Retirement Planning Insights

January 2023

Tenon Financial Happenings

- Retirement Planning Education

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- SECURE 2.0 Act of 2022

Tenon Financial Happenings

The launch of Retirement Planning Education

After three years of producing a few different mediums of retirement planning content, I decided to restructure things.

When I launched Tenon Financial in November 2019, I started this monthly e-newsletter, Retirement Planning Insights. In April 2020, I started my Facebook group, Taxes in Retirement. In June 2020, I started my YouTube channel, Retirement Planning Demystified. In January 2022, I started my podcast, Retirement Planning Education.

After some thought (and feedback from people who follow me and my content), it became clear that it would make sense to merge together the identities of my different content sources.

This e-newsletter will continue to be called Retirement Planning Insights and it will still formally be associated with my advisory firm, Tenon Financial. However, I'm shortening it to only two sections, from three (frankly, I don't enjoy writing!) However, there are nearly 5k of you who subscribe to this via e-mail. With that said, I don't want to just stop this altogether.

As for the Facebook group, YouTube channel and podcast, they are essentially getting stripped out from being directly associated with my firm and will now be content from just me, Andy Panko the individual, as opposed to me, Andy Panko the owner of Tenon Financial who had occassionally spoken in those places as a representative of Tenon Financial.

Furthermore, I recently changed the names of both the Facebook group and YouTube channel to Retirement Planning Education, so they now share a common name with the podcast.

Additionally, while it's not yet fully built out, these three content sources will be associated with a new website, www.RetirementPlanningEducation.com.

Retirement Planning Education
with Andy Panko, CFP®, RICP®, EA

Also, I'll soon be moving all of the stuff from the "Free Resources" section of the Tenon Financial website to the new Retirement Planning Education website.

The goal of these changes is to clearly delineate Tenon Financial the advisory business from the other content and information separately created and shared from me, the individual, under the Retirement Planning Education "brand."

While the name and location of most of my content will be different going forward, I assure you the juicy awesomeness of it will not change. I'm confident you'll enjoy and value the new structure!

Here's wishing you a happy and healthy 2023.

-Andy

Retirement Planning Happenings

Summary of the SECURE 2.0 Act of 2022

Leave it to the government to jam through major legislative changes in the last few days of the year.

In late-December 2019, the SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 quickly and quietly came out of nowhere and was signed into law. The Act made many noteworthy changes to retirement planning-related legislation, including increasing the Required Minimum Distribution ("RMD") age from 70 ½ to 72.

Lest you fear history not repeat itself, new retirement planning legislation dubbed the SECURE 2.0 Act of 2022 ("SECURE 2.0") came again basically out of nowhere a few days before Christmas and was signed into law by President Biden on December 29th.

To be fair, the legislation wasn't COMPLETELY out of left field; many of the provisions in SECURE 2.0 have been kicked around in various forms for the last few years, but didn't actually materialized into law. However, the retirement planning industry at-large was not aware these things were back on the docket to be potentially revisited before the end of the year, let alone a few days before Christmas with the plan of becoming law before December 31st. But I digress.

The purpose of SECURE 2.0 is to expand on what the first SECURE Act started a few years ago; to try to improve the nation's collective retirement security. While not perfect, both of these acts made/make changes that should help improve people's retirement readiness, even if only marginally.

For a full summary of SECURE 2.0 straight from the horse's mouth, you can view the U.S. Senate's official 19-page summary **here**.

Even better than that (and better than my own recap here in this newsletter), is a great summary from industry expert Jeff Levine **here**.

While this is FAR from a comprehensive list of all of the new provisions contained in SECURE 2.0, here's what I feel are its changes that are most likely to impact those of you reading this:

- **Increased adoption and enrollment of employer retirement plans** - I'm glossing over it, but A LOT of SECURE 2.0 is focused on making workplace retirement plans, such as 401(k)s, more accessible and easier for employers and employees to open and enroll. SECURE 2.0 expands automatic enrollment provisions, provides tax credits for small employers to start plans and allows for multiple employers to band together to participate in larger shared plans.
- **Increase in Required Minimum Distribution ("RMD") age** – Currently, you generally must start taking RMDs from your qualified retirement accounts like IRAs and 401(k)s in the year you turn 72. SECURE 2.0 increases the RMD age to either 73 or 75 for those born after 1950 (if you were born in 1950 or earlier, you will continue needing to take RMDs as scheduled). If you were born between 1951 and 1958 you now don't have to start RMDs until the year they turn 73. If you were born in 1960 or later, you now don't have to start RMDs until the year you turn 75. Where there is confusion and ambiguity in the legislation is regarding those born in 1959. Based on the literal wording in the legislation, people born in 1959 fall under both the new age 73 AND 75 provisions… Stay tuned for clarifications.
- **Inflation increases for IRA catch-up contributions** – Currently, if you're 50 or older, you can potentially contribute an additional $1,000 to an IRA or Roth IRA on top of the year's normal contribution limit. Historically, this $1,000 "catch-up" contribution amount hasn't been indexed for inflation, but it will start to index in 2024.
- **Increased employer retirement plan catch-up contributions** – Currently, if you're 50 or older and enrolled in an employer retirement plan like a 401(k), you can make an additional catch-up contribution on top of the year's normal contribution limit. Starting in 2025, the amount of the catch-up contribution will increase for people who are ages 60 through 63. There are more complicated details than this but, the gist is, starting in 2025, those who will be between 60 and 63 will be able to put more into their employer retirement plans.
- **10% penalty waiver on certain emergency expense withdrawals from qualified plans** – If you're under 59 ½ and take distributions from a pre-tax qualified retirement plan like an IRA or 401(k), the distribution is subject to

a 10% early withdrawal penalty unless you meet one of a few qualifying conditions. SECURE 2.0 adds a new penalty waiver, starting in 2024, for distributions used for, "…meeting unforeseeable or immediate financial needs relating to necessary personal or family emergency expenses." There is a limit of one distribution per year, up to $1,000.

- **Ability to roll unused 529 college savings funds into Roth IRAs** – Starting in 2024, SECURE 2.0 allows a certain amount of 529 money to be rolled over into a Roth IRA, assuming the Roth IRA account owner and 529 beneficiary are the same person. The 529 account must have been opened at least 15 years and only $35k of aggregate rollover can happen per 529 account beneficiary/Roth IRA owner. Additionally, that $35k maximum rollover amount is also subject to normal annual Roth IRA contribution limits.

- **Increase to the amount of Qualified Longevity Annuity Contract ("QLAC") that can be purchased within a retirement account** – A QLAC is a special type of deferred annuity that can be purchased within a qualified retirement account like an IRA. The amount of money used to purchase the QLAC is not subject to normal RMDs that would otherwise be required to start when the account holder turns 72 (or 73 or 75). Instead, the money is eventually taxed when the QLAC commences paying lifetime income, which needs to happen no later than age 85. Currently, you can't use more than 25% of your retirement account balances, or $145,000, whichever is less, to buy QLACs. SECURE 2.0 removes the 25% limitation and increases the dollar limit to $200,000 (which will be indexed for inflation). Per the wording in the legislation, these changes are to become effective within 18 months of enactment of the Act.

- **Removing bifurcation of RMDs between annuitized annuities and other investable assets within IRAs** – Currently, if you buy an annuity with pre-tax retirement money (e.g. inside an IRA) and "annuitize" that annuity by turning it into an irrevocable stream of lifetime income payments, there is functionally no longer any RMD associated with the portion of the IRA used to buy and annuitize the annuity. However, the payments from the annuity can't be used to apply toward meeting the RMDs of your other investable IRA assets. SECURE 2.0 changes this such that you will be able to aggregate annuitized IRA annuity income payments with RMD requirements on other IRA assets.

- **Reduction in penalty on missed RMDs** – Currently, if you miss taking an RMD, there is a 50% penalty on the amount missed. SECURE 2.0 reduces the penalty to 25%, It further reduces it to 10% if you address and rectify the missed RMD within the "correction window," (as defined in the Act) which basically means fixing it before the IRS notifies you that you missed it, or within two years, whichever comes first. These changes are to be effective in 2023.

- **RMDs no longer required from Roth 401(k) plans** – While there are not RMDs for owners of Roth IRAs, there ARE currently RMDs for owners of Roth 401(k)s. SECURE 2.0 removes RMDs from Roth 401(k)s (until the original owner dies, at which point his or her heirs will have to take RMDs from the account). These changes are to take effective in 2024.

- **Surviving spouses can take RMDs from inherited accounts based on the deceased's age and RMDs** – Currently, if someone dies and leaves a qualified retirement account to their spouse, the spouse has a few options for how to treat the account from an RMD perspective. Generally, the surviving spouse can make the account his or her own (and therefore RMDs will fall under the surviving spouse's own RMD rules), or "stretch" RMDs from the account over the surviving spouse's life expectancy. Starting in 2023, SECURE 2.0 would give the surviving spouse the option of taking RMDs based on when the deceased spouse would have had to, using the same RMD factors that the deceased spouse would have had to use.

- **SIMPLE and SEP IRAs will allow Roth contributions** – Currently, SIMPLE and SEP IRAs allow only pre-tax contributions. Starting in 2023, SECURE 2.0 will permit such plans to receive Roth contributions.

- **Employer plan catch-up contributions will only allow Roth contributions for highly compensated employees** – Currently, if you're 50 or older and make a catch-up contribution to an employer retirement plan like a 401(k), you have the option of making the catch-up contribution on a pre-tax or Roth basis. Effective 2024, all such catch-up contributions will be required to be Roth for employees whose compensation is more than $145,000 (to be indexed for inflation each year). For employees whose compensation will be below that level, catch-up contributions will continue to be able to be pre-tax or Roth.
- **Employer retirement plan matching contributions can start to be Roth** – Currently, if your employer makes a matching contribution into your employer retirement plan such as your 401(k), the matching contribution is required to go into your pre-tax account (even if your contribution on which the match occurred was into your Roth account). Starting in 2024, SECURE 2.0 will make it possible for employers to begin allowing matches to go into the employee's Roth account.