The FINANCIAL UPDATE

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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 by President Donald Trump 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. Start At 73. 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.

Larger Employer Matches. Employers will be required to make annual contributions equal to or greater than 3% of an employee's wages. Employers can match contributions equal to as much as 10% of your wages. Employers can hike their matching contributions by 1% annually they match as much as 10% — with the option of up to a 15% matching contribution. Company retirement plans, thus, become a much more important factor in employee compensation and in attracting and retaining employees.

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

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How To Use This Newsletter To Build Your Wealth

Please use this newsletter as a reference source on personal finance. Leave it in a place where you and your family are likely to pick it up. It's not a breezy read. It's literally intended solely to increase financial literacy and may take reading two or three times.

When you receive a new quarterly newsletter, store the previous issue on a shelf or in a drawer. In two or three quarters, look back at the previous issues. Did you get a better understanding of investment and tax planning? Would you have benefited from following one of the strategies your read about? Please circle ideas of interest to you and bring the newsletter when we meet.

We make it our mission to serve as a trustworthy educational resource about tax and investments because truth is a casualty of the 30-year long information revolution. A dominant medium of our time is weaponized to create clicks. Trusting professional athletes, Hollywood stars, and other social media influencers for financial advice led many investors into the crypto-currency disaster.

This newsletter is not written to generate clicks or push emotional buttons. It deals with complex tax and financial strategies and helps implement a discipline. Technical tax and investing strategies are explained in charts and words, clearly and concisely, about a very personal topic you'd only talk about with someone you can trust, a real financial professional.

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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 the S&P 500.

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. Yes, the nation's 500 largest publicly investable companies are a risky investment. However, they have been the key driver of growth for retirement portfolios and family wealth.

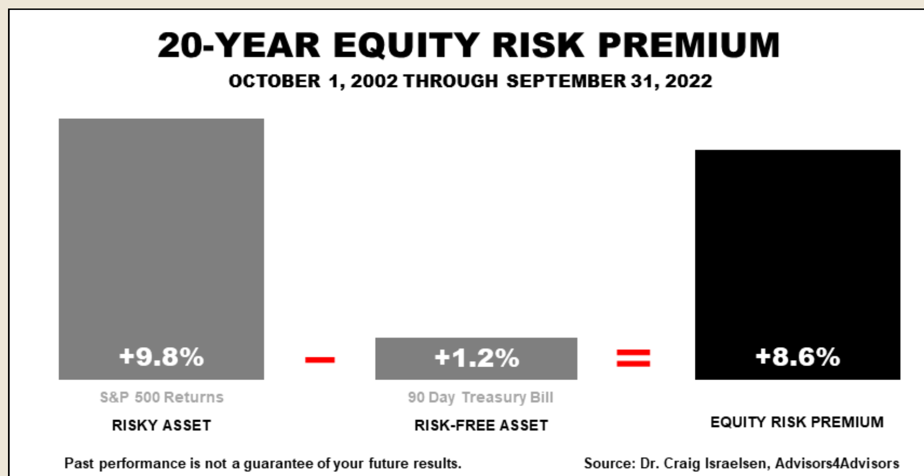
The equity risk premium, which is illustrated on the right, shows the rewards received annually for tolerating stock risk versus a risk-free investment.

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. Theoretically, all 500 companies in the S&P 500 index could go bust, and an investment mimicking the index could be totally lost. 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. ●



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

In an era of financial titans like Elon Musk, Jeff Bezos, and Warren Buffett, it's hard to imagine that, 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.

Developing Portfolio Return Expectations

Would you accept 10% less return on stocks annually every year to experience 40% less volatility than stocks?
If you would, you're on the way to developing realistic investment return expectations.

This article is not investment advice but intended only as an exercise to help readers develop expectations about generating retirement income or building enduring family wealth. It's not an easy read, but developing portfolio performance expectations is important and requires thought.

Thinking through your return expectations may help in maintaining a long-term strategic view through bear markets. This article also may help separate stock performance from performance of a diversified portfolio.

Investors commonly expect a 10% annual return. To be clear, the Standard & Poor's 500 stock market index has averaged a 10% return for decades. But it assumes 100% of your portfolio is invested in stocks.

The accompanying table shows the annualized risk and returns of seven distinct assets for the 50 years ended December 31, 2022. The seven assets were selected because, as a group, they comprise a diversified portfolio and have been indexed publicly since 1970, according to Craig Israelsen, Ph.D., who teaches about portfolio design at Utah Valley University.

Diversification reduces the risk of major losses from investing in a single security or single asset class. In addition, 50 years of risk and returns are a lot, and history rhymes or repeats periodically. Which makes this is a constructive way to plan for the decades ahead.

7-Asset Diversified Portfolio Risk & Return, 1973-2022

1973 – 2022	Large US Equity	Small US Equity	Non-US Equity	US Bonds	Cash	Real Estate	Commodities	7-Asset Equally Weighted
50-Year Average Annual Return	10.32%	11.07%	7.77%	6.60%	4.49%	10.65%	5.90%	9.14%
50-Year Standard Deviation of Annual Returns	17.69%	21.34%	21.15%	7.06%	3.64%	20.10%	25.13%	10.59%
% of Time with Positive Annual Return	78%	70%	70%	90%	100%	78%	68%	84%
Worst Three-Year Cumulative % Return	-37.61%	-22.85%	-43.32%	-7.92%	0.14%	-35.61%	-55.60%	-13.37%

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Of the seven assets, U.S. small company stocks offered the best return. However, they also experienced the greatest risk, as measured by standard deviation. Because of their price volatility, high-risk/high-return investments tend to be more aggravating. How aggravating? So aggravating that you may agonize over whether to sell when their losses are large and their outlook is grim. Selling when prices are low is, of course, the opposite of the strategy long-term investors want to implement.

What's the prudent long-term strategy to be gleaned from the past half-century? The asset class with the best risk/reward tradeoff was large company stocks, as measured by the S&P 500 stock index. The seven-asset portfolio was much more efficient, offering 90% of the return of the S&P 500 but with 40% less volatility.

Aligning your expectations with data in this table may help as the bear market approaches its one-year anniversary on June 13, 2023.

Indexes representing asset classes:

Large-cap US equity represented by the S&P 500 Index from 1973-2022; smallcap US equity by Ibbotson Small Companies Index from 1973-1978 and Russell 2000 Index from 1979-2022; non-US equity by MSCI EAFE Index from 1973-2022; real estate by NAREIT Index from 1973-1977 and Dow Jones US Select REIT Index from 1978-2022; commodities by Goldman Sachs Commodities Index (GSCI) from 1973-2022. As of February 6, 2007, GSCI became S&P GSCI Commodity Index; U.S. Aggregate Bonds by Ibbotson Intermediate Term Bond Index from 1973-75 and Bloomberg Aggregate Bond Index from 1976-2022; cash by 3-month Treasury Bills from 1973-2022. ●

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. ●

Take Caution With Self-Directed IRAs

Self-directed Individual Retirement Accounts (IRAs) are at greater risk of fraud than other types of other retirement accounts. Here's what's important to know before investing in a self-directed IRA.

With more than $30 trillion currently held in company-sponsored retirement plans, self-directed IRAs are a way for peddlers of high-risk, high expense investments and outright frauds to lure investors.

A self-directed IRA is an account that taps assets in a company-sponsored 401(K), 403(b) or other federally qualified retirement plan (QRP) to enable an investment not offered as part of a company retirement plan.

QRPs often do not allow employees to invest in alternative assets, such as real estate, gold bullion, private-held companies or partnerships, and cryptocurrency because these investments are less liquid than publicly-traded stocks and bonds. However, most company retirement plans will allow an employee to create a self-directed account to hold these assets.

Celebrities Who Endorsed Crypto Investments

Although self-directed IRAs have been offered as an option in employer-sponsored retirement plans for decades, a confluence of recent events recently made Americans more susceptible to falling for schemes involving self-directed IRAs:

Forty percent of Americans aged 60 to 64 are at risk of experiencing a retirement shortfall, according to the Employee Benefit Research Institute, and less than one-third of American workers feel very confident about their ability to afford a comfortable retirement. With pressure to accelerate saving as they approach retirement age, speculative investments of self-directed accounts are more attractive.

Social media allows social influencers to conspire to pump up prices and secretly dump their holdings to unsuspecting social network followers.

Hollywood stars, professional athletes, and other celebrities, including social influencer Kim Kardashian, retired quarterback Tom Brady, and actor Matt Damon, endorsed cryptocurrencies and helped create a speculative bubble by giving ill-fated cryptocurrencies legitimacy. Celebrity — not knowledge and experience in the investment profession — can drive prices in assets with no intrinsic value.

Before opening a self-directed IRA to invest off the grid provided by your company-sponsored plan, it's wise to consult a real financial professional. ●

New Retirement Rules

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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 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.

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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