the SGROI FINANCIAL
NEWSLETTER

Navigating the Secure Act 2.0

Setting Every Community Up for Retirement Enhancement (Secure)

On December 23rd, 2022, a massive $1.7 trillion dollar spending bill was signed into law. Attached to this bill was the Secure Act 2.0, which is essentially a sequel to the Secure Act that was passed at the end of 2019. Much like its older counterpart, the Secure Act 2.0 brings sweeping changes to retirement planning, both for those who are currently saving for their retirement, as well as those who are already living out their golden years. Here are some major provisions that may affect you and your retirement. We understand that anytime the government makes big changes, that it can be confusing. If you have any questions or concerns, please reach out to us, as it's what we're here for.

RMD Age Change

The Secure Act 2.0 shifts the RMD (Required Minimum Distribution) age up to 73, from 72. The new RMD age of 73 goes into effect for this year, 2023. In the year someone turns 73, they must begin to take RMDs from their retirement accounts. Upon reaching the requisite age (now age 73 instead of 72), individuals will still be able to delay their first RMD until April 1st of the year following the year, they turn 73. Thus, an individual turning 73 on any day in 2023, can take their first RMD until as late as April 1st, 2024. However, if the first RMD is not taken in the year someone turns 73, but is instead taken the following year (by April 1st), a second RMD will also still need to be distributed that year (for the year the individual turns 74). Either way, the first age-73 RMD will always be calculated using the age 73 life expectancy factor, which can be found in the Uniform Lifetime Table, that the IRS provides.

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The Act will be changing the RMD age again in the year 2033, going from 73 to 75.

529 Plan Roth Conversion
Starting in 2024, once a 529 plan has been opened for at least 15 years, the beneficiary could roll up to $35,000 from their 529 into a Roth IRA. This would not be in addition to their contribution limit for the year. Assuming the Roth IRA contribution limit remains the same for 2024, a 529 beneficiary could roll up $6,500 ($7,500 if they're age 50 or older) of their 529 into a Roth IRA per year. It would take them 6 years to move the full $35,000 that they're allowed to roll over from their 529 to a Roth IRA. This benefits those who oversaved for college, as they can use their leftover 529 money to fund a Roth IRA.

New Catch Up Contribution
There will be a brand new catch up contribution starting in 2025. For those of you who are 60 to 63 years old, 401(k) catch up contributions will not just be the $6,500 that those 50+ can make. It will be the greater of $10,000 or 50% more than the current catch up contribution. If this new rule was in place for 2023, (it will start in 2025) it would have been $11,250 ($7,500 (2023 Catch up contribution)* 150%) and not $10,000.

Employer Match Can be Roth Too
Starting this year in 2023, if an employer offers a Roth option with their retirement plan that has a match, the match can now go directly into the Roth account. In years past, the employer match always had to go into a pre-tax traditional retirement account, and was not allowed to go into the Roth account. If the employee wants their match to go into their Roth account, the employee will have to include the match as income for the year on their tax return, and thus pay taxes on it in the year the match gets deposited into their Roth account.

Welcome, Matthew Clouden

We are pleased to announce the addition of Matthew Clouden to the Sgroi Financial family. Matthew received his Bachelor of Science in Business Administration from the University at Buffalo where he also earned his MBA in Finance and International Management in 2010. In 2013 Matthew received his Juris Doctor degree from Northeastern University.

Matthew has 9 years experience practicing law and most recently served as a tax attorney for the Lippes Mathias law firm in Buffalo, NY. Matthew's experience working with trusts and estates will be an invaluable resource to the Sgroi Financial team.

Matthew and his wife, Amanda, reside in Orchard Park with their daughter. Matthew is also the son of John Clouden, partner, and is presently going through the licensing process required to become a financial advisor on John's team.

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A Letter from the Partners

The Value of Guidance

Do you remember your high school guidance counselor? They helped guide us through many things from class selection, to what do I want to do for a living, maybe if I wanted to go to college what should I take and where should I go. They were an invaluable resource to help us in our first big transition towards the adult world.

Fast forward 4 years or so, now we are in the real work-a-day world. We may have graduated from college, learned a trade or completed military service. Either way we are in a world where we have responsibilities, bills to pay and maybe children to support. Unfortunately, one thing that school didn't prepare us for was the financial choices that we need to make in life. Financial literacy was rarely brought up in our schooling and that is perhaps the most important skills we could have learned.

That is where we come in. We see ourselves as a guidance counselor for this next phase of life. People need help in navigating the many decisions they need to make as they go through various life stages. In each life stage there are various areas of focus and things that need to be addressed. People come to us with many questions such as:

What do I do with all this student loan debt?
How can I save for my kids' education?
How much life insurance do I need?
How much should I be putting away for retirement?
When can I retire?
How do I protect my assets?

Helping people through this journey is what energizes us. Our number one job is to help people. We take great pride in seeing our clients achieve their goals and dreams and help them every step of the way through life's journey. We are thankful for our many loyal clients who continue to let us come along for their ride through life.

All the best,

Patrick Sgroi,
Partner

John Clouden,
Partner

What Was That?!?

That's what many of us said early in the morning on February 6th when an earthquake struck the WNY area. After the shaking stopped you may have found yourself wondering if your home is covered against damages caused by earthquakes. Many people do not realize this, but most homeowner's policies do not include earthquake coverage. You would need to add this to your homeowner's policy to be protected. Automobile insurance policies generally cover vehicles for earthquake damage under the optional comprehensive portion of the policy.

Earthquake policies typically cover damage to your house and your belongings, up to the insured amount. If possible, you'll want to buy enough to cover the cost of rebuilding your house and replacing your belongings. While your standard homeowner's policy may cover fire damage that results from an earthquake, an earthquake policy is important to cover damage that results from shaking, such as structural collapse.

How Much Will It Cost?

Because of the massive potential damages associated with an earthquake, coverage can be expensive. Your premium amount will depend on your location, along with the age and structural composition of your home. In addition, earthquake policies include a deductible, generally ranging from 2 to 20 percent of total damages, which means you can still have significant out-of-pocket costs in the event of an earthquake. As always, you'll want to weigh the cost against the risk of experiencing an earthquake, and your ability to survive the financial aftermath of such a catastrophic event.

Additional Considerations

When buying a policy, you should read it closely to be sure you understand what is covered and what is not. Find out if it covers your house only or the garage as well, whether it will cover additional living expenses, if necessary, along with any other exclusions or limitations. You also should know how much time you have to file a claim following a quake, as damage is often not apparent immediately after the incident. Each policy is different. Lawley Insurance can offer you recommendations and help you shop around to find the policy that best fits your needs and your budget.

What's My Risk?

Typically, we think earthquakes strike only in a small portion of the country—namely California, Oregon and Washington. However, more recent experience also shows that the Midwest & Eastern regions are at relatively high risk of earthquakes due to fault lines that run through those states.

If you are considering purchasing earthquake insurance, contact Lori Kuzan Today:

Tel: 716.849.8620

Insurance products and services are offered through Lawley.

"Risk is what's left over when you think you've thought of everything."

– Morgan Housel

There is an old saying about Federal Reserve tightening cycles. The Fed "tightens until something breaks." Cracks did emerge this quarter, as rising rates, tighter lending conditions, and shrinking liquidity weighed on growth. The banking crisis that emerged in March was an unsettling addition to investor concerns. However, with all of this, the stock and bond markets were resilient. The S&P 500 finished the quarter up 7.50%, while the bond market finished up 2.96%

Investors continue to grapple with the uncertainty of rising rates and their impact on the economy. There is talk on financial media about hard, soft, and no landings, as investors look to see what the Fed can engineer. There are always reasons to be optimistic or pessimistic about the market, and as such, we wanted to outline different scenarios we are looking at, and what could outperform moving forward.

Let's start with why investors are optimistic about the market. You would believe that there is no banking crisis and that the Fed will cut rates by year-end, which would lead to better growth. Inflation will continue to decline, and realistically, it probably will not get to the Fed's goal of 2%, but the banking crisis will put enough pressure on the economy to cool inflation. With the Fed cutting rates, the economy still strong, and a labor market still tight, the Fed will engineer that soft landing. Lastly, you must believe that earnings will stay strong, which will help the stock market. This environment would be characterized by lower rates, slower, but not contracting growth, and stable earnings. We would then want to allocate to growthier areas of the market (think technology) while pairing this with companies with strong balance sheets. On the fixed income side, longer-dated bonds should outperform short-dated bonds, as with interest rates coming down, the long end of the yield curve would outperform.

Now, let's move to why investors are pessimistic about the market. You would believe there is a banking crisis and the fallout will be felt soon. The Fed will not cut rates, as inflation is still too high, and is not declining fast enough. Economic growth falters, as the full impact of rate hikes has not been felt yet, but is coming. This will soften the labor market and the economy will slow down, causing earnings to detract. This environment would be characterized by stagflation (high inflation, high-interest rates, and slowing growth). Allocating to defensive areas of the market would make the most sense. Think of things consumers would always need to pay for (groceries, utilities, healthcare). On the bond side, it would be the exact opposite of an optimistic market. Shorter-dated bonds would outperform longer-dated bonds, as yields rise, the long end of the curve would bear the brunt of the pain.

In our portfolios, we are "data dependent." This means, unfortunately, we don't have a crystal ball to know what inflation is going to do, and what the Fed will do, and must rely on incoming data to get a true sense of where we could go from here. Both scenarios above could play out, so, we have allocated to both parts of the equity and fixed-income markets that could do well. We remain defensive, however, as any shocks to an already fragile market could lead to increased volatility.

We thank all our clients who have put their trust in Sgroi Financial. The past year and a half has been tough, and we believe brighter days are on the horizon. We're here for any questions you may have, so don't hesitate to reach out while enjoying Spring!

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