

ENDOW

THE QUARTERLY NEWSLETTER OF THE *Covenant College Foundation*

en•dow *verb* » 1. to provide with a permanent fund or source of income.

Summer 2023 marks the end of Derek Halvorson's service to Covenant College in the role of president. As many of you know, Dr. Halvorson is stepping down after faithfully serving for 11 years – the third longest tenure of a Covenant College president. As I reflect on this milestone in the history of the college, I am thankful for the ways I have known him, both as a friend and as the president. And I celebrate his many contributions, not only to the college, but also to the Covenant College Foundation.



Derek and I were at Covenant together in the late '80s and early '90s, and my earliest memories of him are as a classmate and fellow mischief maker. He took my spot in Carter Hall when I moved halls to be a Resident Assistant. Thankfully, we've both matured since our college days; I returned to Covenant to work at the foundation in 2010, and Derek came as president in 2012. Over these past 11 years working together, I have seen the college benefit from his commitment to rigorous Christian liberal arts education, his skill in hiring faculty who are truly outstanding in their fields yet genuinely caring in their approach to students, and his winsome and compelling articulation of the value of a Covenant education. These are only a few of the ways that Derek has strengthened the college these past 11 years, but I am also deeply grateful for his service to the Covenant College Foundation.

The foundation's chief priority is to see Covenant College flourish, and we seek to accomplish that by focusing on Covenant's stability, sustainability, long-

term financial health, and enduring commitment to its mission and vision. Derek has served the college and the foundation well in these regards. Derek understands and values the importance of a healthy endowment, and he has worked tirelessly to strengthen it. During his tenure as president, the endowment has grown by more than \$30 million. Throughout the recently-completed IMPACT Campaign, and other fundraising efforts (Carter Hall Renovation campaign, etc.), Derek has shared with countless donors the vision of Covenant College,

and he has skillfully articulated the necessity and uniqueness of the Covenant experience. He has helped the foundation in our support of the college, and he has led with energy and joy.

I am grateful to Derek for his faithfulness, integrity, and energy. Covenant College will be a different place without him at the helm. Yet even as he steps away from the President's Office, I am encouraged to know that, beginning this summer, his enduring love for this very special place and his commitment to Covenant's mission will translate into him serving as the founding director of the Brock-Barnes Center for Christian Leadership. I look forward to seeing how God will continue to use my gifted, faithful friend in a new way, always toward the goal of making Christ preeminent in all things.

Marc M. Erickson '92 CFP®, CLU®

*Executive Director
Covenant College Foundation*

SECURE Act Changes

by **JOHN ISAAC**

SINCE ITS INITIAL ADOPTION roughly four years ago, the SECURE Act has now become a central part of the national financial conversation. The original SECURE (“Setting Every Community Up for Retirement Enhancement”) Act of 2019 aimed to make it easier for Americans to save for retirement, and to have more flexibility in accessing their funds once they retire. The follow-up SECURE 2.0, signed into law in December 2022, goes even further to empower Americans as they plan for, save for, and subsequently live out their retirement.

Some provisions of SECURE 2.0 became effective in 2023, while others will take effect some time over the next two to ten years.

One key component of the SECURE Act relates to RMDs (Required Minimum Distributions) for retirement accounts. RMDs are minimum amounts that retirees must withdraw from their retirement accounts each year. Previously, these required withdrawals began at age 72; SECURE 2.0 raised the threshold age to 73 in January of 2023, and will raise it again in 2033 to age 75. The goal of this change is to give retirees more control over when they take distributions from their retirement accounts, and to allow more of their savings to grow tax-deferred. At the same time, it helps ensure that the government will be able to collect sufficient tax revenue, as once money is withdrawn from a tax-deferred retirement account, it becomes taxable. Failure to take an RMD will result in a penalty, however, SECURE 2.0 sets the penalty at 25% of the RMD amount not taken (reduced from 50%).

Another important provision of the SECURE Act relates to catch-up contributions, i.e., provisions in the law that allow people closer to retirement age to increase their retirement savings above the maximum allowable amount. Currently, those aged 50 and older may make an additional \$7,500 contribution annually to their workplace retirement plans. Starting January 2025, those aged 60-63 will be able to contribute an additional \$10,000 annually; this amount will be indexed for inflation.

While these aspects of the SECURE Act affect those nearing retirement or already in retirement, there are other important provisions that impact those Americans for whom retirement may still be a long way off.

SECURE 2.0 requires most businesses to automatically enroll their employees in 401(k) and 403(b) plans. Additionally, the Act allows employers to make matching contributions to their company’s retirement plan on behalf of employees who are choosing to repay student loans instead of contributing to their retirement plan. These and other changes should help boost retirement savings for millions of Americans, many of whom may focus too heavily on present needs, not realizing the importance of starting early and investing consistently towards retirement.

Another BIG change impacts inherited retirement accounts. In the past, when a non-spousal beneficiary (i.e., a child or sibling, etc.) inherited an IRA or 401(k), they could “stretch” the distributions (and the associated tax payments) over their entire lifetime.

Snapshot of the 2023 Graduates

Top Five Majors:

1. Psychology
2. Art
3. Business
4. Sociology
5. Biology and Elementary Education



Under SECURE 2.0, most beneficiaries now have to take distributions within ten years of the death of the original account holder. This can have significant tax implications for those who inherit an IRA.

As an example, let's say Tom passes away in his 80s and names his children as the beneficiaries of his 401(k) plan. Under the SECURE Act rules, they must take all of the distributions from his 401(k) within ten years of Tom's death. These distributions are typically taxed as ordinary income. Given this scenario, Tom's kids may be in their 50s (typically peak earning years, and years when many are already in the highest tax brackets of their lifetimes). Having to take these distributions annually for ten years could potentially bump them into an even higher tax bracket; in addition, large withdrawals may also push adjusted gross income (AGI) over the threshold and thus trigger the 3.8% Medicare surtax.

While it's important to understand the tax and income implications of this shortened window for withdrawals, it's also good to remember that there is not one best approach that fits everyone. However, in the opinion of many, pre-tax money (401(k)s, Traditional IRAs, etc.) may be some of the least desirable assets to leave to heirs (beyond your spouse) and might instead be good sources of gifts to leave to charitable causes, like I have done for Covenant as a part of my own estate plan. I did this by simply

making Covenant the beneficiary of my 401(k). I will reevaluate that in ten years or so as I start drawing down on those assets and review how distribution rules may continue to change.

In general, the changes brought about by the SECURE Act bring greater flexibility to Americans as they plan for their retirement. However, this greater freedom also means more complicated choices. Financial planning is like sailing, where winds, weather, currents, and other vessels create the need to change course. In my work, it's tax rules, personal circumstances, health considerations etc. that cause my clients to reevaluate their course over time. Knowing how to invest for retirement, which accounts to draw from and when, and which accounts to use for legacy gifts requires careful planning. It's best to have some guidance from your tax professional and financial advisor on how you can most efficiently be a great steward.



John Isaac, CLU, ChFC, CASL & RICP, attended Covenant from 1975-1977. John is a wealth management advisor with Northwestern Mutual in Maryland; he spends most of his practice helping people with their financial planning around distribution strategies of retirement. John can be reached at 301-346-5882, or at John.Isaac@nm.com.

Jolly Scholarship

One way that the Covenant College Foundation helps support the work of Covenant College is by overseeing several scholarships. In 2003, Jim and Judy Jolly established the Jolly Scholarship, awarded each year to students who aspire to pursue vocational ministry and are identified as potential leaders in service and academics. As 2023 marks the 20th year of this scholarship, we celebrate the fact that Jim and Judy's generosity, along with the generosity of others who have contributed to this scholarship, has resulted in over \$1.9 million being awarded to over 140 students. Over the years, it has been a blessing to hear story after story of how this investment in students' lives has helped develop Christian leaders and make Christ known far and wide.

