STIFEL

RETIREMENT PLANS QUARTERLY NEWSLETTER

Summer 2024

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Please contact us if you have any questions about the articles or for copies of the other materials mentioned in this newsletter.

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With the upcoming Summer Olympics, now is the time to dive into your retirement savings goals. Are you prepared to skate through retirement, or do you need to kick-start your contributions? Take this time to reassess your goals and objectives to ensure that you're on the right track. It's never too early to knock out a plan and go for the gold.

HIGHER CATCH-UP LIMIT TO APPLY AT AGE 60, 61, 62, AND 63 (EFFECTIVE 1/1/25)

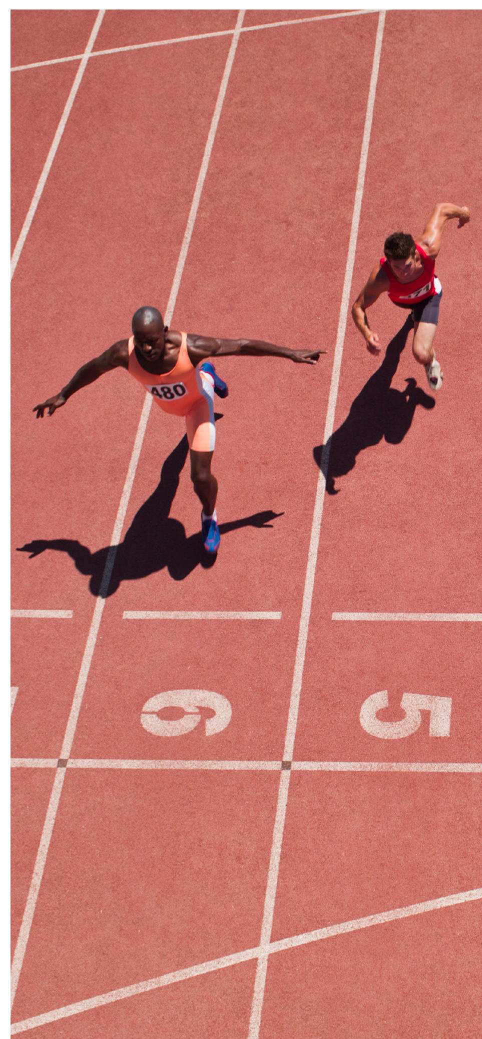
The SECURE Act 2.0 features a new opportunity to save even more in a retirement plan for those between the ages of 60 and 63. Beginning in 2025, those in this age bracket will see their catch-up deferral contribution increase to the greater of $10,000 or 150% more than the standard catch-up amount (currently $7,500 in 2024). The $10,000 limit will be adjusted for inflation annually beginning in 2026.

For example, if the standard catch-up contribution limit remains $7,500 in 2025, an employee between 60 and 63 would be permitted to contribute an extra $11,250 in deferrals to their 401(k) or 403(b) plan for 2025 (determined by multiplying $7,500 by 1.5).

For those participating in a SIMPLE IRA plan in 2025, those between 60 and 63 will see their catch-up deferral contribution increase to the greater of $5,000 or 150% more than the standard catch-up amount (currently $3,500 in 2024). This means if the standard catch-up contribution limit for SIMPLEs remains $3,500 in 2025, then the maximum catch-up contribution for those between 60 and 63 would be $5,250 (determined by multiplying $3,500 by 1.5).

THE IMPORTANCE OF KEEPING BENEFICIARY DESIGNATIONS UP TO DATE

When was the last time you checked to see who was listed as the beneficiary of your individual retirement account (IRA) or retirement plan? Many of us name beneficiaries when establishing an account, but we often forget to review them. Furthermore, a common misconception is that an individual's will determines retirement account beneficiaries. In reality, beneficiary designations may supersede the instructions of your will. For this reason, it is imperative to make sure you have beneficiary designations for each retirement plan you hold.



Choosing a beneficiary

Selecting an appropriate beneficiary can impact how your retirement assets will be paid out and the tax consequences to your inheritors. The custodian of these account types will generally let you select both primary beneficiaries and contingent beneficiaries. A contingent beneficiary is an individual or entity that will inherit the assets if the primary beneficiary predeceases the account owner.

Beneficiaries can be individuals, such as:

- A spouse
- A non-spouse (child, grandchild, sibling, other family member, friend, etc.)

Or an entity, such as:

- A trust
- A charity
- An estate

Spousal beneficiary

A spouse is the only beneficiary that can roll inherited retirement assets into his or her own IRA or retirement plan account. All other beneficiary types must typically establish inherited IRAs or retirement plan accounts. The significant difference here is that spouses can then delay required minimum distributions (RMDs) until they reach age 73. RMDs are typically based on the beneficiary's life expectancy, so the younger the beneficiary, the longer he or she can keep the assets in a tax-deferred IRA or plan.

Non-spousal beneficiary*

If a non-spouse inherits a 401(k) or other qualified retirement plan, it is best practice to determine the options available per the plan document. The non-spouse beneficiary may be able to:

- Roll it over to an inherited IRA
- Take a lump-sum distribution
- Remain in the plan for a period of no longer than ten years

If the person you inherited the account from was over age 73, and thus had already started taking RMDs at the time of death, the beneficiary must satisfy the current year RMD if not already taken. Once that RMD is satisfied, the 10-year rule generally takes effect.

What you can do today

To ensure your assets pass to your beneficiaries the way you intend:

- Periodically review your beneficiary designations for all your investment accounts, especially after major life events.
- Don't forget about your checking and savings accounts.
- If all your files are electronic, make sure to keep a hard copy.
- Educate your beneficiaries on the options they have and the tax implications of each.
- If you have concerns about how one or more of your beneficiaries will manage the assets they inherit, you may want to consider naming a trust.

It is vital to keep beneficiary designations up to date and to make sure that the assets you have worked so hard to accumulate are passed along according to your wishes. Speak to your Stifel Financial Advisor today to review your beneficiary designations.

* *Exceptions include spouses, minor children, disabled or chronically ill individuals, and non-spouse beneficiaries who are no more than 10 years younger than the deceased. Once a minor child reaches the age of majority, the 10-year rule begins. If a non-spouse beneficiary inherited an account prior to 2020, the inherited IRA is considered grandfathered under pre-SECURE Act rules and therefore may continue to take RMDs over the beneficiary's life expectancy.*

MEGA BACKDOOR ROTH

Are you looking for a way to boost your Roth IRA assets and create more tax diversification in retirement? For 2024, Roth IRA contributions are limited to $7,000 ($8,000 if age 50 or older), and Roth qualified plan salary deferral contributions are limited to $23,000 ($30,500 if age 50 or older). If you're looking to put away more Roth dollars above the IRA and salary deferral limits, you may be able to so by executing the mega backdoor Roth strategy.

In order to be eligible for the mega backdoor Roth, your employer-sponsored qualified plan must allow for after-tax contributions and in-service withdrawals or in-plan conversions. The strategy is a two-step approach:

1. Make an after-tax contribution to your qualified plan.
2. Roll the after-tax contribution to a Roth IRA or convert the after-tax contribution to a Roth qualified plan.

Hypothetical Example (See Diagram)

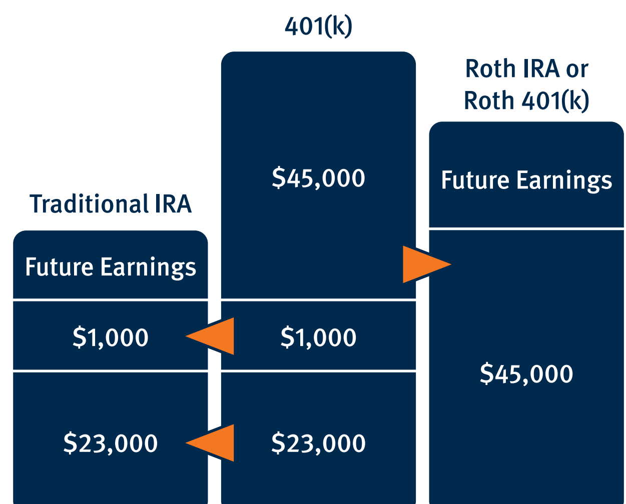
401(k) Employee Contributions:

- $23,000 pre-tax salary deferrals
- $45,000 after-tax contributions

401(k) Employer Contribution:

- $1,000 match

Total between all employee and employer contributions cannot exceed $69,000 ($76,500 if age 50 or older) for 2024. Roll after-tax contributions of $45,000 to a Roth IRA or convert to a Roth 401(k); future Roth earnings will be tax-free after five years and upon the account owner reaching age 59½. Upon a triggering event like separation from service, roll pre-tax salary deferrals and employer contributions to a traditional IRA.



MEGA BACKDOOR ROTH *continued*

Benefits

- The ability to deposit funds into a Roth above the IRA contribution limits
- Tax-free growth and tax-free distribution of earnings after five years and reaching age 59½
- Hedge against future tax rate hikes
- No RMDs from a Roth IRA or Roth 401(k)
- No income limits for after-tax contribution eligibility (unlike a Roth IRA)

Considerations

- Must be eligible for a qualified plan with after-tax contributions
- After-tax contributions by certain employees may force the qualified plan to fail actual contribution percentage (ACP) testing
- Following a conversion, Roth qualified plan assets may not be available until a triggering event occurs
- Earnings from the after-tax contributions will be taxable if moved into a Roth account

Contact a Stifel Financial Advisor today to review your qualified plan funding options. It is always recommended that you seek the aid of a competent tax advisor or accountant to assist with tax advice and guidance.

Decisions to roll over or transfer retirement plan or IRA assets should be made with careful consideration of the advantages and disadvantages, including investment options and services, fees and expenses, withdrawal options, required minimum distributions, tax treatment, and your unique financial needs and retirement planning. Neither Stifel nor Stifel Financial Advisors provide recommendations with respect to your decision to move assets out of an employer-sponsored retirement plan. Once you inform your Stifel Financial Advisor that you have chosen to roll your retirement assets to an IRA with Stifel, your individual investment needs can be addressed. You should consult with your tax advisor regarding your particular situation as it pertains to tax matters.

MARKET VOLATILITY

Investing for retirement is a long-term journey. Whether your retirement is 40 years away or right around the corner, remember that retiring from your career is just the beginning. Your savings may need to last 20 to 30 years or longer.

Short-term market volatility is inevitable and to be expected. It is important to learn how to maintain your strategies for pursuing your retirement goals and not veer off course due to fluctuations in the market.

Before you react to fluctuations in the market, consider these investment basics:

Stay on Course for Savings

Investment performance matters, but what matters most is making sure you are saving enough to reach your goals. How much you invest matters more than how you invest. Start early and contribute enough to help ensure you can retire on your terms. Don’t abandon your savings plan based on market performance.

Dollar-Cost Averaging

Save consistently. Contributing equal amounts on a regular basis, regardless of which way the markets move, can help reduce your overall average purchase price over time. This strategy is referred to as dollar-cost averaging. For the strategy to be effective, you should consider your ability to continue investing during periods of falling prices.

Regular Rebalancing

Consider regularly rebalancing your portfolio. Reviewing your original asset allocation and rebalancing your assets can help to adjust for any recent market volatility. Getting back to your target mix, or rebalancing, sounds simple but can sometimes be psychologically difficult. That’s because it requires selling assets that have performed better for you and buying those that haven’t done as well. Consider setting up automatic rebalancing with your plan provider if you find your asset allocation is off course.

Take a Long-Term Perspective

It’s tempting to want to take action when markets are volatile, but that’s exactly when you shouldn’t act on emotion. Try to take a step back and gain perspective on your long-term goals and asset allocation. Don’t let the day-to-day market chatter send you off course. If your reasons for investing haven’t changed and you have a diversified portfolio of stocks, bonds, and cash investments, doing nothing may be best.

Ask for Help

If you do not have the time or interest in managing your retirement, or you are unclear of what you need, seek guidance. Reach out to your Stifel Financial Advisor and review your goals and investment strategy. We are here to help in your journey to and through retirement.

Diversification, asset allocation, and dollar-cost averaging do not ensure a profit or protect against loss. Rebalancing may have tax consequences, which you should discuss with your tax advisor.

BUSINESS TAX INCENTIVES (STARTUP CREDITS)

The SECURE Act 2.0 offers some notable tax credits for small business owners. Effective January 1, 2023, meaningful tax credits are now available to employers with 100 or fewer employees. These credits are meant to encourage employers to establish new retirement plans for their employees:

New Plan Credit: This tax credit is available to cover implementation and administrative costs of establishing a new plan up to a maximum of $5,000 per year for a total of three years!

Employer Contribution Credit: The employer earns a credit of up to $1,000 per employee (for those employees earning under $100,000) for the amount of the employer contributions. The credit phases out over five years and when there are more than 50 employees.

Auto-Enrollment Credit: The SECURE Act 1.0 created a separate new tax credit for any business that adds an auto-enrollment feature to a new or existing retirement plan. This credit, of up to $500, is available for the first three years for small employers sponsoring a qualified retirement plan or SIMPLE IRA plan.

Let's look at a few examples of how the different credits apply

I Can Save, Inc. sets up a new 401(k) plan with automatic enrollment and a 100% match up to 4% of compensation. The company has 30 employees: 25 non-highly compensated employees (non-HCEs) and 5 highly compensated employees (HCEs). All HCEs have compensation over $100,000, and 20 of the non-HCEs have compensation under $100,000. All employees will receive the full match of 4%.

Credit #1 Startup Credit	Credit #2 Auto-Enrollment	Credit #3 Employer Contributions
Dollar Limitation (The greater of $500 OR the lesser of A or B) **A. $6,250** (i.e., $250 x 25 non-HCE participants) **B. $5,000** **Results = $5,000**	Credit for auto-enrollment feature = $500	20 employees with compensation <$100,000 x $1,000 = $20,000

UPCOMING DEADLINES FOR FORM 5500, SAFE HARBOR 401(K)s, AND SIMPLE IRAs

FORM 5500

The deadline to file Form 5500 for existing plans is the last day of the seventh month after the plan year ends, or July 31 for a calendar year plan. Plan administrators can request an extension until October 15 by filing Form 5558.

Safe Harbor 401(k)

In order to start a safe harbor 401(k) in 2024, employers must send safe harbor notices by September 1. The plan must be effective as of October 1. Employees must receive a 30-day notice, which is why the plan must send notices no later than September 1.

SIMPLE IRA

The deadline to establish a SIMPLE IRA plan for 2024 is October 1. The only exception to this deadline is if you are a new employer that comes into existence after October 1 of the year the SIMPLE IRA plan is set up. Then you must set up a SIMPLE IRA plan as soon as administratively feasible after the business comes into existence.

WHAT ARE AUTOMATIC FEATURES, AND HOW DO THEY HELP YOUR PLAN AND PARTICIPANTS?

Automatic features in an employer plan refer to features that automatically enroll employees, automatically increase their contributions, and/or automatically select appropriate investment options.

Here are the most common types of automatic features for an employer plan:

- **Automatic enrollment:** Automatically enrolls new employees in the 401(k) plan, typically at a default contribution rate. The default contribution rate is usually a percentage of the employee's salary, such as 3% or 6%.
- **Automatic escalation:** Automatically increases the employee's contribution rate over time, typically by 1% each year. The goal is to encourage employees to save more for retirement without requiring them to take action.
- **Qualified default investment alternative (QDIA):** Automatically selects an appropriate investment option for employees who do not choose their own investments. The QDIA is typically a target date fund, which adjusts the asset allocation based on the employee's expected retirement date.
- **Automatic re-enrollment:** Automatically re-enrolls employees who previously opted out of the 401(k) plan, typically during the annual open enrollment period. The goal is to encourage employees to continue saving for retirement.

These features can have a dramatic effect on participant behavior. Here are some potential advantages of using automatic features in an employer plan:

- Increased participation: Employees who are automatically enrolled in the plan are more likely to participate, especially if they have to opt out of the plan rather than opt in.
- Higher contribution rates: By automatically increasing the contribution rates over time, employees will be more likely to save more for retirement.
- Reduced administrative burden: When employees are automatically enrolled in the plan, employers do not have to spend time and resources on encouraging them to enroll.
- Improved retirement outcomes: By automatically enrolling employees in appropriate investment options and increasing their contribution rates over time, employees will be more likely to accumulate sufficient savings for retirement.
- Reduced fiduciary risk: By automatically enrolling employees in appropriate investment options, employers will be less likely to be sued for offering poor investment options or not providing adequate guidance to employees.

Overall, automatic features in an employer plan can be an effective way to increase employee participation and contribution rates, improve retirement outcomes, and reduce administrative burdens and fiduciary risk for employers.

Mandatory Automatic Enrollment

Beginning in January 2025, automatic enrollment will become a mandatory feature in 401(k) and 403(b) plans.

- All new 401(k) or 403(b) plans must add an automatic enrollment feature. Auto-enrolled participants will start at a contribution rate between 3% and 10%.
- Participants' contribution rates will be automatically escalated by 1% annually until they reach at least 10%, but no more than 15%.
- Participants can opt out of their auto-escalate feature.
- Certain exemptions apply.

Competing athletes will have a chance to bring home a unique part of Paris's history. Every Olympic and Paralympic medal will contain a piece from the original iron used in the construction of the Eiffel Tower.

Source: https://olympics.com/en/news/paris-2024-medals-how-metal-from-eiffel-tower-was-incorporated

PLAN AUDITS

Retirement plans can offer many benefits to employees and businesses, but for a plan sponsor, the responsibilities can be a challenge to manage. One major concern for businesses are the words "plan audit." In an effort to dispel unnecessary fear, it is best to lean on education to help alleviate concern and understand what triggers a plan audit. There are two different type of audits: DOL audits and mandatory large plan audits.

DOL AUDITS:

Late Deferrals

If the plan sponsor does not deposit employee deferrals in a timely manner, that would be a violation that could trigger an audit. Deferrals should be deposited by:

- Small plans (fewer than 100 employees) – Seven business days from when employees are paid
- Large plans (100+ employees) – As soon as administratively feasible after each payroll

The IRS expects deferrals to be deposited within three to five days; however, the deposit deadline is 15 business days following the date on which employees were paid. Lost earnings and excise taxes on late deposits will be incurred after 15 business days.

Inaccurate Compensation

Another common mistake found in audits is the plan's definition of compensation. Payroll can cover many sources, such as base pay, bonus, overtime, commissions, and fringe benefits. The mistakes often occur by including or excluding certain sources of compensation when calculating retirement plan contributions.

Service Provider Monitoring

Plan sponsors should regularly monitor their plan to ensure that their fees are reasonable. Benchmarking your retirement plan against what is being offered in the marketplace should be done at least every three to five years.

Investment Oversight

The lack of oversight of investment offerings and fees in retirement plans could lead to an audit as well. Below are a few ways to help you stay compliant:

- Document plan committee meetings.
- Regularly review the investments and document, and take action on those that are not meeting the desired criteria in your Investment Policy Statement.
- Plan trustees should confirm that participants are receiving adequate education and understand the risks associated with the investments available.
- Ensure that all plan asset statements are sent to the primary business location for trustee review.

LARGE AUDIT (100+ EMPLOYEES):

Plans with 100 or more eligible participants at the beginning of the plan year are considered large plans. These plans generally must undergo an audit through a third party. A plan audit often comes with a hefty fee that could cost the company thousands of dollars.

One solution for a business owner looking to lower annual audit fees or offload fiduciary responsibility is to participate in a PEP (pooled employer plan). A PEP is a defined contribution plan in which unrelated employers participate in the same plan and delegate a pooled plan provider to take on the fiduciary role. To the participants, the plan will still act and feel like a standard retirement plan.

Benefits to PEP plans

- For large businesses that participate in a PEP, the annual audit fee is usually a fraction of the price and can potentially save the business thousands of dollars.
- There is no mandatory annual audit for small businesses with under 100 participants, but PEPs can help keep plans compliant and avoid future audits stemming from mismanagement.
- The pooled plan provider takes on a portion of the plan administration, annual filings, and plan compliance, which will lower the fiduciary risk to the plan sponsor.
- Could potentially save on administrative costs.

While a portion of the fiduciary responsibility is on the pooled plan provider, employers will never be totally free of fiduciary responsibility. The plan sponsor should research and monitor the pooled plan provider to make sure it is providing adequate support to the plan and acting in the best interests of the plan participants.

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2024 SUMMER OLYMPICS WORD SEARCH

Archery	Hockey
Badminton	Karate
Basketball	Lacrosse
Boxing	Rowing
Cricket	Rugby
Cycling	Squash
Diving	Swimming
Fencing	Tennis
Golf	Volleyball
Gymnastics	Wrestling

U F A A N U C N D H V E V P V O Q E R P T B G Q H O V D L J
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