This status allows you to use joint tax rates and offers the highest possible standard deduction, the one applicable to joint tax returns. To qualify, you must satisfy all of the following conditions:

- Your spouse died either last tax year or the tax year before that
- You qualified to file a joint return with your spouse for the year he or she died
- You have not remarried before the end of the tax year
- You have a qualifying dependent child
- You provide over half the cost of keeping up a home for yourself and your qualifying child

As you can see, choosing the correct filing status is not always easy. You might want to speak with a tax professional or consult IRS Publication 17 for more information.

Taking Advantage of Employer-Sponsored Retirement Plans

Employer-sponsored qualified retirement plans such as 401(k)s and 403(b)s are some of the most powerful retirement savings tools available. If your employer offers such a plan and you're not participating in it, you should be. Once you're participating in a plan, try to take full advantage of it.

Understand your employer-sponsored plan

Before you can take advantage of your employer's plan, you need to understand how these plans work. Read everything you can about the plan and talk to your employer's benefits officer. You can also talk to a financial planner, a tax advisor, and other professionals. Recognize the key features that many employer-sponsored plans share:

- Your employer automatically deducts your contributions from your paycheck. You may never even miss the money — out of sight, out of mind.
- You decide what portion of your salary to contribute, up to the legal limit. And you can usually change your contribution amount on certain dates during the year or as needed.
- With 401(k), 403(b), 457(b), SARSEPs, and SIMPLE plans, you contribute to the plan on a pre-tax basis. Your contributions come off the top of your salary before your employer withholds income taxes.
- Your 401(k), 403(b), or 457(b) plan may let you make after-tax Roth contributions — there's no up-front tax benefit but qualified distributions are entirely tax free.
- Your employer may match all or part of your contribution up to a certain level. You typically become vested in these employer dollars through years of service with the company.
- Your funds grow tax deferred in the plan. You don't pay taxes on investment earnings until you withdraw your money from the plan.
- You'll pay income taxes (and possibly an early withdrawal penalty) if you withdraw your money from the plan.
- You may be able to borrow a portion of your vested balance (up to $50,000) at a reasonable interest rate.
- Your creditors cannot reach your plan funds to satisfy your debts.

Contribute as much as possible

The more you can save for retirement, the better your chances of retiring comfortably. If you can, max out your contribution up to the legal limit (or plan limits, if lower). If you need to free up money to do that, try to cut certain expenses.

Why put your retirement dollars in your employer's plan instead of somewhere else? One reason is that your pre-tax contributions to your employer's plan lower your taxable income for the year. This means you save money in taxes when you contribute to the plan — a big advantage if you're in a high tax bracket. For example, if you earn $100,000 a year and contribute $10,000 to a 401(k) plan, you'll pay income taxes on $90,000 instead of $100,000. (Roth contributions don't lower your current taxable income but qualified distributions of your contributions and earnings — that is, distributions made after you satisfy a five-year holding period and reach age 59½, become disabled, or die — are tax free.)

Another reason is the power of tax-deferred growth. Your investment earnings compound year after year and aren't taxable as long as they remain in the plan. Over the long term, this gives you the opportunity to build an impressive sum in your employer's plan. You should end up with a much larger balance than somebody who invests the same amount in taxable investments at the same rate of return.

For example, say you participate in your employer's tax-deferred plan (Account A). You also have a taxable investment account (Account B). Each account earns 6% per year. You're in the 24% tax bracket and contribute $5,000 to each account at the end of every year. After 40 years, the money placed in a taxable account would be worth $567,680. During the same period, the tax-deferred account would grow to $820,238. Even after taxes have been deducted from the tax-deferred account, the investor would still receive $623,381. (Note: This example is for illustrative purposes only and does not represent a specific investment.)

Capture the full employer match

If you can't max out your 401(k) or other plan, you should at least try to contribute up to the limit your employer will match. Employer contributions are basically free money once you're vested in them (check with your employer to find out when vesting happens). By capturing the full benefit of your employer's match, you'll be surprised how much faster your balance grows. If you don't take advantage of your employer's generosity, you could be passing up a significant return on your money.

For example, you earn $30,000 a year and work for an employer that has a matching 401(k) plan. The match is 50 cents on the dollar up to 6% of your salary. Each year, you contribute 6% of your salary ($1,800) to the plan and receive a matching contribution of $900 from your employer.

Evaluate your investment choices carefully

Most employer-sponsored plans give you a selection of mutual funds or other investments to choose from. Make your choices carefully. The right investment mix for your employer's plan could be one of your keys to a comfortable retirement. That's because over the long term, varying rates of return can make a big difference in the size of your balance.

Note: *Before investing in a mutual fund, carefully consider the investment objectives, risks, charges, and expenses of the fund. This information can be found in the prospectus, which can be obtained from the fund. Read it carefully before investing.*

Research the investments available to you. How have they performed over the long term? How much risk will they expose you to? Which ones are best suited for long-term goals like retirement? You may also want to get advice from a financial professional (either your own, or one provided through your plan). He or she can help you pick the right investments based on your personal goals, your attitude toward risk, how long you have until retirement, and other factors. Your financial professional can also help you coordinate your plan investments with your overall investment portfolio.

Know your options when you leave your employer

When you leave your job, your vested balance in your former employer's retirement plan is yours to keep. You have several options at that point, including:

- Taking a lump-sum distribution. Before choosing this option, consider that you'll pay income taxes and possibly a penalty on the amount you withdraw. Plus, you're giving up the continued potential of tax-deferred growth.
- Leaving your funds in the old plan, growing tax deferred. (Your old plan may not permit this if your balance is less than $5,000, or if you've reached the plan's normal retirement age — typically age 65.) This may be a good idea if you're happy with the plan's investments or you need time to decide what to do with your money.
- Rolling your funds over to an IRA or a new employer's plan (if the plan accepts rollovers). This may also be an appropriate move because there will be no income taxes or penalties if you do the rollover properly (your old plan will withhold 20% for income taxes if you receive the funds before rolling them over, and you'll need to make up this amount out of pocket when investing in the new plan or IRA). Plus, your funds continue to potentially benefit from tax-deferred growth.

IMPORTANT DISCLOSURES

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