2023

Financial Planning Update

FEATURE

Year-End Planning Tips

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WEALTH MANAGEMENT

Inside the Issue

At Withum Wealth, we firmly believe that effective long-term financial success hinges on proactive planning. With this in mind, we share some valuable year-end planning tips to ensure that you end this year and begin the next year feeling well informed and prepared for what's ahead.

In this 2023 Edition of our Financial Planning newsletter, you will find our year-end planning tips, hear about the proposed IRS clarification on inherited IRAs, explore the key provisions of SECURE ACT 2.0, delve into various estate-related documents, and more. As always, please remember to consult with your tax and financial advisors before taking action and discuss the options that might be appropriate for you.

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RMD RELIEF IN 2023

The inherited IRA confusion continues.

Recall that the first iteration of the Setting Every Community Up for Retirement Enhancement Act (Secure Act) signed into law in December 2019 redefined retirement account beneficiaries and created the now well-known yet confusing ten-year distribution rule. More recently, the IRS issued some clarity as it pertains to certain retirement plan distributions for 2023.

Since the onset of the Secure Act there has been uncertainty about how the ten-year rule would apply to non-eligible designated beneficiaries. As a reminder, Eligible Designated Beneficiaries (not subject to the new ten-year rule) include spouses and minor children of the IRA owner, chronically ill or disabled persons, and individuals that are not more than ten years younger than the IRA owner. Therefore, non-eligible designated beneficiaries include those individuals that do not meet the criteria above and certain trusts. The original legislation seemed to imply that the inherited IRA account would simply need to be emptied by the end of the tenth year following the death of the original IRA owner. For example, if an IRA account owner died in 2021 naming her adult daughter as the beneficiary, the daughter (a non-eligible designated beneficiary) would need to empty the inherited IRA no later than December 31, 2031.

Last year, the IRS issued proposed regulations stating that required minimum distributions (RMD) may apply to non-eligible beneficiaries where the deceased IRA owner died on or after his/her Required Beginning Date (RBD). The RBD prior to the Secure Act was April 1st of the year following the year the IRA owner reached age 70.5. The Secure Act pushed the RBD out to April 1st of the year following the year the IRA owner reached age 72 while Secure 2.0 pushed it out to age 73.

The bottom line is that non-eligible designated beneficiaries of IRA owners who died on or after their RBD are subject to annual required minimum distributions and the inherited IRA must be emptied by the end of the tenth year. Conversely, non-eligible designated beneficiaries of IRA owners who died before their RBD are not subject to RMDs. The IRS has yet to issue final regulations on this topic and therefore Notice 2023-54 further delays the enforcement of RMDs until no earlier than 2024. Thus, RMDs for this class of beneficiaries are not required in 2023 and the IRS will not enforce penalties for failure to take such RMDs. Essentially, this gives non spousal beneficiaries of inherited IRA another year of tax deferral while the IRS issues the final regulations.

While the RMD waiver for 2023 may sound like a welcome relief, it should be noted that the ten-year distribution period was not extended. From a tax planning perspective, it may be wise to take some level of distribution in 2023 to help spread the income tax liability over the remaining years. If not, the window to empty the inherited is just getting smaller. Suppose a non-eligible designated beneficiary inherits an IRA in 2020. The ten-year clock starts in 2021 – the first year after the year of death. If the beneficiary didn't take a distribution in 2021, 2022 or 2023 she now must empty the account over a seven-year period.

IRS Notice 2023-54 also eliminates the need to take an RMD for IRA owners born in 1951 and provides relief for those that took their RMD between January 1 and July 31, 2023. The original Secure Act moved the RMD age from 70.5 to 72 which would have required those born in 1951 to take their first RMD in 2023. However, Secure 2.0 further pushed the RMD age out to 73 meaning IRA owners born in 1951 will turn 73 in 2024 and RMDs are not required for 2023. For IRA owners who mistakenly took what they thought was an RMD in the first seven months of 2023, they will be allowed to roll the false RMD back into their IRA by September 30, 2023. This is a hard cut off, but generous in that the rollover window is normally 60 days. For instance, an IRA owner who took a false RMD as far back as January 2023 will be allowed to rollover those dollars by September 30th – effectively an eight-month rollover window.

While both iterations of the Secure Act have made navigating RMDs a bit of a challenge we expect a smoother ride going forward. The IRS should issue final guidance on the RMD portion of the ten-year rule in the near future providing the clarity investors and beneficiaries deserve.

For questions about inherited IRAs and required minimum distributions please contact your wealth advisor. We are here to help.

SECURE ACT 2.0

The **Secure 2.0 Act** was signed into legislation on December 29, 2022 – with the goal of improving retirement savings options in the United States. And while the bill contains over 90 provisions designed to help Americans strengthen their financial security, we identified the key provisions for individuals in this cheat sheet HERE.

In addition, we highlight below the provisions that are scheduled to begin in 2024:

1. ROLLOVER 529 PLAN TO A ROTH IRA

- Individuals can roll up to $35,000 from a 529 Plan Account to a Roth IRA Account in the name of the student beneficiary. To qualify for the rollover, the 529 plan account must have been in existence for at least 15 years. Rollover amounts are subject to IRA annual contribution limits. Any contributions or earnings from the past five years cannot be rolled over.

2. CATCH-UP CONTRIBUTION LIMIT INDEXED TO INFLATION

- For individuals that have attained age 50, the current $1,000 cap on catch-up IRA contributions will rise annually to keep up with inflation.

3. PENALTY-FREE WITHDRAWALS

- Individuals could withdraw up to $1,000 per year from their retirement accounts for certain emergency expenses and avoid the additional 10% penalty. This is only allowed once a year and the individual has the option to repay the distribution within three years No other emergency distributions are allowed during the 3 year repayment period unless repayment occurs.
- Victims of domestic abuse can take the lesser of $10,000 or 50% of the balance of their IRA. If they repay the amount withdrawn within three years, they will be refunded for income taxes.

4. STARTER 401(K) PLANS FOR EMPLOYERS WITH NO RETIREMENT PLAN

- An employer that does not sponsor a retirement plan can offer a starter 401(k) plan. This plan would require that all employees by default be enrolled in the plan at a 3 to 15% of compensation deferral rate. The limits would be the same as IRA contribution limits, which in 2023 was $6,500 with an additional $1,000 catch up for those over 50.

5. REMOVING ROTH 401(K) RMDS

- Individuals with Roth 401(k)s will not be required to take minimum distributions.

6. STUDENT LOAN PAYMENT MATCHING

- Employers are allowed to make matching contributions to retirement plans with respect to qualified student loan payments.

7. ALLOW ADDITIONAL NON ELECTIVE CONTRIBUTIONS TO SIMPLE IRA

- An employer can make additional contributions to each employee of the plan in a uniform manner, as long as the contribution does not exceed the lesser of 10% of compensation or $5,000, indexed for inflation.

8. UPDATED DOLLAR AMOUNT FOR MANDATORY DISTRIBUTIONS

- Employers were able to transfer a former employee's workplace retirement account into an IRA if the balance was between $1,000 and $5,000. The new limit is increased to $7,000.

9. APPLICATION OF TOP-HEAVY RULES TO DEFINED CONTRIBUTION PLANS COVERING EXCLUDABLE EMPLOYEES

- An employer can perform the top-heavy test separately on the non-excludable and excludable employees, removing the financial incentive to exclude employees from the 401(k) plan and increase retirement coverage to more workers.

10. AMENDMENTS TO INCREASE BENEFITS UNDER PLAN FOR PREVIOUS YEAR ARE NOW ALLOWED UNTIL EMPLOYER TAX RETURN DATE

- Discretionary amendments that increase participants' benefits can now be adopted by the due date on the employer's tax return.

YEAR-END PLANNING TIPS

Below is our year end planning checklist. Some items should be reviewed annually (benefits and retirement plan contributions) while others can be reviewed every few years (insurance and estate planning. Also provided are new contribution and income limits for 2024.

INVESTMENTS

- Review portfolio allocation and rebalance if needed
- Look for tax loss harvesting opportunities
- Confirm you have completed all necessary required minimum distributions (RMD)

RETIREMENT

- Make sure you are on track to complete your 2023 retirement plan contributions
- Update your contribution amounts for 2024 (see retirement limits chart). At a minimum, make sure you contribute enough to receive any employer match.
- If you are age 50 or older, consider making a catch-up contribution
- Confirm your beneficiary designations are correct
- Consider a back-door Roth conversion if your income exceeds the Roth IRA contribution limit and you do not have significant IRA balances.

BENEFITS ENROLLMENT

- Review your benefit selections for 2024
- Make sure you have used up your 2023 FSA contributions
- Invest any unused HSA contributions
- Medicare open enrollment ends Dec. 7th

TAXES

- Evaluate whether Roth conversions might be appropriate
- Estimate your tax bracket and determine if steps need to be taken to manage your AGI or taxable income

GIFTING

- Review annual gifting for 2023—the limit is $17,000 this year; be sure to include gifts to college 529 plans
- Review your charitable giving strategy:
  - Qualified charitable distributions can lower adjusted gross income for those taking RMDs
  - Gifting appreciated stock can avoid capital gains taxes
  - Use a Donor-Advised Fund to bunch gifting and maximize tax deductions

INSURANCE

- Do you have the correct amount of coverage for life insurance
- Are your premiums paid
- Consider long-term care insurance
- Review umbrella liability insurance coverage

ESTATE PLANNING

- Make sure you have basic estate documents in place (will, POA, Advance Medical Directive, Living Trust)
- Determine whether the proper trustees are in place for your trusts
- Calculate your net worth and determine whether you may face an estate tax
- If you are the beneficiary of any irrevocable trust, determine whether any income should be drawn from the account

RETIREMENT PLAN CONTRIBUTION LIMITS	2023	2024
401(k), 403(b)-402(g)(1) - Maximum employee elective deferral	$22,500	$23,000
Defined Contribution Plan Total Limit (Employee + Employer)	$66,000	$69,000
Solo 401k Maximum Contribution (Employee + Employer)	$66,000	$69,000
Catch-up Contribution for the plans above (age 50 or older, above annual limit)	$7,500	$7,500
IRA Contribution Limit	$6,500	$7,000
IRA Catch-up Contribution (age 50 or older, above annual limit)	$1,000	$1,000
Roth IRA Contribution Limit	$6,500	$7,000
Roth IRA Catch-up Contribution (age 50 or older, above annual limit)	$1,000	$1,000
SEP IRA Maximum Contribution	$66,000	$69,000
Catch-up Contribution	NOT permitted	NOT permitted
SIMPLE Maximum Contributions	$15,500	$16,000
SIMPLE Catch-up Contribution (age 50 or older, above annual limit)	$3,500	$3,500

2024 INCOME LIMITS	Deductible Contribution to Traditional IRA		Roth IRA	
	Range Starts	Range Ends	Range Starts	Range Ends
Single	$77,000	$87,000	$146,000	$161,000
Married Filing Jointly	$123,000	$143,000	$230,000	$240,000

*For IRA contributions, income is AGI adjusted to include student loan interest, foreign earned income or housing exclusion, foreign housing deduction, excludable savings bond and employer provided adoption benefits.

PREPARING FOR BABY: A FINANCIAL PLANNING CHECKLIST

Major life events like marriage or purchasing your first home represent inflection points which necessitate meaningful updates to your family's financial plan. Few such events are more significant than welcoming a child -- especially your family's first. The author of this section of our newsletter is well-situated to tackle this topic, as he and his wife are expecting their first child in just a few weeks. Here's the Financial Planning Checklist he's been using to prepare for the birth of his first child:

- Boost That Emergency Fund
    - Why? Children come with unexpected expenses. Late-night pharmacy runs, unplanned doctor visits, and time off work (whether paid or unpaid) can throw a wrench into a carefully planned budget.
        - *Tip: Conventional financial planning wisdom recommends having enough cash or equivalents on hand to cover 3-6 months of essential expenses. With a baby on the way, consider leaning towards the higher end of that range, as your essential expenses will be increasing.*
- Start College Savings Early
    - Why? The costs of higher education continue to increase at rates that far exceed inflation, but even small contributions can grow significantly over 18 years. It's better to overshoot than undershoot this moving target.

- *Tip: Of the multiple options for college savings, we typically recommend 529 College Savings Plans. These plans allow you to contribute after-tax dollars that grow tax-free. Withdrawals for qualified education expenses, which have been expanded to include things like apprenticeship programs, are also tax-free. Many states offer tax deductions for contributions to their plans. For more on 529s and other college savings options, click here.*

- Time to Buy Life Insurance
  - Why? A child means someone else is relying on your income. Should something happen to you or your spouse, you'll want to ensure that your family has the means to maintain their standard of living and achieve financial goals like funding education or a spouse's retirement.
  - *Tip: For most young parents, we typically recommend term life insurance for its affordability and efficiency in replacing income in the event of the demise either parent. Laddering multiple policies with different expiration dates often makes sense, as you'll have less future income to replace as you approach retirement, and likely fewer liabilities (e.g. a mortgage) to service. To learn more about how to shop for life insurance, see the following page.*

- Estate Planning: Your Blueprint for the Future
  - Why? Like insurance, estate planning may not be the most cheerful topic, but it ensures that your wishes are respected, and your family is provided for in your absence.
  - *Tip: Start with a will, detailing how your assets should be distributed. Consider naming a guardian for your child should you and your spouse pass away simultaneously, and consider establishing a trust to manage assets until your child comes of age. See page 15 of this newsletter for more on basic estate planning.*

- Utilize the Tax Breaks
    - Why? Having a baby is expensive, and all the above items take some of your discretionary income out of your pocket. Still, there is a tangible "win" to be had for new parents: your baby will likely save you money on your taxes.
    - » *Tip: Not that you would, but don't forget to list your new dependent on your tax return to take advantage of the Child Tax Credit. Utilize the Child and Dependent Care Credit, which can help cover the cost of daycare. If your employer offers one, you can also use a Dependent Care Flexible Spending Account to pay for childcare with pre-tax dollars.*

We hope you find basic checklist helpful. It is not meant to be exhaustive, and as always, we encourage you to speak with your advisor about your family's own unique circumstances. However, if you tackle what we've covered here, you'll be well on your way to laying a secure foundation for your expanding family.

HOW TO SHOP FOR LIFE INSURANCE: A GUIDE FOR YOUNG FAMILIES

Life's major milestones, like getting married or welcoming a new baby, come with joy, memories, and added responsibilities. As you journey through these pivotal moments, there's a quiet companion you need to consider: life insurance to protect your loved ones. With the myriad of choices available, shopping for life insurance for the first time might feel overwhelming. This article aims to guide you through the process.

WHY LIFE INSURANCE IS IMPORTANT

Life insurance is not just a piece of paper; it is a financial safety net for your family. The concept is simple: in the unfortunate event of your passing, your family receives a lump-sum payment that can replace your income, pay off debts, or fund future expenses like college education for your children. Essentially, it provides peace of mind that your loved ones won't be financially burdened if you're not around.

WHY TERM LIFE INSURANCE?

Life insurance comes in various shapes and sizes — variable, universal, whole, term, etc. For income replacement needs, we generally recommend term life insurance. Here's why:

1. **Affordable Premiums:** Term life insurance policies are generally much more affordable than permanent life insurance, like whole life or universal life. This is because you're paying purely for the death benefit, without the complexities of oft-inefficient investment components.

2. **Simple to Understand:** You select the duration (like 10, 20, or 30 years) and the coverage amount. You pay a premium for a set period, and if you pass away within that term, your beneficiaries receive the death benefit.

3. **Flexibility:** You can choose terms that align with your family's needs. If your circumstances change, you can always reevaluate. Many term policies come with a "convertibility" feature that allows you to convert the term policy to a permanent one without having to undergo a new medical exam or otherwise provide proof of insurability.

LADDERING TERM POLICIES

One innovative strategy we recommend that optimizes cost-efficiency is to 'ladder' multiple term life insurance policies. Instead of buying one large policy, you purchase several smaller policies with varying terms and amounts. Here's an example:

- A 10-year term policy for $200K (Covers immediate debts, young child expenses)
- A 20-year term policy for $400K (Covers your child's education, major life expenses)
- A 30-year term policy for $600K (Covers long-term responsibilities, spousal support)

As your financial obligations decrease – like when you pay off your mortgage or when your children become financially independent – you'll need less coverage. Laddering policies allows certain policies to expire, reducing your overall premium cost over time while keeping adequate income-replacement coverage in place.

HOW TO START SHOPPING

1. **Assess Your Needs:** A common rule of thumb is to have coverage that's 10-15 times your annual income. For a more accurate assessment, we suggest one of two methods: the human life value approach and the financial needs approach. The first calculates a present discounted value of future income, while the second adds up all expenses the insurance is intended to cover (mortgage, education, etc.).

2. **Get Multiple Quotes:** Rates can vary significantly between providers. Use online comparison tools or consult with our advisors to get a sense of the market.

3. **Read the Fine Print:** Policies have exclusions and terms you need to understand fully. Make sure you know all the details of the policy for which you are applying.

4. **Consult a Professional:** While this is a good starting point, every family's needs are unique. Consult with our advisors and your life insurance agent for a personalized recommendation tailored to your circumstances.

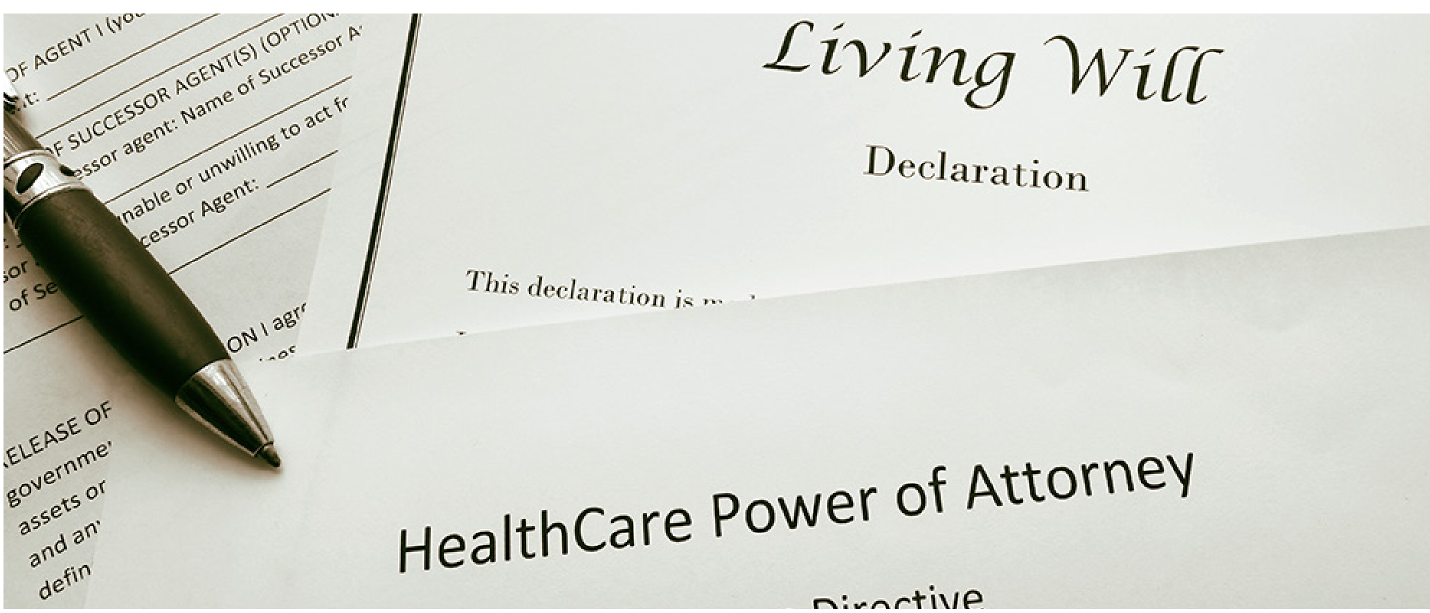
Life insurance is a financial promise – a promise to protect your loved ones when they need it most. Term life insurance, particularly laddered term policies, offers a straightforward and cost-efficient way to fulfill that promise. As you navigate the fresh chapters of adulthood, take a proactive step to ensure the financial well-being of those you love.

BASIC ESTATE DOCUMENTS

Are you among the majority of Americans who do not have an estate plan? This article discusses the documents everyone should have to help manage their health care and finances. These documents, which represent a basic estate plan, direct doctors regarding your health care, authorize family members (or others) to manage your finances, control your assets at death, and name people to care for your minor children. Below is an explanation of three basic documents you should have as well as a fourth that may be a worthwhile addition.

BASIC ESTATE DOCUMENTS

- Will: Your will outlines where your belongings will go after you are gone. However, as explained below, the disposition of many assets is determined by other means. For individuals who have arranged their affairs to avoid probate, the will may serve as a catch-all for assets that are not otherwise covered. Another important role for your will is to name guardian(s) for minor children. It is not necessary to have the same individuals care for your children and manage your finances.
- Financial Power of Attorney: A Power of Attorney (POA) grants someone the ability to manage your financial affairs while you are still alive. This may be necessary if you become incapacitated. If you are not ready to hand over power now, you can create a springing POA, which means the power does not go into effect unless you are deemed incapable of handling your affairs (usually by two doctors). POAs are generally "durable" which means they continue to be effective even if you become incapacitated. A power of attorney is no longer effective after your death.



- Medical Directives: Medical directives provide for your medical care. Each state has its own template. There are two main components which may be established as separate documents or combined into a single Advance Medical Directive (AMD). The two sections are:
  - Medical power of attorney: Authorizes a person to make medical decisions on your behalf.
  - Living will: Outlines your medical preferences in certain end-of-life situations (e.g., terminal illness, vegetative state).
- Living (Revocable) Trust: An additional document worth considering is a living trust. This document outlines how your assets are to be managed. It provides many benefits:
  - Additional trustees: You can name additional or successor trustees who have the authority to manage your finances. The trust specifies what powers are granted to the trustee and how and when assets can be distributed. It is generally easier for someone to manage your assets as a trustee than with a power of attorney.
  - Continuous management: Trusts do not have to go through probate. The trustee(s) have ongoing access to the funds to cover final expenses, funeral/burial costs and estate management fees.
  - Establishment of further trusts: A living trust will outline what is to happen to your assets upon death. This could include establishing trusts that manage the assets for the benefit of a surviving spouse, children, etc.
  - Distribution of assets: If desired, assets can be distributed outright to heirs.

Thus, a living trust provides for smooth management and transfer of assets both during and after your lifetime. For it to be effective, you must title accounts to the trust. During your lifetime, the accounts are managed the same as individually (or jointly) owned accounts and the trust can be amended or revoked at any time. At death, the trust becomes irrevocable. It will become a separate entity requiring its own, annual tax return.

TRANSFER OF ASSETS AT DEATH

While your will directs the disposition of your residuary estate, the distribution of many assets is determined by other means. In fact, it is common to create an estate plan that bypasses the need to probate a will. Assets that are distributed by beneficiary designation, titling or contract include:

- Trusts: Assets titled to a trust are managed and distributed according to the trust instructions.
- Retirement accounts: Retirement accounts are distributed to the named beneficiaries on the account.
- Joint accounts: Accounts that are owned jointly with right of survivorship or tenants by entirety will automatically transfer to the surviving owner(s). (For accounts titled tenants in common, the deceased person's share will transfer according to his/her will.)
- Transfer on Death (TOD)/Payable on Death (POD): This designation may be added to a non-retirement account. It adds a beneficiary designation to the account.
- Life insurance/annuities: These transfer according to beneficiary designation.

These documents need to be in place before incapacity or death. While most of us plan for a long life, it is good to create these documents early and review them periodically. A good time to update your documents is whenever you experience a life event such as marriage, birth, divorce, illness, or death of a family member. With the exception of TOD/POD accounts, you will need an attorney to prepare the legal documents, but you may want to consult your financial and tax advisors to help create a plan that incorporates taxes and financial management.

As we approach the end of the year, we hope you found this information helpful. At Withum Wealth, we remain dedicated to guiding you towards your financial goals. Should you have any questions or wish to explore our full suite of financial planning services, please don't hesitate to reach out to your dedicated advisor for personalized assistance.

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