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THE DUGDALE | HAYES INVESTMENT GROUP

Financial Advisors with D.A. Davidson & Co. member SIPC

Bradley E. Dugdale, Jr.

Senior Vice President,
Financial Advisor,
Portfolio Manager

BDugdale@dadco.com

Darin Hayes, CPFA, CWS®

Senior Vice President,
Financial Advisor,
Portfolio Manager

DHayes@dadco.com

Daryl Geffken

Vice President,
Financial Advisor

DGeffken@dadco.com

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Highlights of the Recently Passed SECURE 2.0 Act

The budget bill signed by President Biden in December included the SECURE 2.0 Act of 2022. This legislation contains some changes to existing retirement plan rules as well as 529 College Savings plans. Some of the changes are detailed below:

Required Minimum Distributions

The first SECURE Act, enacted in 2022, raised the age for Required Minimum Distributions (RMD) from 70 ½ to 72. SECURE 2.0 raises the age again, and beginning in January 2023, distributions must begin in the year an individual turns 73. You can still delay taking your first RMD until April 1st of the year following your RMD age, but doing so will result in taking two RMDs from the account (the amount due the first year plus the amount due for the current year).

On January 1, 2033, the threshold age for RMDs will rise to 75. Additionally, the penalty for failing to take an RMD is cut in half effective 2023. The previous penalty of 50% of the RMD amount drops to 25%.

None of these changes are applicable to non-spouse beneficiary IRAs. Those accounts have different distribution rules, and those rules may be different depending upon when the account was inherited as well as the age of the original account owner.

RMDs from Roth 401(k) accounts are eliminated in 2024. This follows the rules of Roth IRAs which do not have an RMD age. Previously, there was a difference in rules depending upon whether the Roth was a 401(k) or an IRA, so this change makes things consistent.

Automatic Enrollment in 401(k) Plans

Beginning in 2025, new 401(k) and 403(b) plans must auto-enroll employees with an initial deferral rate of at least 3%. This rate would then auto-escalate 1% per year until the deferral rate is at 10% but not more than 15%. Those amounts apply to the auto-escalate feature only; participants can voluntarily contribute more. There are some exceptions to auto enrollment for small businesses and businesses not yet three years old. Again, this provision applies to new plans only established after January 1, 2025. Employees will have the ability to opt-up of automatic enrollment.

Catch-Up Contributions

Starting in 2024, all catch-up contributions into workplace retirement plans made by individuals earning \$145,000 or more will be deemed after-tax Roth contributions. In 2025, additional catch-up contributions will be available for individuals between the ages of 60 and 63, and allowable catch-up contribution amounts will be indexed for inflation beginning in 2024.

Rollover of 529 Account Balances to Roth IRAs

Current rules state that withdrawals of unused balances in a 529 college savings account are subject to taxes and a 10% penalty. The taxes and penalty apply to earnings only, not to original contributions. Beginning in 2024, up to \$35,000 of unused funds can be rolled into a Roth IRA.

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Highlights of the Recently Passed SECURE 2.0 Act

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The \$35,000 is a lifetime limit with some provisions. The 529 account must have been in place for at least 15 years. The balance must be rolled into a Roth IRA owned by the same individual who was the beneficiary of the 529 plan. Any contributions made in the past five years are not eligible to be rolled over as well as any earnings on those contributions. And the rollover amounts are limited by annual IRA contribution limits. In other words, if the annual Roth IRA contribution maximum is \$6,500, then only that amount could be rolled over in one year with additional amounts made in subsequent years until the \$35,000 limit is reached.

Source: Secure Act 2.0: How new legislation could change the way you save for retirement. January 6, 2023 Market New, US Bank Wealth Management

Tax Timing

We know as soon as the New Year arrives, many of you have questions regarding the timing of 1099 mailings for taxes. Mailings again will be done in “waves” in an effort to get information to clients as soon as possible. Usually the first forms to arrive are 1099-Rs which show distributions from IRAs for the previous year. If no distributions occurred, you will not get any tax documents for IRA accounts. The second wave of forms are 1099s which detail capital gains, dividends and interest income for taxable accounts. We strive to have these forms mailed by mid-February, but please remember that sometimes our ability to produce the forms is dependent upon reporting from investment companies. Certain types of investments may reallocate or reclassify distributions for the past year in January or February. Our ability to produce accurate forms is dependent upon us getting the correct information from third parties. The goal is to limit the potential for you to get a corrected 1099 after you start or complete your taxes. As soon as tax forms are available, they are posted to the client access website so you have the ability to download them there before they would arrive in the mail.

2023 Allowable Contributions Update

The IRS has increased contribution amounts into many retirement accounts. We provide some highlights below:

Traditional and Roth IRAs: Regular contribution limit increased to \$6,500 per individual. A catch-up contribution of \$1,000 is allowed for those age 50 older. Remember that the limit applies to ALL IRA accounts regardless of type.

401(k), 403(b), 457: Maximum employee contribution is increased to \$22,500 and a catch-up contribution of \$7,500 can be made by individuals age 50 or older. Additional profit sharing contributions may be made depending upon plan design, testing and compensation to a maximum of \$66,000 or \$73,500 if age 50 or older (maximum includes all sources of contributions).

SIMPLE IRA: Employee contribution increases to \$15,500 plus additional \$3,500 catch-up if age 50 or older.

SEP IRA: Employer contribution of 25% of income or \$66,000, whichever is less on a salary of \$330,000.

Annual Gift Tax Exclusion increases to \$17,000 per donee per year or \$34,000 with spousal gift splitting.

Please note that the ability to contribute to different retirement accounts can be dependent upon income, plan design, compensation and whether an individual is covered by a workplace plan, among other factors. For specific questions regarding allowable contributions, you should consult a tax professional.

Texting Reminder

Just a friendly reminder that we cannot exchange text messages with clients about any account related items without going through a third party service called Hearsay. If you would like this ability, we need to give you some instructions and a different phone number for text messages. Please contact Steph if you are interested, and we can set it up. This is a regulatory issue. Thanks for understanding.

Concerned About Income Shortfalls During Retirement? You're Not Alone. And We Can Help.

As you might expect, many people in or near retirement can get anxious about their ability to maintain desired income during periods of stock market volatility.

In February, a multinational asset management company surveyed 1,000 U.S. investors between the ages of 45 and 75. What it found about their retirement concerns was insightful.

The survey found the following among those not yet retired:

- 33% are “terrified” about giving up regular paychecks.
- 53% are “concerned” about how they will cope without a regular paycheck.
- 55% do not believe they will be able to replace even three-quarters of their paycheck in retirement.

Moreover, of those already retired, almost half are simply drawing from their 401(k)s or savings and missing out on more efficient strategies to generate income. 86% of non-retired Americans ages 45 and up are aware they could receive higher Social Security payments by delaying the start of their benefits, but only 11% actually plan to wait to age 70, when their benefits would be maximized.

Many questions arise about income in retirement. When to take Social Security? How much to draw from retirement accounts? What are the tax implications? Creating a strategy that incorporates and maximizes your various sources of income is complex, and feeling alone as you try to sort through it can be daunting.

The solution is personal. To create a coordinated income strategy, we need to paint a comprehensive picture of what you hope to achieve and what concerns you have. This is the benefit of financial planning: It allows us to work together to create a vision of the future and address any weaknesses to help you move forward with confidence, even as the market swings up and down.

If you would like different income scenarios modeled or your financial plan updated (or created), please reach out to Daryl.

Source: Schroders US Retirement Survey Results – 2022 (<https://www.schroders.com/en/us/defined-contribution/dc/retirement-survey-2022/>)



Left to right: **Daryl Geffken**, Vice President, Financial Advisor; **Kate Absec**, FPQP®, Senior Registered Associate; **Brad Dugdale**, Senior Vice President, Financial Advisor, Portfolio Manager; **Stephanie Brunner**, Client Associate; **Darin Hayes**, CPFA, CWS®, Senior Vice President, Financial Advisor, Portfolio Manager.



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Team Tidbits

Brad:

Hello 2023! 2022 ended quickly with many twists and turns along the way. No doubt April 9th will forever be the highlight of 2022 with our first granddaughter Bella. Shariae and I do nothing but smile every time we talk about that little girl. April 26th was also a big event, highlighting 40 years with D.A. Davidson. Darin, Kate, Daryl and Stephanie created a wonderful celebration. (We went axe throwing.) What a blessing to have these great friends on your team! Thanksgiving is my favorite holiday. The whole family united in Coeur d'Alene. Bradley and his girlfriend made the trip from Austin. Of course little Bella is the center of attention and probably will be for some time. Christmas was celebrated early in CDA with the little family, and Christmas day was shared with Shariae's mom and good friends. Cheers to 2023 and the new adventures this year will bring!

Darin:

Another great holiday season is in the books. We had the opportunity to spend a lot of time with family and friends, and it's hard to believe it's already come and gone. We've been up to the ski hill a couple times, and there will probably be the opportunity for much more. Teagan is now in her last semester of high school and still taking all classes at North Idaho College. She plans to go to the University of Idaho next fall. Go Vandals! We're very happy with that decision not only because I'm an alum but because she may let us sneak down some weekends to visit. She can always make a quick trip home on her own if she wants, which we're hoping is the case. With only one child, our transition to empty nesters will be quite abrupt. As an eternal optimist, I have already scheduled my boat pick-up, service and detailing for the spring. Here's to adding some extra daylight from now through June!

Daryl:

Happy New Year to all! We spent a lot of fall traveling as a split family. Soccer and cross country called us all over the Northwest – one parent with one kiddo one way, other parent with other kiddo other way, culminating in a final long weekend when I brought Tyler and his soccer team to a tournament in Phoenix and Mara and Justin headed to Austin for XC Nationals. We FINALLY got together for our first vacation to Mexico over Thanksgiving week, and I'm sold on the Caribbean! Warm and blue ocean water, rappelling into and snorkeling through sink-holes, and delicious local food while watching the World Cup was just what we needed. Since then,

skiing (and soccer, of course) has taken its typical dominant winter hold of life and we are enjoying time as a family and with friends. Professionally, I had the opportunity to attend the 2023 Wealth Planning Summit and look forward to working with you to incorporate ideas gleaned from presentations and colleagues to better serve you!

Kate:

While composing this we are still in the grey, foggy, frizzle (freezing drizzle) time of year in North Idaho, and Terry and I are 72 hours away from a vacation in a sunny, warm location. We always love having a little carrot of travel dangling out there for us. When we get home, Terry will turn around and head to PHX for several weeks to get out of the winter. He's a baseball fan so will fill his days with Spring Training ball, hot dogs and beer. I'll join him for a couple of long weekends. Our holidays were very quiet as we have "become our parents." The kids want to stay in their homes with their babies so Terry and I got to travel and drop in on them on Christmas. I remember the feeling of never wanting to leave on Christmas morning so we respect their wishes to do the same. Having a lake home, we get plenty of child and grandchild time during the wonderful dog days of summer. We look forward to spring which brings longer chunks of daylight, brings lake neighbors back, brings lots of fun outdoor spring gardening and spiffing-up and, of course, more fun travel. I know I'll be writing the spring note to you in no time. Enjoy!

Stephanie:

Well, Elmo was the star of our vacation to San Diego. Dawson surely is his ultimate fan! If you have little ones in the family, I highly recommend a vacation to Sesame Place theme park (email me for insider tips). The place is set up just like Sesame Street and they don't leave a single detail or element of fun out! Christmas was wonderful this year and it went by way too fast. Quickly following that, our little baby turned TWO! How do I have a two year old already?! It doesn't seem possible, and I'm still trying to wrap my brain around the fact that my baby is no longer a baby. On a more serious note, I just finished up with my second knee surgery just after the 1st of the year and am hoping this one buys me at least four to five years before they decide I need my third of four planned operations. At that point you can just call me the bionic woman. Anywho, I hope the sunshine decides to shine more days than not sooner than later and I hope you all have a great rest of your winter. Stay classy.

608 Northwest Boulevard | Suite 403 | Coeur d'Alene, ID | (800) 233-7588 | (208) 667-1212

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