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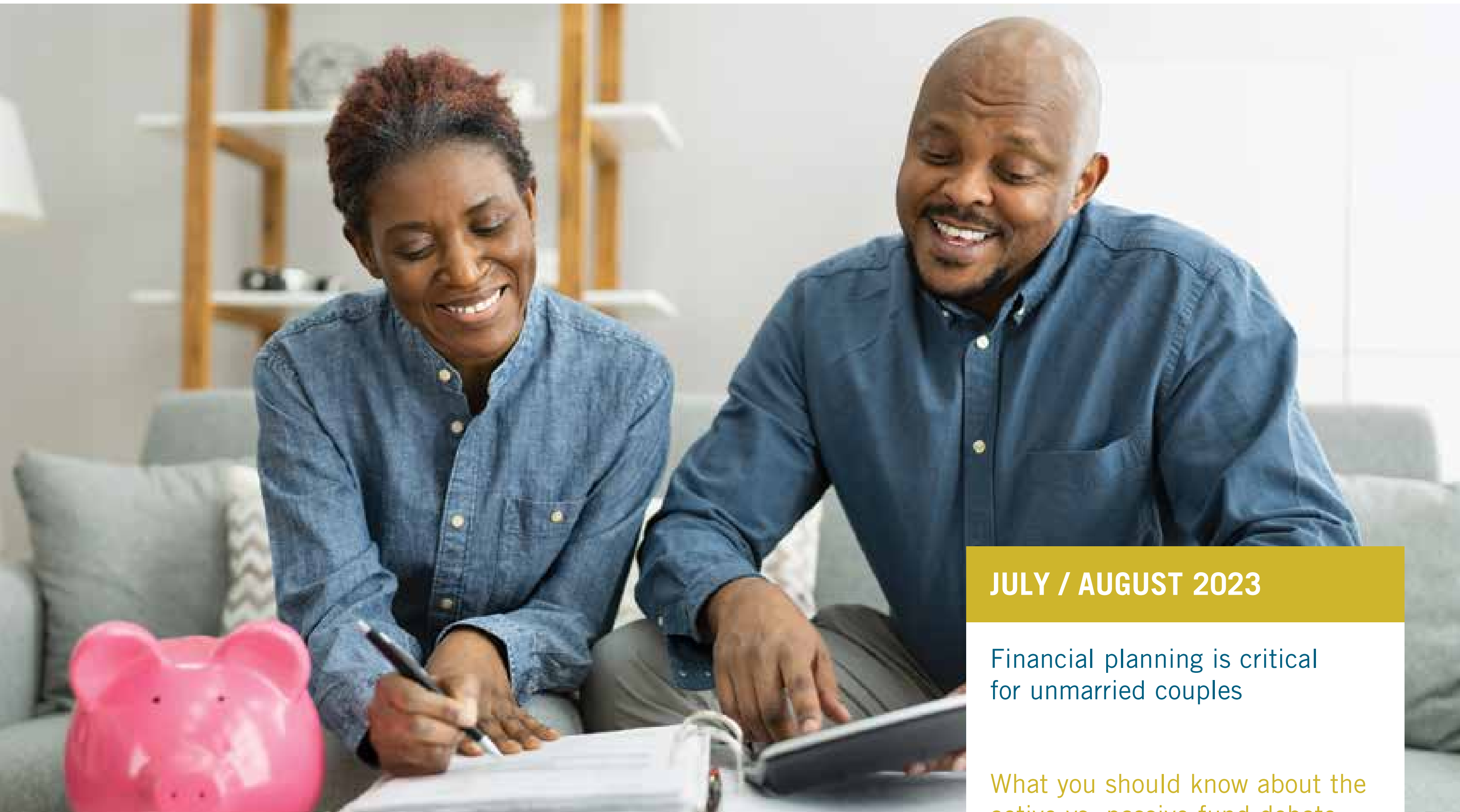

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INTEGRATED FINANCIAL

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SECURE 2.0 makes sweeping changes to retirement laws

Three years after the SECURE Act of 2019 became law, the Setting Every Community Up for Retirement Enhancement Act of 2022 (SECURE 2.0) has made new retirement-related changes. The over 90 provisions of SECURE 2.0, signed into law on December 29, 2022, are aimed at increasing access to retirement plans and retirement savings, streamlining administration and reporting requirements, and preserving retirement income. Following are some highlights of several key provisions.

Required Minimum Distributions (RMDs)

The age at which retirement account owners must start taking RMDs has increased to 73, starting January 1, 2023. Previously, individuals had to start taking RMDs at 72. Individuals who turned 72 in 2023 have an additional year to delay taking a mandatory withdrawal of deferred savings from their retirement accounts. However, participants who turned 72 in 2022 or earlier would need to continue taking RMDs as scheduled.

Also starting in 2023, the steep penalty for failing to take an RMD falls to 25% (from 50%) of the RMD amount. The penalty will be reduced to 10% for IRA owners if the account owner withdraws the RMD amount previously not taken and submits a corrected tax return within a specified correction window.

Under current law, RMDs don't have to be taken prior to the death of a Roth IRA owner. However, pre-death distributions are required in the case of the owner of a Roth designated account in an employer retirement plan (401(k) plan). Starting in 2024, this provision allows exemption from the RMD requirements for Roth accounts in 401(k), 403(b) or governmental 457(b) plans.

The surviving spouse of a participant who dies before commencing RMDs is allowed to elect to be treated as the employee for RMD purposes — thereby delaying when RMDs must commence. This provision is effective for calendar years beginning after December 31, 2023.

Higher catch-up contributions

In 2023, participants aged 50 and older can contribute an extra $7,500 per year into their 401(k) account. This amount will increase to at least $10,000 per year or 150% of the regular catch-up amount (indexed for inflation) starting in 2025 for participants aged 60 to 63. However, after 2023, all catch-up contributions made by participants earning compensation over $145,000 annually must be made on a Roth (after-tax) basis. Individuals earning compensation of $145,000 or less, (adjusted for inflation going forward), will be exempt from the Roth requirement.

For IRAs, the current catch-up contribution limit for people aged 50 and over is $1,000. Starting in 2024, that limit will be indexed to inflation.

Other provisions

Automatic enrollment. Employers who start new retirement plans after December 29, 2022, will, beginning in 2025, be required to automatically enroll employees in their retirement plan at a rate of at least 3%, but not more than 10%, of eligible wages. (Employees will have an option to opt out.) These percentages increase by prescribed amounts in later years. Companies in business for less than three years and employers with 10 or fewer workers are excluded.

Optional Roth treatment. Effective now, employers may amend their plans to permit employees to elect that employer matching and nonelective contributions be made as Roth (after-tax) contributions, so long as the additions are 100% vested when contributed to the plan. Previously, matching in employer-sponsored plans was made on a pre-tax basis. Contributions to a Roth retirement plan are made after-tax, after which earnings can grow tax-free. Additional guidance is expected from the IRS.

Student loan debt. Beginning in 2024, 401(k), 403(b) and governmental 457(b) plans may treat a student loan payment as an elective employee contribution for purposes of triggering matching contributions. This is intended to give workers an extra incentive to save while paying off educational loans.

Qualified Charitable Distributions (QCD). Beginning in 2023, people aged 70½ and older may elect as part of their QCD limit a one-time gift from their IRA account, up to $50,000, to a charitable remainder unitrust, charitable remainder annuity trust, or charitable gift annuity. The amount will be indexed for inflation and it counts toward the annual RMD, if applicable.

NEW EMERGENCY HELP FOR EMPLOYEES

The "Setting Every Community Up for Retirement Enhancement Act of 2022" (SECURE 2.0) contains several provisions to help employees save for retirement — as well as for emergencies. Beginning in 2024, employers can help employees save for short-term and unexpected expenses and access small amounts in case of financial emergencies, using one of two methods:

1. Employers may offer their non-highly compensated employees (generally, a person earning under $150,000 in 2023) a pension-linked emergency savings account. Employers may automatically opt employees into these accounts at no more than 3% of their salary, with the portion of the account attributable to employee contributions capped at $2,500 (or a lower amount set by the employer). These contributions are treated as elective Roth contributions for purposes of a matching contribution.

2. Employees could withdraw a small amount ($1,000) out of their defined contribution plan each year to meet certain emergency needs. The participant would have the option of repaying it within three years. However, if repayments aren't made each year, such withdrawals may be more limited. The distribution is exempt from the 10% premature distribution penalty tax regardless of whether it's repaid.

Reach out for details

SECURE 2.0 contains other important provisions, as well as conditions and limits to the items described above. Contact your tax or financial advisor for details. ■

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Financial planning is critical for unmarried couples

When it comes to financial planning, married couples enjoy certain advantages. For example, if they divorce, and haven't entered into a prenuptial agreement, state law provides for an equitable division of their assets. And if one spouse dies without a will, state law typically says that the surviving spouse inherits a portion of the assets.

Despite these protections, married couples should have a plan to ensure that their wishes are carried out. But planning is *critical* for unmarried couples, who may face devastating consequences if they split up — or if one person dies — without a plan in place. If you and your partner are unmarried, here are some issues to consider:

Tax-planning opportunities

Married couples generally file joint income tax returns, which can be an advantage or disadvantage. Single-income families and families in which one spouse earns significantly more than the other generally pay less tax by filing jointly. But spouses with similar incomes — especially high earners — may pay higher taxes than similarly situated unmarried couples.

Unmarried couples also may have some tax-planning opportunities that are unavailable to married couples. For example, if there's a substantial disparity in partners' incomes, having the higher earning partner pay deductible expenses (such as mortgage payments or charitable contributions) may be preferable. That's because those deductions usually are more valuable on the higher earner's tax return. It may also be possible to reduce taxes by titling investments or other income-producing assets in the lower earner's name. But beware: Gifts between unmarried individuals are reportable and use up gift tax exemptions.

Breakup protection

Without the protection of divorce laws, you should consider signing a cohabitation or domestic partnership agreement to provide for the division of assets in the event you split up. This is especially important if assets are titled in the name of one partner or the other for tax-planning purposes.

Joint ownership may also be an option for certain assets, such as real estate and bank or brokerage accounts. However, keep in mind that this type of ownership may raise gift or income tax issues. In such circumstances, talk to your tax advisor.

Retirement planning

When planning for retirement, keep in mind that unmarried couples often are at a disadvantage when it comes to government and employee benefits. Spouses who've been married for at least 10 years, for example, can collect Social Security benefits based on their spouse's (or ex-spouse's) work history. This can be a big advantage for spouses who leave the workforce for a time to raise children. And if one spouse dies, the surviving spouse and other family members may be entitled to Social Security survivor benefits.

Unmarried partners aren't entitled to these benefits. However, some employers provide pension plan survivor's benefits to unmarried partners of deceased employees. Therefore, it's important to do your research and learn which retirement benefits will and won't be available. You may

need to provide other savings or life insurance to make up for any shortfalls.

Estate planning

When married couples neglect to prepare an estate plan, state law provides one for them. Unmarried couples have no such backup plan. So unless each of you carefully spell out how you wish to distribute assets, the surviving partner could be left with none of the assets in the other's name. Take advantage of tools such as wills and trusts, strategic titling of property (for example, joint ownership), and proper beneficiary designations in retirement accounts and life insurance policies.

You also need to prepare advance health care directives and financial powers of attorney if you want your partner to have the authority to make health care decisions or manage your finances if you become incapacitated. Legally, unmarried partners are considered unrelated, so absent these documents they have little or no right to participate in health care and end-of-life decisions.

Put it in writing

Unmarried couples can achieve many of the same financial and estate planning objectives as married couples. But ensuring that your wishes are carried out requires careful planning — with the assistance of financial and legal professionals — and thorough documentation. If you don't have a plan in place, contact your advisors. ■

What you should know about the active vs. passive fund debate

According to Strategas Securities, 62% of actively managed large-cap "core" funds (that buy a mix of growth and value stocks) outperformed the stock market as a whole in 2022. That's notable, because in most years, passively managed funds that mimic market indexes tend to do better than their actively managed counterparts. Does this mean you should invest only in index funds? Not exactly.

Defining terms

Passive, or index, funds generally strive to track the performance of a particular market index, such as the S&P 500, Russell 2000 (smaller-cap U.S. stocks) or FTSE All-World Index (foreign stocks). Typically, they buy and hold all, or a representative sampling, of their chosen index's securities and sell only to mirror changes in the index. Because trading is kept to a minimum, these funds usually are tax efficient. And their costs are low because they rely on a formula or algorithm rather than labor-intensive research and monitoring of individual stocks.

Active funds, in contrast, rely on rigorous analysis to evaluate individual securities and build portfolios that attempt to beat market indexes, reduce risk or achieve other goals. Because these funds often try to maximize profits by selling when investment objectives dictate, they tend to be less tax efficient than index funds. Their need for expert analysts to select securities means that expenses generally are higher.

Why both styles are "active"

It's important to understand that purely passive investing doesn't really exist. Short of buying every security in the world, all investment portfolio choices are "active" to some extent. For example, if you choose the "passive" strategy of investing in an S&P 500 index fund, you've made an *active* decision to limit your investment to the U.S. large-cap stocks contained in that index. But they're only a small fraction of the securities available in the United States and foreign markets.

Active funds rely on rigorous analysis to evaluate individual securities and build portfolios that attempt to beat market indexes, reduce risk or achieve other goals.

Passive investing supporters often point to the fact that the majority of actively managed large-cap equity funds underperform their benchmark index over the long term. The semiannual S&P Indices Versus Active (SPIVA) scorecard confirms that 89% of actively managed funds lag the S&P 500 index over a 15-year period (as of June 30, 2022). In part, this is because these funds charge higher expenses.

However, some actively managed funds in other categories, such as bonds and small-cap equities, regularly beat their indexes. And even some actively managed large-cap stock funds outpace their benchmarks, particularly over the short term. The trouble is finding those active funds that beat indexes — and keep doing so in different markets.

You don't have to choose

If you're generally a hands-off investor who wants your portfolio's returns to reflect that of major market indexes, you may want to buy one or more low-expense index funds. Fortunately, most investors don't actually have to choose between active and passive investing. You can hold a variety of investment types — including active and passive funds, as well as individual securities — in a diversified portfolio.

Just make sure your overall portfolio reflects your long-term goals, financial resources, investment knowledge and risk tolerance. Risk tolerance is especially important because any investment has the potential to dramatically fall in value and could even lose money over the long-term. Discuss your options with an investment advisor. ■

Should you sell (or even refuse) inherited assets?

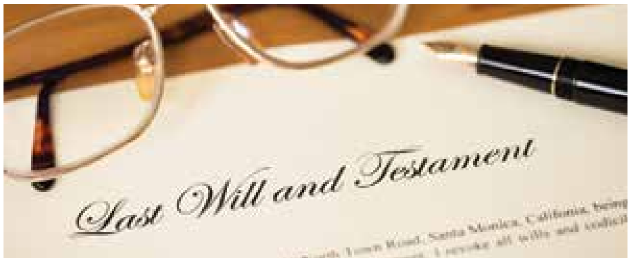
An inheritance can provide a welcome windfall, especially if you're planning for retirement. But don't automatically assume you should hold on to valuable assets you inherit. In many cases, disposing of them or even turning down an inheritance altogether (really!) may make more financial sense.

Essential questions

If you receive an inheritance, it's important to evaluate the asset (or assets) to determine how it might fit into your overall financial and retirement plan. Questions to ask include:

- What's the asset worth?
- How important is it to keep the asset? For example, is there any sentimental value?
- If you keep the asset, does it fit into your overall asset allocation strategy? Or, if you hadn't inherited the asset, would you have purchased it?
- Does the asset generate income?
- What liabilities, expenses or time commitment are associated with managing or maintaining the asset?
- What's your comfort level with the asset's inherent risks?
- If you were to sell the asset, what would you net in after-tax proceeds? Inherited assets generally are entitled to a stepped-up cost basis, which can minimize or eliminate capital gains taxes.

Often, individuals are better off selling inherited assets and using the proceeds to fund retirement in a more efficient, lower-risk manner. Say you inherit a small office building that's worth $2 million and has a cost basis of $500,000. There's no mortgage, but the building is struggling to find tenants and its property taxes, insurance and maintenance expenses are $75,000 per year. Rather than invest $75,000 per year in a building with an uncertain future, you may be better off taking advantage of the stepped-up basis to sell the property tax-free and using the proceeds to invest in other assets.



Turning it down

In some cases, the best strategy is to reject an inheritance altogether, using a qualified disclaimer. Suppose, for example, that you inherit an IRA from a parent. Distributions from the IRA, which generally must now be taken within 10 years, may generate significant income taxes.

Now, assume that your child (your parent's grandchild) is the contingent beneficiary. If you turn down the inheritance, the IRA will go to your child. Assuming your child is in a lower tax bracket, this will produce significant tax savings for your family. For help with this or other inheritance issues, contact your financial advisor. ■

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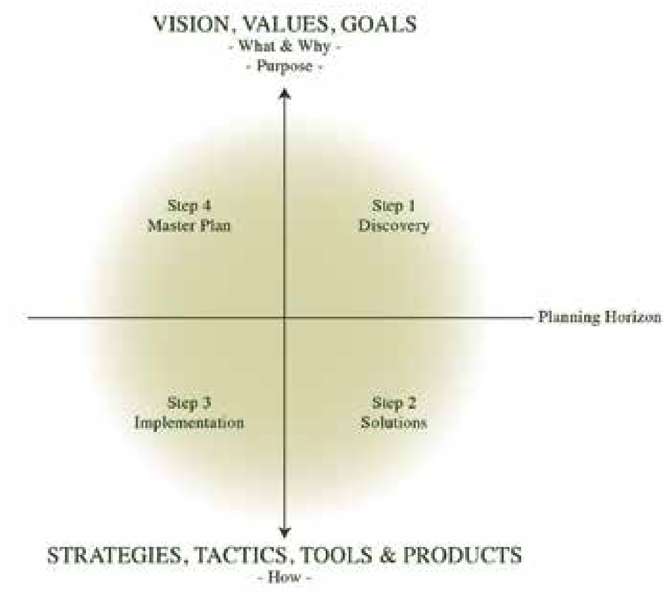

The Integrated Planning Process™

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Through this experience, we have developed a process that provides a strategic approach to addressing the important financial concerns that our clients encounter. This unique four-step process, The Integrated Planning Process™, assists our clients in gaining clarity and insights as to their Vision and Goals for themselves, their family, their business and their community.

We believe that success breeds success. While we acknowledge there are many qualified advisors to choose from, very few can match the combination of our experience, resources, perspective and success.

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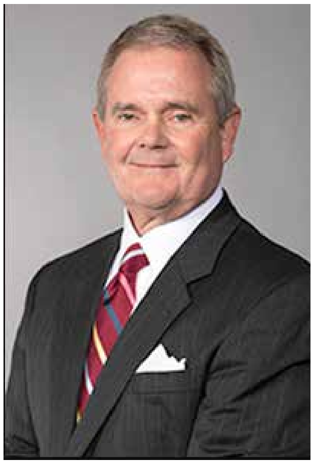

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