BKM
WEALTH MANAGEMENT

BKMWM Newsletter February 2024

Topics:
1. Elections
2. Tax-Deferral
3. RMDs
4. Avoiding Penalties
5. 2024 Savings Limits

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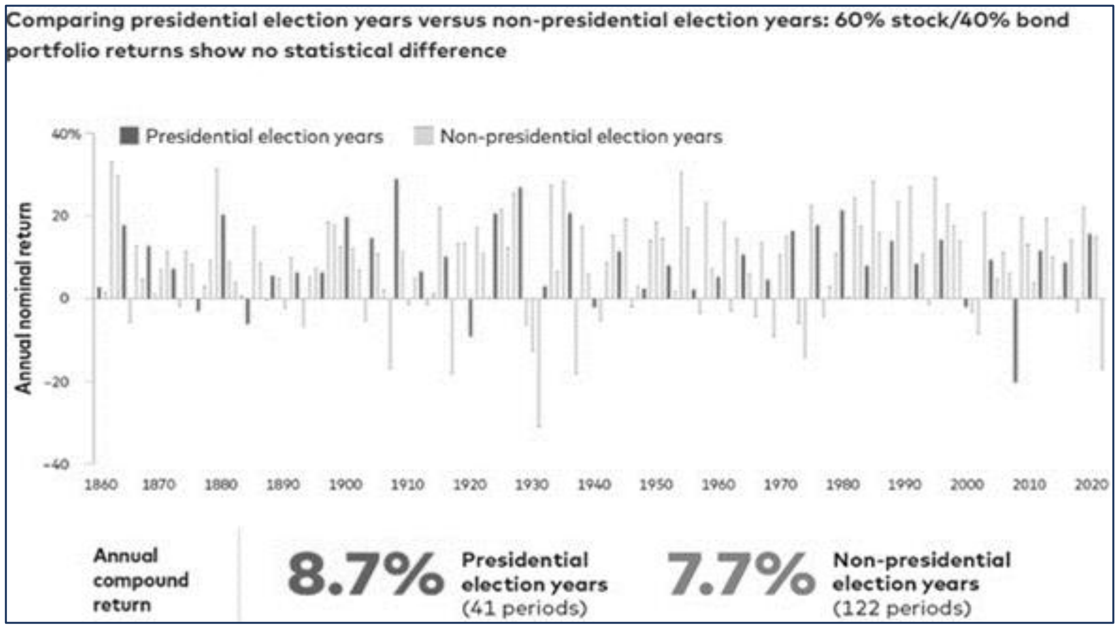
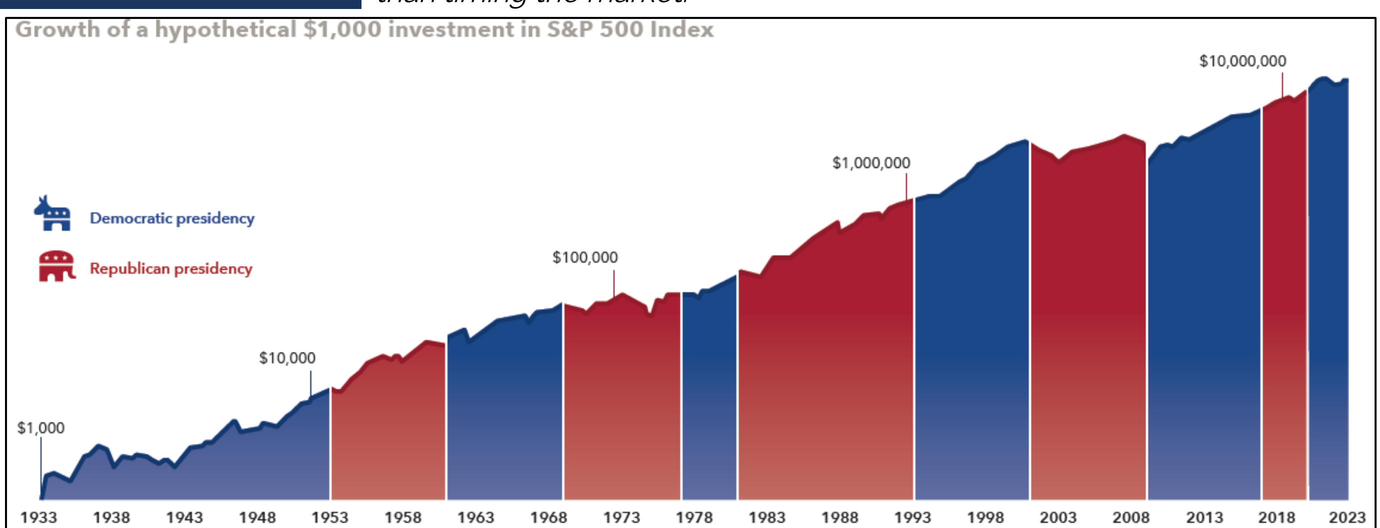
1) Do Elections Matter?

Election years can be emotional, and for good reason. Often, we feel we are voting our values, and the outcome will determine the trajectory of the country for years to come. With such important ramifications, won't the leadup to, and outcome of, the election impact the stock market?

According to a recent Vanguard study, there is no statistical relationship between the performance of a balanced portfolio and election vs non-election years.



Similarly, the investment firm, Capital Group, concluded that elections have "… *made essentially no difference when it comes to long-term investment returns… Current economic and political challenges may seem unprecedented but a look at past election cycles shows that controversy and uncertainty have surrounded every campaign. And in each case the market has continued to be resilient over time. Successful investors stay the course and rely on time in the market rather than timing the market."*

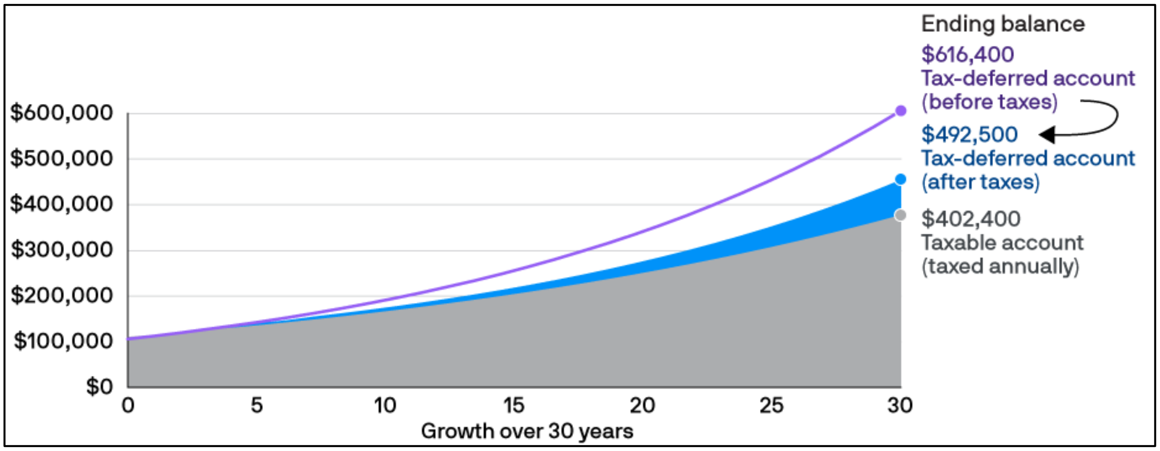


SOURCES: Capital Group, RIMES, Standard & Poor's. Chart shows the growth of a hypothetical $1k investment made on March 4, 1933 (the date of Franklin D. Roosevelt's first inauguration) through June 30, 2023. Dates of party control are based on inauguration dates. Values are based on total returns in USD. Shown on a logarithmic scale. Past results are not predictive of results in future periods.

2) The Power of Tax-Deferral

Contributions to tax-deferred accounts such as an IRA, Roth IRA, or 401(k) plan have an inherent advantage over non-tax-advantaged accounts, often referred to as "taxable" accounts. In a taxable account you may lose a portion of your assets to taxes each year. That means less money compounding year over year. Over time, less money compounding can really add up. In the example below, the tax-deferred advantage amounts to a difference of 22.39% after taxes over 30 years.

The deadline to open and/or make a 2023 contribution to an IRA, Roth IRA, SEP IRA, SIMPLE IRA, or Wisconsin 529 plan is April 15th, 2024. Contact us soon to discuss your saving strategy.



Hypothetical assumptions: 1) $100,000 initial investment 2) 24% tax rate 3) 6.25% compounded annual rate of return.
Source: J.P. Morgan Asset Management. The chart assumes an initial after-tax account value of $100,000 for each account type. Assumes a 6.25% annual return for both accounts. Investment returns in the taxable account are taxed annually at 24% (capital gains and qualified dividends are not considered in this analysis). Tax-deferred account balance is taken as a lump sum after year 30 and investment returns (account balance net of initial investment) are taxed at 24% federal tax rate. If tax-deferred account is taken as lump sum at other tax rates, the after-tax balance would be $554,400 (12%), $502,800 (22%), $451,200 (32%), $435,700 (35%) and $425,300 (37%). This hypothetical illustration is not indicative of any specific investment and does not reflect the impact of fees or expenses. This chart is for illustrative purposes only. Past performance is no guarantee of future results.

3) Required Minimum Distributions (RMDs)

Back in 2022, the Secure Act 2.0 extended the age at which you need to begin taking distributions from your Traditional IRA from age 72 to 73. As a quirk of this change, last year no one had to take these Required Minimum Distributions (RMDs) for their initial time, as people turning 73 in 2023 would have already taken their first RMD in 2022 when the requirement still began at age 72. This makes 2024 the first year of the age 73 inaugural distributors, and a good time to review RMDs.

When you save money in a Traditional IRA, you are benefitting from tax deferral, and possibly an initial deduction for contributions if you meet income requirements. Therefore, to collect taxes, the IRS requires that beyond a certain age you withdraw a given amount annually and pay taxes on the amount withdrawn. This is the Required Minimum Distribution, which currently needs to be taken starting in the year in which you turn age 73, and in 2033 this age is slated to move to age 75.

The amount that must be withdrawn each year is based on the value of your account at the end of the preceding year and calculated using the distribution factor found in the Uniform Lifetime Table provided by the IRS as determined by life expectancies. The distribution factor increases with age, meaning that the older you are, the higher the percentage of your account that must be distributed.

RMDs must be taken by the end of the calendar year, unless it is your first time taking an RMD, in which case you have until April 1st of the following year. Therefore, if you are turning 73 in 2024 you have until April 1st, 2025, while those turning 74 and older only have until December 31st, 2024. New rules have reduced the penalty for missing your RMD from 50% to 25% (10% if you correct the error within a 2-year window). Your BKM advisor can help you avoid penalties and assist you in completing your RMD each year.

If you don't need your RMD to supplement your lifestyle, you may be able to reduce your taxes if:

- You are still working, you may be able to delay RMDs if the retirement plan allows, and you meet certain requirements.
- You planned ahead and converted or contributed to Roth IRAs (excluding inherited accounts) prior to age 73. Roth IRAs are not subject to RMDs.
- You give to charity using a qualified charitable distribution (QCD) from your Traditional IRA. QCDs can be a powerful tax strategy in which you gift from your IRA directly to a qualified 501(c)(3) charity. The gift of up to $105,000 is exempt (not deducted) from income taxes. Notably, while the starting RMD age was pushed back to 73, and eventually 75, the age for which you are eligible to make a QCD remains 70½.

4) Avoiding IRA & 401(k) Withdrawal Penalties

New rules enacted as of last year within the Secure 2.0 Act have added 20 exemptions that allow withdrawals from retirement accounts to avoid the 10% early distribution penalty for taking funds prior to reaching age 59 ½. While withdrawing funds from your IRAs and 401(k) plans prior to age 59 ½ is typically considered a last resort, knowing the exemptions can be useful. Keep in mind that withdrawals taken from retirement accounts (unless they are Roth accounts) are still treated as income that will most likely be taxed federally and by some states, here are some early-withdrawal exemptions to be aware of:

- Natural Disaster - People in areas where there has been a federally declared natural disaster (hurricanes, wildfires, or floods) are now able to withdraw up to $22,000 from their IRAs and 401(k)s without penalty.
- Financial Emergency - IRA and 401(k) holders will be allowed a penalty-free distribution to pay bills for financial emergencies. This exemption is limited to one withdrawal a year and a maximum of $1,000 for "unforeseeable or immediate financial needs relating to personal or family emergencies."
- Disability - Workers who have a total and permanent disability because of a physical or mental condition are free to make early withdrawals from IRAs or workplace plans.
- Victims of domestic abuse – Victims impacted within the past 12 months by a spouse or domestic partner can withdraw from their IRAs or workplace plans the lesser of $10,000 or 50% of their account.
- Terminal Illness – Anyone diagnosed with a terminal illness defined in the law as an illness reasonably expected to result in death within seven years—are allowed penalty-free withdrawals of any amount from IRAs and employer plans.
- Unemployment Medical Insurance Cost - IRA holders (including those with SEP IRAs and Simple IRAs) can now withdraw penalty-free for medical insurance for you, your spouse, or your dependents. But you must be unemployed to benefit from this exception, defined as receiving unemployment compensation for at least 12 consecutive weeks.
- Qualified Higher Education Expenses - Qualified higher education expenses at an accredited institution for you, your spouse, your children, or your grandchildren up to $10,000.
- First-time home buyers up to $10,000.
- Divorce - Other exceptions for workplace plans like 401(k) plans include receiving a qualified domestic-relations order stemming from a divorce, and for public-safety employees who are age 50 or have 25 years of service.

A complete list of exceptions to the 10% early-distribution penalty can be found in IRS Publication 590-B.
We'd be happy to help you work with your tax advisor to see if one of these solutions is right for you or your loved ones to help limit tax consequences.

Source: "Here's When You Can Tap Your IRA or 401(k) Early Without Penalty". Wall Street Journal. 01/06/2024

5) 2024 Saving Limits

Traditional and Roth IRA

Maximum contribution (per individual if under age 50)	Maximum contribution (per individual if age 50 or older within a particular tax year)
The lesser of $7,000 or total compensation for the year	The lesser of $8,000 or total compensation for the year

Traditional IRA deductibility limits

- Full deduction if you and if married your spouse, are not covered[5] by a workplace retirement plan (WRP), such as a 401(k), 403(b), SEP IRA, or SIMPLE IRA regardless of income.
- Individual covered[5] by a WRP, deductions are phased out based upon marital status and Modified Adjusted Gross Income (MAGI):

Married/joint	Single/HH[6]	Deduction
Up to $123,000	Up to $77,000	Full
$123,000 – $143,000	$77,000 – $87,000	Partial
$143,000 or more	$87,000 or more	None

- If your spouse is covered[5] by a WRP, but you are not, your deductions are phased out based upon MAGI:

Married/joint	Married/separate[7]	Deduction
Up to $230,000	N/A	Full
$230,000 – $240,000	Up to $10,000	Partial
$240,000 or more	$10,000 or more	None

Roth IRA contribution phase-out limits

- Contributions are subject to the following MAGI limits:

Married/joint	Married/separate[7]	Single/HH[6]	Contribution
Up to $230,000	N/A	Up to $146,000	Full
$230,000 – $240,000	Up to $10,000	$146,000 – $161,000	Partial
$240,000 or more	$10,000 or more	$161,000 or more	None

[5] The "Retirement Plan" box in Box 13 of your W-2 tax form should be checked if you were covered by a WRP.

[6] HH stands for Head of Household.

[7] Your filing status is considered single for IRA contribution purposes if you did not live with your spouse during the tax year.

401(k), 403(b), Gov't 457(b) plan contribution limits

Employee maximum deferral contributions	Catch-up contribution (if age 50 or older)
$23,000	$7,500

Combined limit for designated Roth account and pretax 401(k), or 403(b) deferral contributions is $23,000 for those younger than 50 and $30,500 for those 50 and older within a particular tax year.

SEP, SIMPLE IRAs, and other retirement limits

Maximum elective deferral to SIMPLE IRA and SIMPLE 401(k) plans	$16,000
Catch-up contribution for SIMPLE IRA and SIMPLE 401(k) plans (if age 50 or older)	$3,500
Maximum annual defined contribution plan limit	$69,000
Maximum compensation for calculating qualified plan contributions	$345,000
Maximum annual defined benefit limit	$275,000
Threshold for highly compensated employee	$155,000
Threshold for key employee in top-heavy plans	$220,000
Maximum SEP contribution is lesser of limit or 25% of eligible income	$69,000

Health Savings Account (HSA) limits

Maximum contribution	
Single	**Family**
$4,150	$8,300
$1,000 catch-up contribution allowed per individual age 55 or older	
Minimum health insurance plan deductible	
Single	**Family**
$1,600	$3,200
Maximum out-of-pocket expenses	
Single	**Family**
$8,050	$16,100

Sources: IRS and "First Clearing 2024 Tax Tables"

BKM WEALTH MANAGEMENT

Financial advisors whose mission is to positively impact lives.