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New Retirement Rules Impact All Ages & Incomes

New rules of retirement just went into effect. They usher in changes in tax rules affecting Americans of all age and income levels.

With nearly 40% of today's workers financially unprepared for retirement, according to the Center for Retirement Research at Boston College, the changes represent steps by the government to prevent the nation's retirement funding crisis from growing worse.

The new retirement rules are known as SECURE 2.0, but Congress formally entitled the law, *The Securing a Strong Retirement Act 2.0*.

How We Got Here. SECURE 2.0 expands on retirement rules signed into law by President Donald Trump in December 2019, the Setting Every Community Up for Retirement Enhancement (SECURE) Act. SECURE 2.0 is one part in the 4,155-page, $1.7 trillion Consolidated Appropriations Act of 2023 (CAA). The 4,155-page bill funds the U.S. government through September 30, 2023, enabling a long list of national priorities, such as aid to Ukraine and domestic disaster relief as well as retirement provisions in SECURE 2.0.

Effective Dates. Some of the new rules on retirement became effective January 1, 2023, while others won't kick in for many years. The new rules benefit retirees and pre-retirees in 2023 and will boost retirement funding for Americans for generations. Here's a summary of key provisions affecting retirement planning for individuals. Start At 73. In 2023, the age at which you are required to start taking annual distributions from an IRA or qualified retirement plan sponsored by your employer rises from 72 to 73. The age at which you must start taking distributions rises to 74 in 2030, and 75 in 2033. Delaying distributions enables money to compound without being taxed for longer, bolstering retirement assets and reducing taxes on assets left to children, grandchildren, and other beneficiaries.

Automatic Enrollment. Funding retirement security is highly correlated with participation in a qualified federal plan, such as an IRA, 401(k), or 403(b). So, automatic enrollment of employees will be required in newly-created federally qualified plans starting in 2025. Employees can opt out, but no longer will be required to proactively opt in.

Larger Employer Matches. Employers will be required to make annual contributions equal to or greater than 3% of an employee's wages. Employers can match contributions equal to as much as 10% of your wages. Employers can hike their matching contributions by 1% annually they match as much as 10% — with the option of up to a 15% matching contribution. Company retirement plans, thus, become a much more important factor in employee compensation and in attracting and retaining employees.

50-Plus Catch Up. A "catch-up" provision has long enabled those age 50

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How To Use This Newsletter To Build Your Wealth

Please use this newsletter as a reference source on personal finance. Leave it in a place where you and your family are likely to pick it up. It's not a breezy read. It's literally intended solely to increase financial literacy and may take reading two or three times.

When you receive a new quarterly newsletter, store the previous issue on a shelf or in a drawer. In two or three quarters, look back at the previous issues. Did you get a better understanding of investment and tax planning? Would you have benefited from following one of the strategies your read about? Please circle ideas of interest to you and bring the newsletter when we meet.

We make it our mission to serve as a trustworthy educational resource about tax and investments because truth is a casualty of the 30-year long information revolution. A dominant medium of our time is weaponized to create clicks. Trusting professional athletes, Hollywood stars, and other social media influencers for financial advice led many investors into the crypto-currency disaster.

This newsletter is not written to generate clicks or push emotional buttons. It deals with complex tax and financial strategies and helps implement a discipline. Technical tax and investing strategies are explained in charts and words, clearly and concisely, about a very personal topic you'd only talk about with someone you can trust, a real financial professional.

Long-Term Care Insurance Policy Alert

Forty percent of Americans over the age of 65 suffer from a physical or cognitive disability and the number of those requiring long term care is growing sharply. However, buying insurance that will pay for a long-term stay in a nursing home places consumers in a hard to navigate area of personal finance, where professional guidance is very important.

For many years, long-term care insurance (LTCI) policyowners have been forced to accept lower benefits or pay more to keep their policy's current benefits. Although state regulators are required to approve price hikes and benefit reductions, rarely do regulators refuse to grant insurers requests. Rising health care costs and technology have made LTCI policies difficult for insurers to price.

To be clear, companies that manufacture and sell insurance policies start with one set of policy benefits and prices, but they are often subject to change over the years. Pricing the cost of a nursing home, home-care, and other policy benefits is complicated. How complicated?

Compared to the calculation involved with figuring out an individual's risk of dying, LTC insurance policies are much more complicated products. Life insurance involves one risk: mortality. Calculating an individual's risk of dying is the single risk insurers need to price in to sell a life insurance policy. In contrast, long-term care insurance involves two risks – bad health as well as mortality.

Calculating an individual's risk of bad health as well as their life expectancy requires more actuarial calculations than a life insurance policy. Keep in mind, insurers customarily require your health records to determine your personal risk of heart disease, dementia, cancer, and other chronic diseases. The insurers routinely require access to your health history before pricing your personal policy proposal.

For consumers, shopping for a long-term care insurance policy demands that you have access to the same kind of tools used by insurers to offer you a LTCI policy.

Using specialized software tools , we can help you determine whether an LTCI insurer is offering you a policy based on your personal health history. Advising on LTCI requires specialized software tools and analysis from a qualified professional based on your personal health and mortality risks, If you are interested in accessing an algorithm that factors in your health, age, and other risk variables personal to you to help you price LTCI, please contact us. ●

Financial History Is Crucial To Investing

The extreme financial effects of the COVID-19 pandemic seemed unprecedented to most investors. Over the past two years, Americans witnessed a sudden stop financial crisis in March 2020, the injection of nearly $10 trillion of monetary and fiscal stimulus within a matter of months, and an unanticipated burst of inflation that caught even the Federal Reserve off guard. The truth, however, is that these events seem anomalous only because many historical parallels have disappeared from our collective memory. In fact, there are no living Americans who recall the two most relevant events — the onset of World War I in July 1914 and the post-World War I/Great Influenza inflation of 1919-1920.

Famed economist John Kenneth Galbraith once said, "for practical purposes, the financial memory should be assumed to last, at maximum 20 years." But this principle applies only if you lack the will to self-educate on events that transpired beyond this boundary, or work with a properly schooled professional.

"Those who delve into the more distant past discover that what seems unprecedented in the moment has almost always occurred before — often multiple times," says financial historian Mark Higgins, CFA, CFP®. "More so than prior financial crises, the COVID-19 pandemic revealed the importance of carefully studying financial history."

Students of the 1919–1920 inflation were unsurprised by the onset of Post-COVID-19 inflation, according to Mr. Higgins, whose forthcoming history of the U.S. financial system, "Becoming An Enlightened Investor," (Greenleaf Book Group) is expected to arrive on Amazon in Fall 2023.

"Investors who recall the policy mistakes of the Federal Reserve in the late 1960s understand why the Fed leadership today is unlikely to repeat these errors," says Mr. Higgins. "This

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Developing Portfolio Return Expectations

Would you accept 10% less return on stocks annually every year to experience 40% less volatility than stocks?
If you would, you're on the way to developing realistic investment return expectations.

This article is not investment advice but intended only as an exercise to help readers develop expectations about generating retirement income or building enduring family wealth. It's not an easy read, but developing portfolio performance expectations is important and requires thought.

Thinking through your return expectations may help in maintaining a long-term strategic view through bear markets. This article also may help separate stock performance from performance of a diversified portfolio.

Investors commonly expect a 10% annual return. To be clear, the Standard & Poor's 500 stock market index has averaged a 10% return for decades. But it assumes 100% of your portfolio is invested in stocks.

The accompanying table shows the annualized risk and returns of seven distinct assets for the 50 years ended December 31, 2022. The seven assets were selected because, as a group, they comprise a diversified portfolio and have been indexed publicly since 1970, according to Craig Israelsen, Ph.D., who teaches about portfolio design at Utah Valley University.

Diversification reduces the risk of major losses from investing in a single security or single asset class. In addition, 50 years of risk and returns are a lot, and history rhymes or repeats periodically. Which makes this is a constructive way to plan for the decades ahead.

7-Asset Diversified Portfolio Risk & Return, 1973-2022

1973 – 2022	Large US Equity	Small US Equity	Non-US Equity	US Bonds	Cash	Real Estate	Commodities	7-Asset Equally Weighted
50-Year Average Annual Return	10.32%	11.07%	7.77%	6.60%	4.49%	10.65%	5.90%	9.14%
50-Year Standard Deviation of Annual Returns	17.69%	21.34%	21.15%	7.06%	3.64%	20.10%	25.13%	10.59%
% of Time with Positive Annual Return	78%	70%	70%	90%	100%	78%	68%	84%
Worst Three-Year Cumulative % Return	-37.61%	-22.85%	-43.32%	-7.92%	0.14%	-35.61%	-55.60%	-13.37%

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Of the seven assets, U.S. small company stocks offered the best return. However, they also experienced the greatest risk, as measured by standard deviation. Because of their price volatility, high-risk/high-return investments tend to be more aggravating. How aggravating? So aggravating that you may agonize over whether to sell when their losses are large and their outlook is grim. Selling when prices are low is, of course, the opposite of the strategy long-term investors want to implement.

What's the prudent long-term strategy to be gleaned from the past half-century? The asset class with the best risk/reward tradeoff was large company stocks, as measured by the S&P 500 stock index. The seven-asset portfolio was much more efficient, offering 90% of the return of the S&P 500 but with 40% less volatility.

Aligning your expectations with data in this table may help as the bear market approaches its one-year anniversary on June 13, 2023.

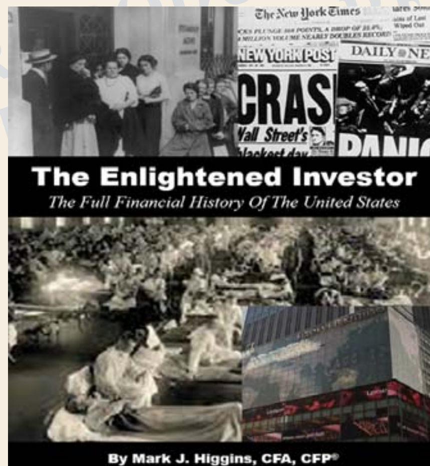
Indexes representing asset classes:

Large-cap US equity represented by the S&P 500 Index from 1973-2022; smallcap US equity by Ibbotson Small Companies Index from 1973-1978 and Russell 2000 Index from 1979-2022; non-US equity by MSCI EAFE Index from 1973-2022; real estate by NAREIT Index from 1973-1977 and Dow Jones US Select REIT Index from 1978-2022; commodities by Goldman Sachs Commodities Index (GSCI) from 1973-2022. As of February 6, 2007, GSCI became S&P GSCI Commodity Index; U.S. Aggregate Bonds by Ibbotson Intermediate Term Bond Index from 1973-75 and Bloomberg Aggregate Bond Index from 1976-2022; cash by 3-month Treasury Bills from 1973-2022. ●

makes the Federal Reserve's hawkish turn in 2022 an expected outcome rather than an aberration."

Those who know about the speculative bubbles that have tormented U.S. markets for more than two centuries are justifiably skeptical of the unproven prospects of cryptocurrencies and NFTs. "Deep knowledge of the past enables envisioning the future with greater clarity," Mr. Higgins, says a senior investment advisor to multi-billion-dollar institutional federally qualified pension and 401(k) plans. "Investors who immerse themselves in history will likely greet future financial events with recognition rather than surprise, enabling better outcomes."

If you are interested in learning more about how the period from 1914 to 1921 parallels with current investment conditions and how knowledge of history affects our firm's investment outlook, please let us know. ●



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New Retirement Rules

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or older to boost contributions to IRA, 401(k) and other federally qualified retirement plans. For those ages 60 through 63, the $7,500 catch-up amount permitted in 2023 rises to $10,000 on January 1, 2025, and the catch-up amounts will be indexed to inflation annually. The enlarged catch-up contributions are a potent new last-minute tactic to make up for a shortfall in funding retirement.

Get With A Plan. Under SECURE 2.0, companies can give employees gift cards and incentives worth up to $100 to encourage participation in the company retirement plan in 2023. Until now, in an effort to protect workers from conflicts of interest, employers were prohibited from using incentives.

Part-Time Help. As of 2023, part-time employees can participate in a retirement plan, under SECURE 2.0 after three consecutive years of service. In 2024, the waiting period drops to two years of consecutive service.

Small Business Credit. In 2022, small businesses with up to 50 employees were eligible for a credit on 50% of the cost of starting a qualified plan. In 2023, the credit rises to 100%. The increase does not apply to defined benefit plans.

Military Families. Military spouses often fail to qualify for participating in qualified plans because they relocate so often. Under SECURE 2.0, in 2023, small employers are eligible for a tax credit for allowing military spouses to participate in a plan with no waiting period.

Student Loan Debtors. For individuals hobbled by student loan payments, your employer can make contributions to retirement plan that match your student loan payments — even if you contribute nothing to your plan. That's big! Lower Wage-Earners. A tax credit for lower income wage earners doubles from $1,000 to $2,000 in 2027. For example, joint-filers with $41,000 to $71,000 of income (single filers with $20,500 to $34,000) qualify.

Some critics say SECURE 2.0 did not go far enough in helping lower-income earners and "gig" workers. The Congressional Budget Office says the Act will boost tax revenue by $158 million in the 10 years ending in 2031, and make participating in a plan more important in financial planning. This list is only a sampling of how the new rules in SECURE 2.0 will affect individuals.●

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