LENOX ADVISORS, INC

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What you should know about the active vs. passive fund debate

According to Strategas Securities, 62% of actively managed large-cap "core" funds (that buy a mix of growth and value stocks) outperformed the stock market as a whole in 2022. That's notable, because in most years, passively managed funds that mimic market indexes tend to do better than their actively managed counterparts. Does this mean you should invest only in index funds? Not exactly.

DEFINING TERMS

Passive, or index, funds generally strive to track the performance of a particular market index, such as the S&P 500, Russell 2000 (smaller-cap U.S. stocks) or FTSE All-World Index (foreign stocks). Typically, they buy and hold all, or a representative sampling, of their chosen index's securities and sell only to mirror changes in the index. Because trading is kept to a minimum, these funds usually are tax efficient. And their costs are low because they rely on a formula or algorithm rather than labor-intensive research and monitoring of individual stocks.

Active funds, in contrast, rely on rigorous analysis to evaluate individual securities and build portfolios that attempt to beat market indexes, reduce risk or achieve other goals. Because these funds often try to maximize profits by selling when investment objectives dictate, they tend to be less tax efficient than index funds. Their need for expert analysts to select securities means that expenses generally are higher.

WHY BOTH STYLES ARE "ACTIVE"

It's important to understand that purely passive investing doesn't really exist. Short of buying every security in the world, all investment portfolio choices are "active" to some extent. For example, if you choose the "passive" strategy of investing in an S&P 500 index fund, you've made an active decision to limit your investment to the U.S. large-cap stocks contained in that index. But they're only a small fraction of the securities available in the United States and foreign markets.

Passive investing supporters often point to the fact that the majority of actively managed large-cap equity funds underperform their benchmark index over the long term. The semi-annual S&P Indices Versus Active (SPIVA) scorecard confirms that 89% of actively managed funds lag the S&P 500 index over a 15-year period (as of June 30, 2022). In part, this is because these funds charge higher expenses.

However, some actively managed funds in other categories, such as bonds and small-cap equities, regularly beat their indexes. And even some actively managed large-cap stock funds outpace their benchmarks, particularly over the short term. The trouble is finding those active funds that beat indexes — and keep doing so in different markets.

YOU DON'T HAVE TO CHOOSE

If you're generally a hands-off investor who wants your portfolio's returns to reflect that of major market indexes, you may want to buy one or more low-expense index funds. Fortunately, most investors don't actually have to choose between active and passive investing. You can hold a variety of investment types — including active and passive funds, as well as individual securities — in a diversified portfolio.

Just make sure your overall portfolio reflects your long-term goals, financial resources, investment knowledge and risk tolerance. Risk tolerance is especially important because any investment has the potential to dramatically fall in value and could even lose money over the long-term. Discuss your options with your Lenox Advisor.

SECURE Act 2.0

New law makes saving for retirement easier

Legislation enacted at the end of 2022 included the long-awaited SECURE 2.0 Act of 2022 (SECURE 2.0), which expands on the Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019. Many of the changes made by SECURE 2.0 make it easier to save for retirement in a tax-advantaged manner. Here are some of the highlights.

TAKING RMDS

The first SECURE act raised the age at which individuals must begin taking required minimum distributions (RMDs) from IRAs and employer-sponsored retirement plans — from 70½ years to 72 years for those who turn 70½ in 2020 or later). SECURE 2.0 increases the starting age further, to 73 beginning in 2023 and to 75 beginning in 2033. Keep in mind that if you turned 72 in 2022 or earlier, you must continue taking RMDs as scheduled. Similarly, if you turn 73 before 2033, you need to continue taking RMDs as scheduled, even after the starting age increases to 75.

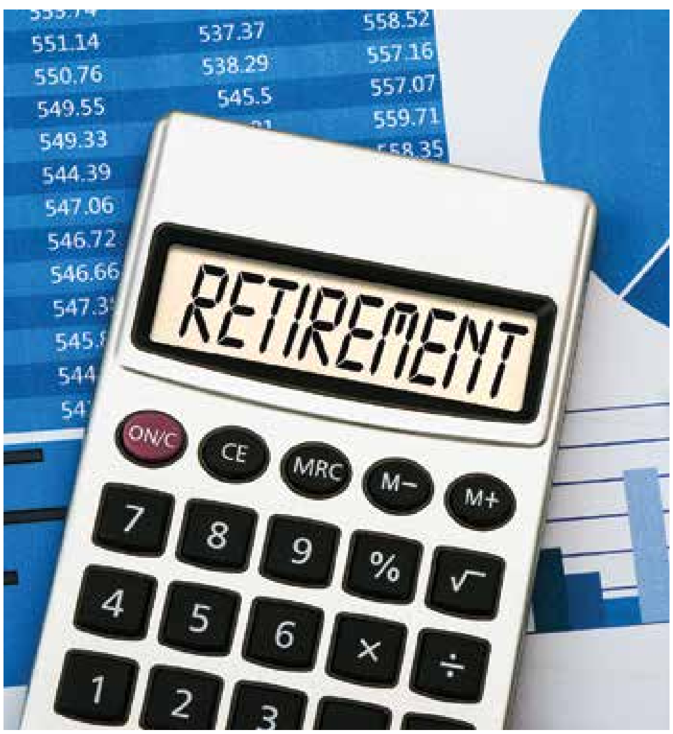
Note: An apparent drafting error creates some ambiguity over whether RMDs start at age 73 or 75 for people born in 1959. Congress will likely make a technical correction to the act to clarify that the RMDs start at age 75 for people born in 1960 or later.)

DELAYING DISTRIBUTIONS

If you don't need the funds for living expenses, delaying RMDs can boost your retirement savings by allowing additional years of tax-deferred growth. Delaying RMDs may also reduce income tax on distributions if you'll be in a lower tax bracket when they're made. If you turn 72 in 2023, and you've already scheduled your first RMDs, consider delaying them by a year.

The penalty for failing to take an RMD on a timely basis is also changing. In the past, it could result in a tax penalty equal to 50% of the amount that was required to be withdrawn. SECURE 2.0 reduces the penalty to 25% (starting in 2023). The law also provides for further reduction, to 10%, for those who correct the missed RMD in a timely fashion.

Starting in 2024, Roth accounts in employer-sponsored plans will no longer be required to make RMDs. This is the same treatment currently available to Roth IRA owners.



CATCH-UP AND MATCHING CONTRIBUTIONS

Currently, individuals age 50 and older may make annual catch-up contributions of an additional $7,500 to 401(k) plans and similar employer-sponsored plans and an additional $1,000 to traditional or Roth IRAs. Starting in 2024, the catch-up amount for IRAs will be adjusted for inflation. And, beginning in 2025, employer plan participants ages 60 through 63 will be able to make catch-up contributions equal to the greater of $10,000 (adjusted for inflation) or 150% of the regular catch-up amount.

Starting in 2024, employer plan participants who earned more than $145,000 (adjusted for inflation) from their employer in the previous year must make any catch-up contributions to a Roth account. In other words, these highly compensated employees will no longer be able to make catch-up contributions on a pre-tax basis.

SECURE 2.0 also boosts employer-matching contributions. Beginning in 2023, employees may elect to receive matching funds as after-tax Roth contributions — provided their

QCDS JUST GOT EVEN BETTER

If you're charitably inclined, you know that charitable deductions are available only if you itemize and may be limited to a certain percentage of your adjusted gross income (AGI). A qualified charitable distribution (QCD) allows people age 70½ and older to bypass these restrictions by transferring up to $100,000 tax-free from an IRA to a qualified public charity. As a bonus, this amount counts toward any RMDs for the year.

Among other changes (see main article), the SECURE 2.0 Act expands the advantages of QCDs. It does it in two ways:

1. If you're 70½ or older, you can now make a one-time QCD of up to $50,000 to a charitable gift annuity or charitable remainder trust that benefits you or your spouse. That means you enjoy the tax benefits of a QCD, while receiving a lifetime income stream.

2. The $100,000 and $50,000 limits will be adjusted for inflation going forward.

plan offers this option. (Employer-matching Roth contributions will be taxable to the employee when they're made.) The act also enables employer plans to treat certain student loan payments as plan contributions for matching purposes.

SECTION 529 ISSUES

Section 529 plans are a great way to fund qualified educational expenses, but distributions used for other purposes are subject to tax and penalties. SECURE 2.0 provides relief for overfunded 529 plans. Starting in 2024, the law permits up to a lifetime limit of $35,000 to be rolled over into a Roth IRA (for the same beneficiary), free of tax and penalties.

To qualify for a rollover, the 529 plan must be at least 15 years old and the rolled over funds can't include any contributions (plus earnings on those contributions) made to the plan within the preceding five-year period. Rollovers in a given year are also subject to otherwise applicable limits on Roth IRA contributions.

REVISIT YOUR PLAN

These are just some of the many changes contained in SECURE 2.0's 300-plus pages. Significant new tax laws such as this often

requires individuals to revise their plans. Contact your Lenox Advisor to discuss how SECURE 2.0 affects yours.

Financial planning is critical for unmarried couples

When it comes to financial planning, married couples enjoy certain advantages. For example, if they divorce, and haven't entered into a prenuptial agreement, state law provides for an equitable division of their assets. And if one spouse dies without a will, state law typically says that the surviving spouse inherits a portion of the assets.

Despite these protections, married couples should have a plan to ensure that their wishes are carried out. But planning is *critical* for unmarried couples, who may face devastating consequences if they split up — or if one person dies — without a plan in place. If you and your partner are unmarried, here are some issues to consider:

TAX-PLANNING OPPORTUNITIES

Married couples generally file joint income tax returns, which can be an advantage or disadvantage. Single-income families and families in which one spouse earns significantly more than the other generally pay less tax by filing jointly. But spouses with similar incomes — especially high earners — may pay higher taxes than similarly situated unmarried couples.

Unmarried couples also may have some tax-planning opportunities that are unavailable to married couples. For example, if there's a substantial disparity in partners' incomes, having the higher earning partner pay deductible expenses (such as mortgage payments or charitable contributions) may be preferable. That's because those deductions usually are more valuable on the higher earner's tax return. It may also be possible to reduce taxes by titling investments or other income-producing assets

in the lower earner's name. But beware: Gifts between unmarried individuals are reportable and use up gift tax exemptions.

BREAKUP PROTECTION

Without the protection of divorce laws, you should consider signing a cohabitation or domestic partnership agreement to provide for the division of assets in the event you split up. This is especially important if assets are titled in the name of one partner or the other for tax-planning purposes.

Joint ownership may also be an option for certain assets, such as real estate and bank or brokerage accounts. However, keep in mind that this type of ownership may raise gift or income tax issues. In such circumstances, talk to your tax professional and Lenox Advisor.

RETIREMENT PLANNING

When planning for retirement, keep in mind that unmarried couples often are at a disadvantage when it comes to government and employee benefits. Spouses who've been married for at least 10 years, for example, can collect Social Security benefits based on their spouse's (or ex-spouse's) work history. This can be a big advantage for spouses who leave the workforce for a time to raise children. And if one spouse dies, the surviving spouse and other family members may be entitled to Social Security survivor benefits.

Unmarried partners aren't entitled to these benefits. However, some employers provide pension plan survivor's benefits to unmarried partners of deceased employees. Therefore, it's important to do your research and learn which retirement benefits will and won't be available. You may need to provide other savings or life insurance to make up for any shortfalls.

ESTATE PLANNING

When married couples neglect to prepare an estate plan, state law provides one for them. Unmarried couples have no such backup plan. So unless each of you carefully spell out how you wish to distribute assets, the surviving partner could be left with none of the assets in the other's name. Take advantage of tools such as wills and trusts, strategic titling of property (for example, joint ownership), and proper beneficiary designations in retirement accounts and life insurance policies.

You also need to prepare advance health care directives and financial powers of attorney if you want your partner to have the authority to make health care decisions or manage your finances if you become incapacitated. Legally, unmarried partners are considered unrelated, so absent these documents they have little or no rights to participate in health care and end-of-life decisions.

PUT IT IN WRITING

Unmarried couples can achieve many of the same financial and estate planning objectives as married couples. But ensuring that your wishes are carried out requires careful planning — with the assistance of financial and legal professionals — and thorough documentation. If you don't have a plan in place, contact your advisors.

Should you sell (or even refuse) inherited assets?

An inheritance can provide a welcome windfall, especially if you're planning for retirement. But don't automatically assume you should hold onto valuable assets you inherit. In many cases, disposing of them or even turning down an inheritance altogether (really!) may make more financial sense.

ESSENTIAL QUESTIONS

If you receive an inheritance, it's important to evaluate the asset (or assets) to determine how it might fit into your overall financial and retirement plan. Questions to ask include:

- What's the asset worth?
- How important is it to keep the asset? For example, is there any sentimental value?
- If you keep the asset, does it fit into your overall asset allocation strategy? Or, if you hadn't inherited the asset, would you have purchased it?
- Does the asset generate income?
- What liabilities, expenses or time commitment are associated with managing or maintaining the asset?
- What's your comfort level with the asset's inherent risks?
- If you were to sell the asset, what would you net in after-tax proceeds? Inherited assets generally are entitled to a stepped-up cost basis, which can minimize or eliminate capital gains taxes.

Often, individuals are better off selling inherited assets and using the proceeds to fund retirement in a more efficient, lower-risk manner. Say you inherit a small office building that's worth $2 million and has a cost basis of $500,000. There's no mortgage, but the building is struggling to find tenants and its property taxes, insurance and maintenance expenses are $75,000 per year. Rather than invest $75,000 per year in a building with an uncertain future, you may be better off taking advantage of the stepped-up basis to sell the property tax-free and using the proceeds to invest in other assets.

TURNING IT DOWN

In some cases, the best strategy is to reject an inheritance altogether, using a qualified disclaimer. Suppose, for example, that you inherit an IRA from a parent. Distributions from the IRA, which generally must now be taken within 10 years, may generate significant income taxes.

Now, assume that your child (your parent's grandchild) is the contingent beneficiary. If you turn down the inheritance, the IRA will go to your child. Assuming your child is in a lower tax bracket, this will produce significant tax savings for your family. For help with this or other inheritance issues, contact your Lenox Advisor.