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Commerce Concepts

Market Updates, Asset Allocation, and Investment Education for Plan Participants and Individuals

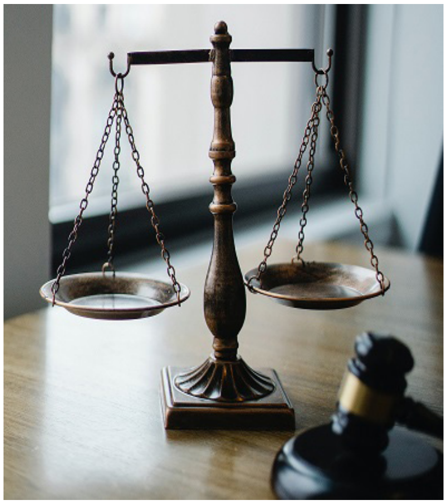
Retirement Investors Get Another Boost From Washington

The legislative package known as "SECURE 2.0" was passed on December 23, 2022 as part of the 2022 omnibus appropriations bill. The 350+ page text includes numerous provisions aimed at expanding retirement coverage, increasing retirement savings, preserving income for retirees, and simplifying and clarifying retirement plan rules.

The following is a brief summary of some of the most notable initiatives impacting individual investors and retirement plan participants. All provisions described below take effect in 2024 unless otherwise noted.

Later age for required minimum distributions (RMDs)

The 2019 SECURE Act raised the age at which retirement savers must begin taking distributions from traditional IRAs and most employer-sponsored retirement savings plans from 70.5 to 72. SECURE 2.0 raises that age to 73 beginning in 2023, and to 75 in 2033.



Reduction in the RMD excise tax

Current law requires those who fail to take their full RMD by the deadline to pay a tax of 50% of the amount that should have been taken. The new law reduces that tax to 25% in 2023; the tax is further reduced to 10% if account holders take the full required distribution and report the tax by the end of the second year after it was due, and before the IRS demands payment.

No RMDs from Roth 401(k) accounts

Bringing Roth 401(k) and similar employer plans in line with Roth IRAs, the legislation eliminates the requirement for savers to take minimum distributions from their employer-sponsored Roth plan accounts.

New exceptions to the 10% early-withdrawal penalty

Distributions from retirement savings accounts are generally subject to ordinary income tax. Moreover, distributions prior to age 59½ also may be subject to an early-withdrawal penalty of 10%, unless an exception applies. The law provides for several new exceptions to the early-withdrawal penalty, including an emergency personal expense, terminal illness, domestic abuse, to pay long-term care insurance premiums, and to recover from a federally declared disaster. Amounts, rules, and effective dates differ for each circumstance.

Higher limits and looser restrictions on qualified charitable distributions from IRAs

The amount currently eligible for a qualified charitable distribution from an IRA ($100,000) will be indexed for inflation. In addition, beginning in 2023, investors will be able to make a one-time charitable distribution of up to $50,000 from an IRA to a charitable remainder annuity trust, charitable remainder unitrust, or charitable gift annuity.

Matching contributions for qualified student loan repayments

Employers may optionally help workers repaying qualified student loans simultaneously save for retirement, by making retirement plan matching contributions based on student loan payments made by the employee.

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WIN A $25 GIFT CARD

to your choice of REI or Powell's! (See page 2 for details)

Congratulations to our most recent winner:

Caroline O. of Lile International Companies, Inc.

Visit [thecommco.com/commerce-concepts] for the answer to last issue's question.

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Retirement & Investment Services

Indexes are unmanaged and cannot be invested in directly. Past results are not predictive of future results. Individual results will vary. The trailing returns shown include dividends. See page four for index definitions.

Source:
Raymond James Financial Services

To be entered into a drawing to win a

$25 Gift Card,

email free@thecommco.com with the answer to this question:

SECURE 2.0 raises the RMD age to what, beginning in 2023?

Market Update

Through December 31, 2022

		Trailing Returns			
		3 mos	12 mos	5 yrs	10 yrs
Blue Chip US Stocks	Dow Jones Industrial Average	16.01%	-6.86%	8.38%	12.30%
Large Company US Stocks	S&P 500	7.56%	-18.11%	9.42%	12.56%
Small Company US Stocks	Russell 2000	6.23%	-20.44%	4.13%	9.01%
Non-US Stocks	MSCI EAFE (Gross Div)	17.40%	-14.01%	2.03%	5.16%
US Bonds	Bloomberg US Aggregate	1.87%	-13.01%	0.02%	1.06%
Cash Alternatives	ICE B of A 3 Month US Tsy Bill	0.84%	1.46%	1.26%	0.76%

Economic Snapshot

Gross Domestic Product (GDP)
GDP growth is expected to continue to moderate in Q1 of 2023 and then turn negative over the next three quarters.

Inflation
Inflation remains the biggest risk for the economic outlook, but barring any external shock (such as energy prices increasing again), we should see inflation below 3% by the end of 2023.

Monetary Policy
The Fed has slowed the pace of rate increases, and will likely slow it further. However, the terminal (inflation-neutral) rate is estimated at 5%, and this restrictive level is likely to lead to recession later in 2023.

Housing and Construction
The housing market is and will remain in recession, as the strong increase in mortgage rates impacts affordability. We should see further declines in home prices.

Manufacturing
Manufacturing was supported by strong export demand in 2022 but has started to decline over the last few months. This trend is expected to continue in 2023.

Employment
Nonfarm payrolls have slowed but are still very strong. Expectations are that nonfarm payrolls weaken in 2023 while the unemployment rate increases.

Investment Strategy Quarterly: Published by Raymond James and Associates, December 2022. For a complete PDF copy of the current issue of Investment Strategy Quarterly, click here or email newsletter@thecommco.com.

December Market Review

- Inflation has continued to slow, with the U.S. Consumer Price Index increasing only 0.1% in November. The housing market and demand for goods have also slowed as consumers feel the effects of higher financing costs. The service sector, however, has continued to defy attempts by the Fed to cool overall economic activity. Employment data also remains strong, with an unemployment rate of 3.7% in November.

- The year-end passage of key defense and funding bills removed a degree of uncertainty around U.S. fiscal policy for the year ahead, though the bigger story could be which policy priorities were not addressed. The omnibus funding bill did not include riders for technology/antitrust scrutiny, energy permitting reform, cannabis legislation, accelerated research and development expenses, or the potential extension of a modified child tax credit – leaving these issues without a clear path forward.

- Additional interest rate increases likely will occur early in 2023. While inflation is expected to moderate over the coming year, it will take time for the Fed's actions to take full effect. Once they do, indicators point toward a mild recession in the second half of the year. While much of this discomfort has already been priced into the markets, headwinds could persist. By the end of 2023, the outlook for economic growth is expected to improve.

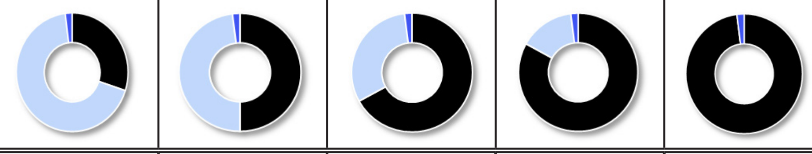
For additional asset allocation and disclosure information, please [click here] or visit the Resources section of our website at

thecommco.com

Strategic Asset Allocation Models

As of January 2023

Equities
Fixed Income
Cash Alternatives



	Conservative	Moderate	Balanced	Growth	Aggressive
Equity	**30%**	**50%**	**67%**	**83%**	**98%**
Equity allocation comprises:					
U.S. Large Cap Blend	20%	24%	31%	38%	45%
U.S. Large Cap Growth	0%	3%	5%	7%	8%
U.S. Large Cap Value	0%	3%	5%	7%	8%
U.S. Mid Cap Equity	4%	7%	9%	11%	13%
U.S. Small Cap Equity	1%	3%	5%	7%	8%
Non-U.S. Developed Market Equity	5%	10%	8%	9%	11%
Non-U.S. Emerging Market Equity	0%	0%	4%	4%	5%
Fixed Income	**68%**	**48%**	**31%**	**15%**	**0%**
Fixed income allocation comprises:					
Investment Grade Intermediate Maturity	58%	39%	27%	15%	0%
Investment Grade Short Maturity	0%	0%	0%	0%	0%
Non-Investment Grade (High Yield)	7%	6%	4%	0%	0%
Non-U.S. Fixed Income	3%	3%	0%	0%	0%
Multi-Sector Fixed Income	0%	0%	0%	0%	0%
Alternative Investments	**0%**	**0%**	**0%**	**0%**	**0%**
Cash & Cash Alternatives	**2%**	**2%**	**2%**	**2%**	**2%**
Totals	**100%**	**100%**	**100%**	**100%**	**100%**

These asset allocation targets are based on our changing views of the risk and return in the various asset classes, looking out over three or more years. The models assume fully allocated portfolios and do not take into account outside assets, additional cash reserves held independent of these models, or any actual investor's unique circumstances. Investors should consult their financial advisor to decide how these models might assist in the development of their individual portfolios. Material is provided for informational purposes only and does not constitute a recommendation.

The investment profile is hypothetical, and the asset allocations are presented only as examples and are not intended as investment advice. Asset allocation and diversification do not assure a profit or protect against loss. Investing involves risk and investors may incur a profit or a loss, including the loss of all principal. International investing involves special risks, including currency fluctuations, differing financial accounting standards, and possible political and economic volatility. Investing in small- and mid-cap stocks generally involves greater risks, and therefore may not be appropriate for every investor. There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. High-yield bonds are not suitable for all investors. When appropriate, these bonds should only comprise a modest portion of your portfolio. Commodities and currencies are generally considered speculative because of the significant potential for investment loss. They are volatile investments and should only form a small part of a diversified portfolio. Real estate investments can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.

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Retirement & Investment Services

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Higher catch up contributions

Previously fixed at $1,000, the IRA catch up contribution limit will be indexed annually for inflation, similar to catch up contributions for employer-sponsored plans. Also, starting in 2025, people age 60 to 63 will be able to contribute an additional $10,000 to 401(k) and similar plans and $5,000 to SIMPLE plans (indexed for inflation) each year.

Roth catch up contributions

Currently, catch up contributions to employer-sponsored retirement plans may be made on either a pre-tax or Roth (after-tax) basis. Beginning in 2024, all catch up contributions made by employees who earned more than $145,000 in compensation from the plan sponsor in the previous year must be made as Roth.

Roth matching contributions

Currently, employer retirement plan matching contributions must go into an employee's account pre-tax. The legislation allows employees to elect to receive their match in Roth dollars, if the plan sponsor chooses to adopt the provision. This could take effect immediately; however, it may take some time for employers to amend their plans (and payroll companies to update their software) to include this feature. If utilized, the Roth employer contributions must be 100% vested.

Emergency savings accounts

The legislation permits employers to enroll non-highly compensated employees into emergency savings accounts linked to their retirement plans, in which they can set aside up to $2,500 (or a lower amount that the employer stipulates) with Roth-style tax treatment and penalty-free withdrawals. Savings above this limit, and any employer matching contributions, would go into the regular retirement account.

These provisions represent just a sampling of the changes that will be brought about by SECURE 2.0. More details will be released over time by the regulatory agencies, and employers' retirement plan documents will need to be amended to provide for the new services and updates they adopt. If you have questions about how SECURE 2.0 impacts your retirement strategy, please email us at newsletter@thecommco.com.

Index definitions: The S&P 500 is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow" is an index representing 30 stock of companies maintained and reviewed by the editors of the Wall Street Journal. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index. The MSCI EAFE (Europe, Australasia, and Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 22 developed nations. The Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The ICE BofAML 3-Month US Treasury Bill index consists of a single issue that is purchased at the beginning of the month and held for a full month. At month's end, that issue is sold and rolled into a newly selected issue, which is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. The selected issue must have settled on or before the month-end rebalancing date. Past performance may not be indicative of future results. An investment cannot be made in these indexes. The performance mentioned does not include fees and charges, which would reduce an investor's returns.