Schneider WEALTH STRATEGIES

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WEALTH MANAGEMENT REPORT

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 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.

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.

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

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Don't Let Financial Anxiety Rattle You

2022 was a bad year for investors, with stocks and bond posting declines. Meanwhile, the U.S. inflation rate soared to a 40-year high. In addition, a European ban on buying Russian oil and gas increased energy prices, exacerbating Covid-related supply chain problems through the end of the year. Adding insult to injury, the Fed was and has been raising interest rates relentlessly to combat inflation, which is smart- even if it risks throwing us into a recession.

2022's volatility has continued into 2023. Inflation, geopolitical instability, rate hikes, and recession remain real risks, and any combination of them could make for a wild ride in the coming months.

We live in a time of high financial anxiety, as evidenced by the recent failures of several banks.

Times like these heighten financial stress and can bring out counter-productive behaviors in investors. So if you are checking your investments daily and obsessing over your account values more than usual or feeling anxious about your portfolio strategy, please get in touch with us.

Always remember that investing is a long-term game. As financial advisors, we are here to help you navigate the ups and downs of the market and keep your portfolio on track. Don't let financial anxiety throw you off your game - reach out to us for support and guidance.

Please note, changes in tax and estate planning laws may occur at any time and could have a substantial impact upon each person's situation. While we are familiar with the tax and estate planning provisions of the issues presented herein, as Financial Advisors of Cambridge Investment Research, Inc we are not qualified to render advice on tax or legal matters. You should discuss any tax or legal matters with the appropriate professional.

The Great Paradox Of Equity Investing

Stock bear markets in the post-War era lasted an average of about 11 months.

The current bear market began June 13, 2022. That was when stocks, as measured by the Standard & Poor's 500 index, declined by more than 20% from their all-time high price of January 3, 2022.

The bear market will not end unless and until stock prices recover and surpass their early-2022 high price. That's a real risk, and it helps explain why the U.S. stock market became the premier risk asset for long-run investors across the world. It also helps explain a crucial paradox of investing for the long run.

U.S. stocks are unique among the world's investments because they not only possess a history of 10% annualized returns, but they are also liquid. They can be sold anytime. Diamonds, private investments, and other equity assets are generally not as liquid. Nor do they generally possess the documented history of appreciation of stocks.

As the bear market in stocks stretches on, we want to remind you of a paradox of long-term investing: Putting up with periodic losses in the world's leading equity market has been a good investment strategy. Stocks are a risky investment. However, they have been the key driver of growth for retirement portfolios and family wealth.

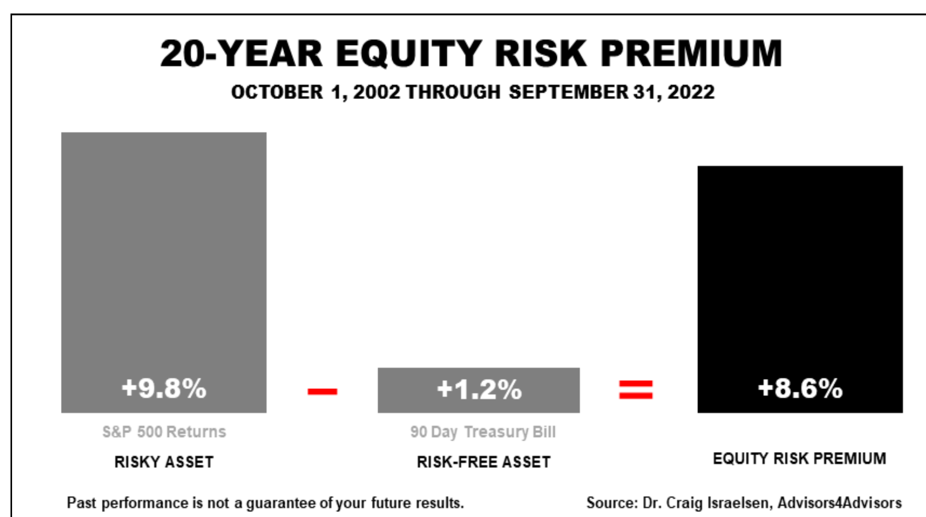
The equity risk premium, which is illustrated on the right, shows the rewards received annually for tolerating stock risk versus a risk-free investment.

In the 20 years ended December 31, 2022, stocks averaged a 9.8% annual return, more than seven times the 1.2% of riskless 90-day U.S. Treasury bills.

Subtracting the average annual return on T-bills from the return on stocks, the resulting 8.6% is the premium stock investors over the past 20 years annually earned for taking the risk of owning U.S. stocks. T-bills are considered risk-free because they're backed by the full faith and credit of the United States.

In contrast, stock investments are not guaranteed. Stock prices fluctuate unpredictably, depending on investor sentiment and economic conditions. In addition, there is no guarantee the strong returns earned on stocks will be repeated in the future.

That is precisely why stocks have paid a significant premium over a riskless investment. It's the great paradox of investing and important to remember under current conditions, which is why we chose to run this article a second time. ●



The Warren Buffett Of The Early 1900s Was A Woman: Here's

In an era of financial titans like Jeff Bezos, and Warren Buffett, it's hard to imagine that way back, at the turn of the 19th century, one of America's dominant investors was a woman. But it's true.

Born in 1834, in New Bedford, Massachusetts, Henrietta (Hetty) Green came from a wealthy family and, as a child, she read financial reports to her grandfather. The knowledge stuck, and she became the greatest value investor of her era and an influential figure in America for many decades.

She was a key figure in rescuing the U.S. Treasury from a frightening financial crisis. The Panic of 1907 was the last major financial crisis to occur without the support of a central banking system in the United States. If not for J. Pierpont Morgan's effort to secure financial support from banks and trusts, along with a small group of individual investors, including Hetty Green, the entire U.S. financial system would have collapsed, and the nation almost certainly would have descended into a Great Depression-level event. Historical accounts indicate the Panic of 1907 was so terrifying that it led to codification of the nation's central banking system, the Federal Reserve Act of 1913.

Less well-known, however, is the role played by Hetty Green. In an era in which women were forbidden from holding a position on a corporate board or even exercising the right to vote, Hetty Green was invited to the Morgan Library in midtown Manhattan to brainstorm solutions to the national financial emergency.

In contrast to J. P. Morgan, Hetty Green saw the crisis emerging and had prepared for it by raising a mountain of cash in advance. This enabled her to assist, not only with her great financial mind, but also with her wallet. She lent generously at reasonable rates to steer the nation clear of a self-reinforcing deflationary vortex.

Where Your Money Goes When You Die

Since a 1965 book by financial planner Norman Dacey popularized avoiding probate, the strategy has become ingrained in the American financial psyche, and the U.S. financial system has accommodated consumers by making it easy to set up IRAs and other brokerage accounts to avoid probate.

Now, with the first generation of Americans who set themselves up to avoid probate starting to die, the quiet evolution of avoiding probate has created an urgent need for Baby Boomers to understand what will happen to their assets when they die. Once the domain of legal professionals only, strategies for estate planning and avoiding probate are today part of the financial advice process.

Since the 1980s, states changed property laws to make avoiding probate easier. Now, naming the beneficiaries of your IRA, Roth IRA, and other federally qualified retirement accounts avoids probate and that puts a financial advisor at the center of a crucially important estate planning decision.

Probate is the term for a legal process of distributing your assets after you die. Probate opens your will to objections from disgruntled family members, heirs who feel shortchanged, and makes public a record of personal information about your estate. The process can take a long time, tying up funds for months or longer.

"Avoiding probate became standard operating procedure for the entire generation of Baby Boomers with the advent of irrevocable trusts," said L. Paul Hood, Jr., who teaches estate tax planning to legal, accounting, and financial professionals. "Now, as Baby Boomers are starting to die, many don't completely understand that their financial advisor – and not their attorney – plays a pivotal role in ensuring your estate passes to beneficiaries outside of probate and in conformity with your wishes."

In addition to beneficiary-designation assets, most property that used to pass via probate can avoid it altogether now if properly titled. Real estate can pass by joint tenancy with rights of survivorship. Bank accounts can pass to the account beneficiary via a pay-on-death (POD) account. Marketable securities can pass to the account beneficiary via a transfer-on-death (TOD) account. In joint tenancy, POD and TOD accounts, the accountholder's will is irrelevant, even if it conflicts.

What if the account holder wants to change the account beneficiary in a POD or TOD account? They don't need to go to their estate planning lawyer; they need only visit (even electronically) the account sponsoring organization.

Unfortunately, with the rampant increase in elder financial abuse, it's now incumbent on the employees and representatives at banks and brokerages to keep watch for vulnerable seniors being taken into offices to change account beneficiaries without their consent or understanding. Given that account-sponsoring organizations now effectively control ultimate disposition of the accounts on death, it's increasingly clear that organizations that don't take adequate precautions to protect the vulnerable and elderly could be sued if they fail to do so.

Depending on your personal circumstances, a legal professional specializing in estate planning can be called in to assist in certain instances, including:

- family members with special needs
- transfer ownership of a business or investments
- gifting your residence to heirs
- leaving assets to charity
- estate is valued at more than $12.06 million

Estate planning is central to fulfilling our role as your trusted financial advisor. If you have questions about what happens to your assets when you die, please do not hesitate to contact us.●

The Inspiring Story Of Hetty Green

Hetty Green's financial help during the Panic of 1907 was the most public accomplishment of her long career, but her achievements in prior decades were no less impressive. She remains one of America's all-time best investors.

For more on Hetty Green's inspiring story, visit the Museum of American Finance online at www.moaf.org, and read the Fall cover story of *Financial History* magazine.

Financial historian, Mark J. Higgins, contributed to this article. His full financial history of the U.S., The Enlightened Investor (Greenleaf Book Group), is expected in bookstores in Fall 2023. ●

Answering Some Difficult Personal Financial Questions

At age 65, only about 20% of American retirees have family and financial resources to cover high-intensity care for at least three years. About 30% cannot afford any help at all. The remaining half of older adults lie somewhere in between not being able to afford any care and having a long-term safety net should they be stricken by a prolonged health crisis.

These are the grim conclusions of The Center for Retirement Research (CRR) at Boston College. Part of a consortium of research groups funded by the U.S. Social Security Administration since 2018, CRR's research paints a gloomy picture of the retirement struggle most Americans are facing.

In a September 2021 research brief, CRC examined the resources available 65-year-olds to meet their needs for different long-term services and support (LTSS). CRC's analysis considered "informal" care from family members, as well as care paid for out of a retiree's pocket, and it categorized older adults by their ability to afford minimal, moderate, and severe care needs.

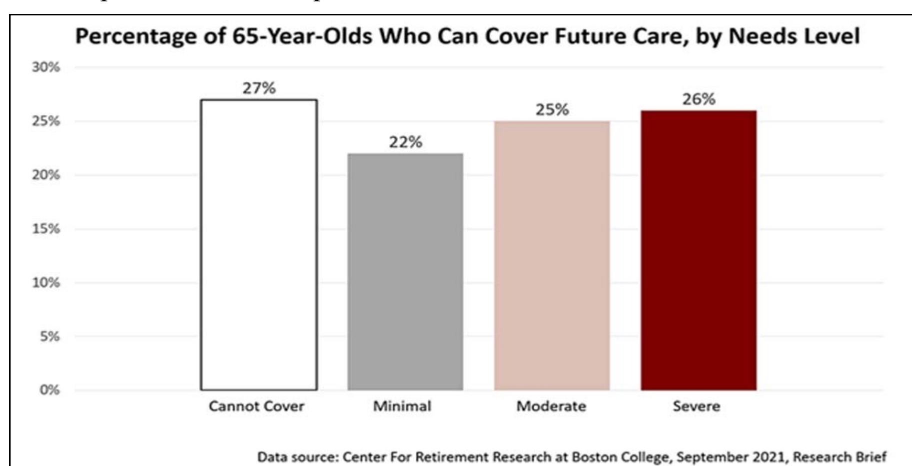
With about a third of America's retirees lacking resources for even minimal care, and only a fifth able to afford care for a severe personal health crisis, such as a stroke or chronic disease, this problem is expected to cause enormous social and political issues in the decades ahead as baby boomers age. However, even if you have family support and enough money to care for a severe health event requiring long-term care, proper planning requires answering some difficult personal financial questions:

Can you afford to self-insure in your old age?

Have you done the financial math to ensure you could pay for a severe-care event in your retirement years, figuring on living through age 85 or 90?

Have you paid for long-term care insurance that has grown more expensive or now provides lower benefits than it used to?

The earlier you get started on planning your retirement portfolio and income needs, the easier it is to find solutions and gain peace of mind. ●



New Retirement Rules

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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. Beginning in 2024, catch-up contributions for those earning $145,000 or more must be after-tax Roth contributions.

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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