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THE COMPASS

2023 Midyear Update: Retirement Plan Changes and SECURE Act 2.0 Highlights

By Gary Krasnov, AIF®, CLTC®– RAA Vice President

Welcome to summer! As temperatures increase, I hope you are finding somewhere cool to relax. As I began writing, I realized we are over halfway through 2023. It amazes me how fast the years are going by. On that note, we are also more than halfway through our 2023 client seminar schedule. For those of you who were not able to attend one yet, read on for some of the topics we cover.

As they typically do, the contribution limits for retirement plans have changed:

- For 401(k) plans, the participant can contribute $22,500 and, if 50 or older, the participant can make catch-up contributions up to $7,500.
- The 415(c) limit, which includes both the participant and the participant's employer's contributions is $66,000.
- IRA contribution limits are $6,500, with an additional $1,000 in catch-up contributions.

The SECURE Act 2.0 was passed as part of the budget reconciliation bill last December and there are some changes you should be aware of. First of all, the age for Required Minimum Distributions (RMDs) for those not currently taking RMDs is now April 1st of the year after you turn 73. In 10 years, the RMD age will be 75. There may be reasons for you not to delay starting your withdrawals, so talk to your advisor to better understand the implications of waiting.

Second of all, if you are 50 or older, you can make catch-up contributions to your retirement plan up to certain limits. In 2025, SECURE Act 2.0 will increase those limits to the greater of $10,000 or 50% more than the regular catch-up amount if you are 60, 61, 62, or 63 years old. After 2025, those amounts will be indexed for inflation.

Third, beginning in 2024, the SECURE Act 2.0 rules will impact how eligible workers with incomes over $145,000 make catch-up contributions (the income threshold will be adjusted for inflation). To sum up, if you are over that income threshold, your catch-up contributions will have to be ROTH contributions.

Lastly, in 2024, SECURE Act 2.0 will also introduce some changes to the 529 plan rules. In limited circumstances (i.e., among all requirements that must be met, the Roth IRA account must be in the name of the 529 plan beneficiary), some people may be able to rollover a 529 plan that they maintained for at least 15 years to a Roth IRA. Annual limits for the rollover would have to be within the annual contribution limit and there will be a $35,000 lifetime limit on what can be rolled to the Roth IRA.

Another important topic we cover during client seminars is our friends and family program. As always, we are here to help your friends and family if they need guidance or have questions, so please send them our way.

Moreover, we cover some of the do's and don'ts of fraud protection. We also have a great article on this topic by Victoria Bogner, our Director of Client Experience, later in this issue of the Compass.

As always, we finish with a presentation on estate planning because it is important to have a plan and keep it updated!

Enjoy the rest of the summer and please do not forget to use sunscreen!

Protecting your credit has never been more important in today's rapidly evolving digital landscape. The good news is that you can take proactive steps to shield your credit without spending a dime. Credit freezing and fraud alerts are two highly effective methods worth exploring. In this article, we will dive into the nuances of credit freezing, the significance of fraud alerts, and give you a comprehensive guide to implementing these strategies to safeguard your credit.

Understanding Credit Freezing

Credit freezing is like constructing a fortress around your credit reports. When you freeze your credit, you're essentially placing an impenetrable barrier that prevents potential lenders and creditors from accessing your credit information. Even if someone manages to obtain your personal details, they won't be able to open new accounts or lines of credit in your name.

The Process of Credit Freezing

Ready to fortify your credit? Follow these straightforward steps:

1. Reach Out to Credit Bureaus

Start by contacting the major credit reporting agencies: Equifax, Experian, and TransUnion. You can visit their official websites, give them a call, or send a formal request via mail. Look for their contact information on their respective websites or reach out to their helpline for assistance.

2. Request a Credit Freeze

Inform the credit bureaus of your intention to freeze your credit. They will guide you through the process and provide any additional requirements. Typically, you'll need to provide personal information such as your full name, Social Security number, date of birth, and address.

3. Obtain Confirmation and a Unique PIN

Upon a successful credit freeze request, the credit bureaus will furnish you with a personalized identification number (PIN) or password. This PIN is the key to managing your credit freeze. It allows you to temporarily lift or remove the freeze when necessary.

4. Thaw Your Credit

If you plan to apply for new credit, such as loans or credit cards, you'll need to temporarily lift the credit freeze. Ensure you keep your PIN or password readily available, as it is required to authorize the temporary thaw.

Fraud Alerts

In addition to credit freezing, fraud alerts act as a safety net by telling potential lenders to exercise extra caution and take additional steps to verify your identity before approving new accounts or credit lines.

To set up fraud alerts, follow these steps:

1. Contact Credit Bureaus

Reach out to Equifax, Experian, or TransUnion to request fraud alerts on your credit reports. You only need to contact one bureau, as they are required to notify the others on your behalf.

2. Provide Necessary Information:

Share the required personal information, including your full name, Social Security number, and contact details, with the credit bureau to set up those fraud alerts.

Duration of Fraud Alerts:

Usually, fraud alerts remain active for one year. However, if you need extra peace of mind, feel free to extend the duration by letting the credit bureaus know how long you'd like the fraud alert to remain in place.

While credit freezes and fraud alerts are great tools, it's essential to keep an eye on your credit reports for any signs of suspicious activities or unauthorized accounts. Remember, you can access one free credit report annually from each of the three major credit reporting agencies.

By combining credit freezing and fraud alerts, you can fortify your credit protection completely free. Credit freezing shields your credit information from unauthorized access while fraud alerts tell creditors to request more information before opening a loan or a new line of credit. So, take advantage of the tools available to you and enjoy some additional peace of mind knowing your credit is more secure.

2023 UPCOMING EVENTS

We wanted to make sure you were aware of some upcoming events for 2023. We are looking forward to spending time with you, serving the airline community, and having lots of fun.

- **August 9: Costa Mesa Client Seminar**
- **Sept 12: Tysons Corner Client Seminar**
- **Sept 13-17: Reno Air Races**

Keep an eye out for more details via email and also please continue to refer to ***www.raa.com/events*** for any updates on the specific dates and times of the events. We hope you will join us and bring your friends, family, or colleagues!

JOIN RAA FOR HAPPY HOUR AT THE RENO AIR RACES 2023

After nearly 60 years of air racing in northern Nevada, 2023 will be the last National Championship Air Races at the Reno-Stead Airport. In celebration, we are hosting one last happy hour after the races

Where: Charlie Palmer Steakhouse

Inside Grand Sierra Resort, on the restaurant row

2500 East Second Street, Reno, NV 89595

When: Thursday, September 14th, 2023 | 6:00-9:00 PM

More details will be provided once you

RSVP at: **raa.com/renoairraces2023**

NEW ADVISORS SPOTLIGHT

Darren Dindinger is a Certified Financial Planner™ professional and a Chartered Retirement Planning Counselor (CRPC®) for RAA, serving clients from across the country out of the firm's Seattle-area office. As a teenager, Darren witnessed a close family member suffer from the effects of having not received adequate financial guidance, and immediately made a vow that he would learn from the experience and become a student of the subject. From there, a future advisor was born, as Darren went on to graduate from Western Oregon University with a Bachelor of Science in Economics, and later earned a Master of Business Administration (MBA) from Texas A&M University-Commerce. Originally from Alaska, Darren moved with his wife and two daughters to Washington in 2012. When not advising clients, you can find him planning family adventures and cruises, or just enjoying the great outdoors via his love of gardening, hiking, and kayaking.

Certified Financial Consultant Sean Rayburn is a new advisor in RAA's Atlanta, Georgia, office. A former educator, with nearly a decade of financial services industry experience, Sean is a student of all things related to financial advising for pilots, airline retirement plans, investing, and economics. "I strongly believe that every aspect of an individual's financial life impacts virtually everything else, so I approach planning holistically, leaving no stone unturned in my quest to help clients achieve their financial goals," he said. Having graduated Magna Cum Laude from Mercer University and the University of Oxford, Sean enjoys reading, running with his dogs, ballroom dancing with his wife, spending time with his daughter, playing competitive soccer, writing poetry, woodworking, smoking meat, and brewing beer.

MARKET UPDATE

By Andy Stout, CFA, CFP® - Chief Investment Officer

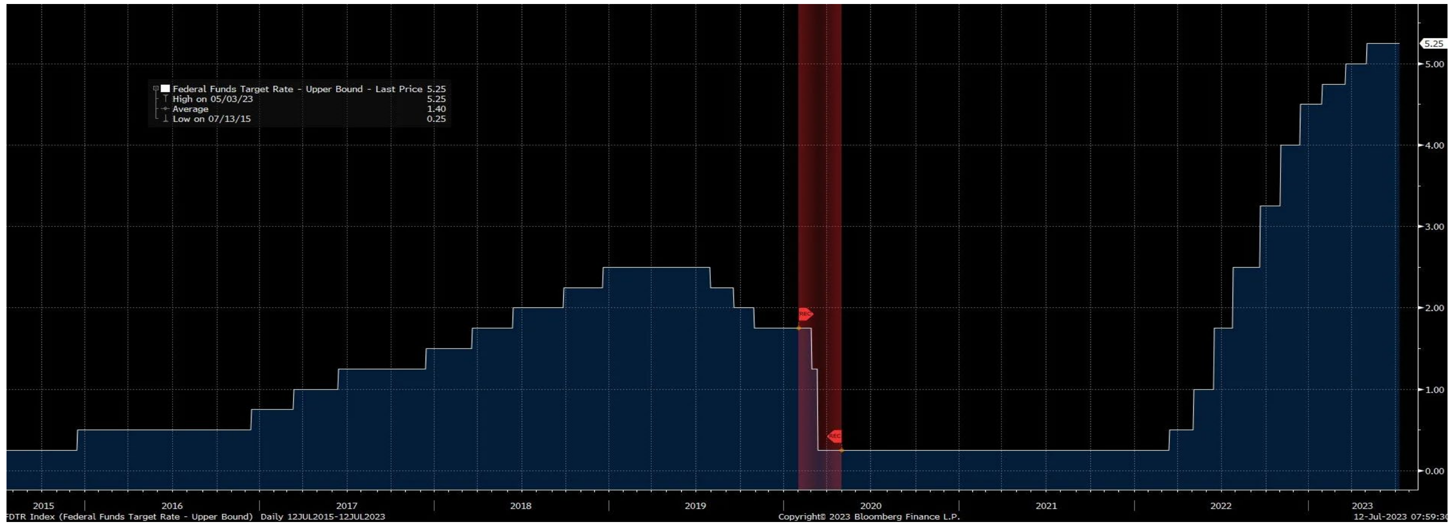
Director of Investment Research Ryan Gromatzky takes a look at whether the Federal Reserve's interest rate hikes are having the desired economic impact.

The fact high inflation is still in the news reminds me of a quote by Nobel Prize winning economist, Milton Friedman, who stated, "Inflation is always and everywhere a monetary phenomenon … a steady rate of monetary growth at a moderate level can provide a framework under which a country can have little inflation and much growth."

However, elevated levels of inflation can lead to a destruction of purchasing power which creates a wealth gap between those who are asset rich and those who are asset poor. A perfect example of this is home ownership. If an individual owns a home, the value of that home tends to increase over time. Conversely, a renter becomes poorer as his or her rent increases without the benefit of an asset to offset his liabilities.

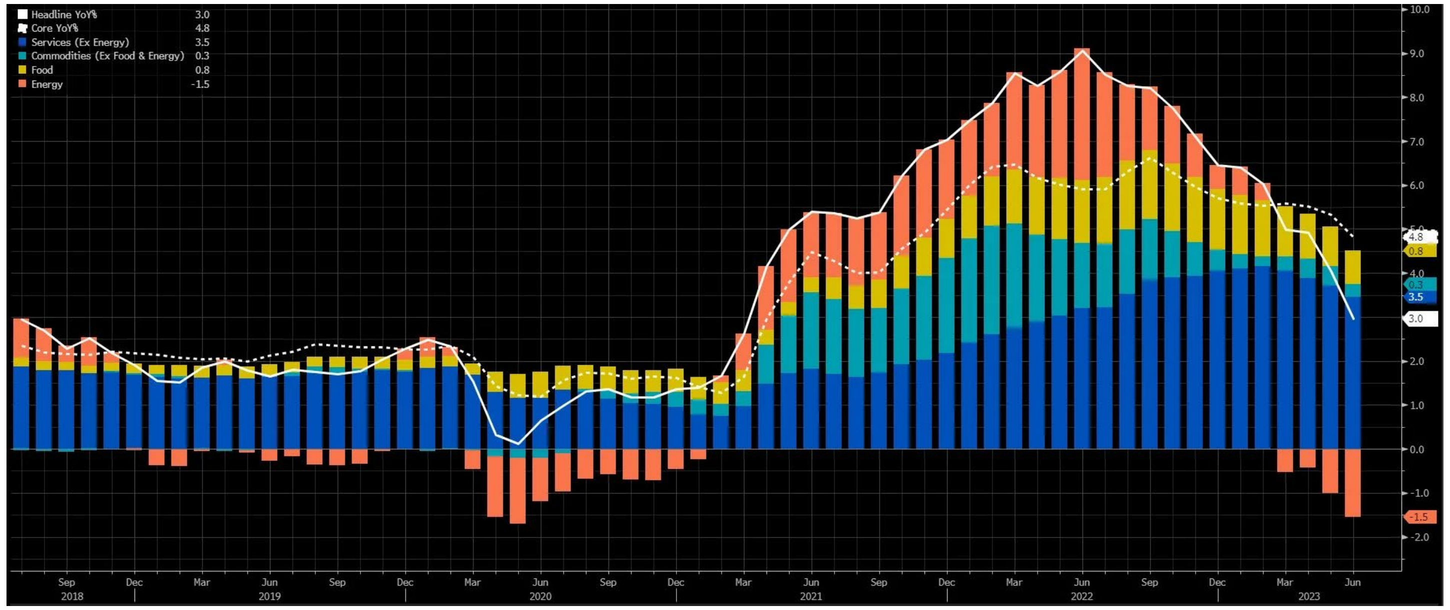
For this reason, among others, the Federal Reserve (Fed) is tasked with a dual mandate to maintain price stability and maximize employment. To that end, for a little over a year now, the Federal Reserve has been aggressively hiking the fed funds rate to help curtail inflationary pressures. By raising rates, the Fed has been attempting to restrain demand so that demand comes into balance with supply – thus lowering inflation.

As you can see in the chart below, the Fed has now raised the fed funds rate by ~500 basis points. While the tightening of monetary policy works with long and variable lags, higher interest rates will eventually reduce demand consistent with the Fed's mandate.



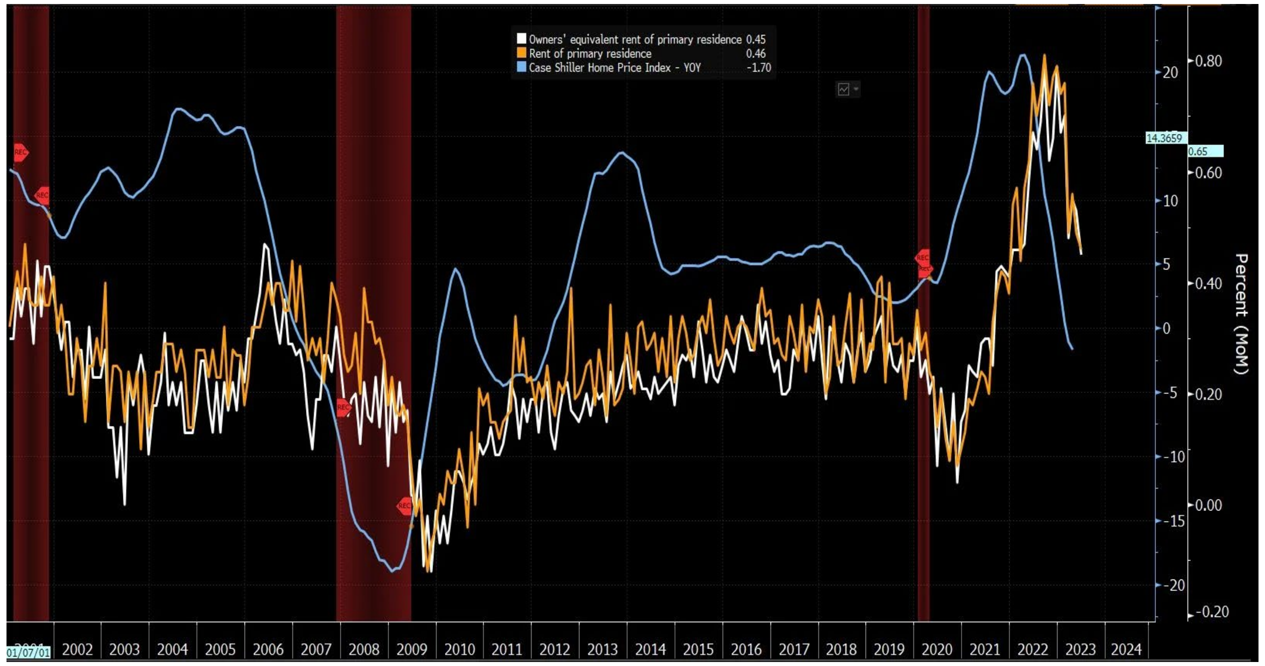
This week, we received an update on the Consumer Price Index (CPI) to determine how much progress the Fed has made since inflation hit its June 2022 peak of 9.1%.

The good news is that year-over-year CPI dropped to 3.0% in June, which is slightly better than the consensus' estimate of 3.1%.



However, core CPI (which excludes food and energy) remains a much more robust 4.8%. This is because lower energy costs have been the primary driver of lower headline CPI (down -16.7% year-over-year) – which is historically volatile.

A more enduring reduction in headline CPI would necessitate a reduction in the services component. Within the services component of CPI, shelter costs remain the biggest sub-component. In turn, the shelter component is comprised of (1.) Rent of primary residence, and (2.) Owner's equivalent rent. In total, shelter costs make up approximately 35% of headline CPI and almost 60% of services.



In June, the shelter component of CPI continued to run hot at 0.4% month-over-month and 7.8% year-over-year. As such, to make meaningful progress on inflation, shelter inflation will need to moderate. The good news is that this is beginning to occur.

Historically, shelter costs have a high correlation with home prices – which makes sense. However, the way the data is aggregated results in a lag between declining home prices and a corresponding decrease in shelter inflation. This lag is historically about 12 months, and this is what we are seeing now. As you can see in the chart above, home price growth peaked in the first three months of 2022 (Q1-22), and subsequently began moving lower. The current year-over-year change in home prices is -1.7% - compared to its peak of 20% in Q1-22. As such, we are beginning to see shelter inflation move lower (as seen above).

This week's softer-than-expected data indicates the Fed is beginning to have some success on the inflation front. However, it may be some time before the Fed is able to bring inflation down to its 2% mandate as year-over-year numbers become more difficult to beat moving forward. In fact, it is plausible that inflation could move slightly higher in the coming months.

As such, sticky inflation like shelter, combined with a resilient labor market, should keep the Fed committed to a higher-for-longer monetary policy framework. After all, the last thing the Fed wants is a reacceleration of inflation.

July 30, 2023

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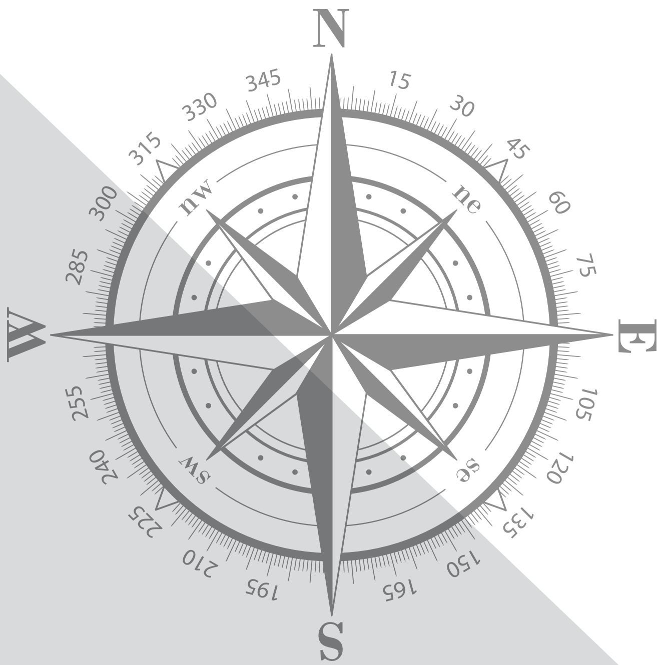

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