“An optimist stays up until midnight to see the New Year in. A pessimist stays up to make sure the old year leaves.”
—Bill Vaughn

January 5, 2023

12/29/2022: SECURE Act 2.0

An update to the SECURE Act of 2019 includes over **90!** retirement-related changes. I’ll group the most important updates into smaller, more frequent newsletters over the next several weeks, since this big bag of benefits has something that will appeal to people in all kinds of financial situations. If someone you care about could use the info, you are welcome to forward a copy to them.

Today, I’m excited about the changes involving

Required Minimum Distributions (RMDs)

Read this if you’re taking your RMD, or if you were born in 1951+

The first SECURE Act changed the RMD start date from age 70½ to 72. This allows for more compounding in tax-advantaged retirement accounts. The new rules increase the starting age further:

SECURE Act 2.0 Phased-In Timeline For RMD Beginning Ages

Birth Year	Age at Which RMDs Begin
1950 or earlier	72 (70½ for those who turned 70½ prior to 2020)
1951 - 1959	73
1960 or later	75

Graphs and details here. Thank you, Michael Kitces and Jeffrey Levine.

2023 is an odd year for RMDs. Consider twins born on 12/31/1950 and 1/1/1951. The first baby would take their first RMD at 72, in 2022, while the second would take their first RMD at 73, in 2024. Interestingly, neither takes an RMD in 2023.

Perspective

Keep in mind that 80% of retirees withdraw *more* than their RMD each year, for income in retirement. While it’s nice to delay withdrawals for additional growth, retirement funds should be used to enjoy retirement, not to exercise every possible advantage in the tax code.

Please reach out with your questions, I’m happy to help:

Sarah@FinancialAnswersLLC.com (860) 926-4783

RMD Penalty Change
The RMD penalty, for those who don't withdraw as required, drops from 50% to 25%. If the error is corrected in a "timely manner," the penalty drops to 10%.

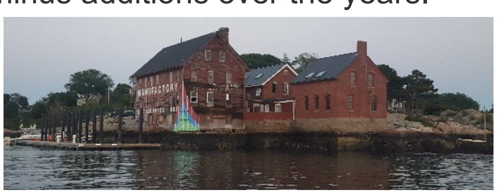
It's always been allowed to request a waiver of the penalty. With a much lower penalty, it might be wise for some to pay the penalty and move on, instead of dealing with the drama of an IRS appeal.

RMD Statute of Limitations
Let's get rid of a headache here too…for the RMD penalty, the IRS won't impose a penalty if they haven't found an error within 3 years of the RMD due date. I'm sure more details will follow.

RMDs from the Roth Portion of Employer Retirement Plans
While Roth *IRAs* aren't subject to the RMD rules, Roth balances in 401(k)s, 403(b)s, 457s, Thrift, and other employer plans have been a part of the RMD calculation. Not anymore! Starting in 2024, people who made Roth contributions in employer plans no longer have those amounts included in the RMD calculation. While the Roth portion of the RMD was never taxed, a saver did have to withdraw based on the total account balance, including the Roth portion. Now, the Roth portion is not included. RMDs will be lower for people whose balance includes Roth contributions.

Around the Office

I visited Gloucester MA in the fall, where my ancestor Thomas Jones was a freeholder in 1651. He moved to Enfield CT around 1687, and his sons were a part of founding Somers CT (1706) and Barkhamsted CT (1759). This painting (Fitz Henry Lane) illustrates Gloucester 200 years *after* my ancestor lived there. Kind of neat. Very rural! I wonder if the building (on the right in the painting) is the same I saw cruising the harbor, plus or minus additions over the years.



Gloucester MA harbor, 1850s vs. 2022

Upcoming

In my next letter, we'll look at a new strategy: 529 plan rollovers to a Roth IRA. Because 529 plan withdrawals are taxed and penalized if not used for educational expenses, some investors understandably avoided this type of account. It's almost impossible to know if a baby will go to college someday. With this new 529-to-Roth feature, if a beneficiary doesn't go to college, funds can be shifted to retirement, and possibly be used for other pre-retirement goals.

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