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Boomer Homeownership and Retirement

With the youngest baby boomers turning 60 in 2024, a survey from mortgage agency Freddie Mac looked at the relationship of boomer homeownership to retirement and aging. Here are some of the findings. All percentages apply to baby boomers (born 1946 to 1964), who hold about half the nation's home equity, amounting to more than $17 trillion.

Source: Freddie Mac, December 19, 2024

How Has SECURE 2.0 Affected 401(k) Plans?

Since its inception in 1980, the 401(k) plan has become a key tool in helping Americans build wealth. In fact, the number of people who have become millionaires through their 401(k) plans reached 537,000 in 2024, a 27% increase from 2023.[1] The SECURE 2.0 Act, passed in 2022, introduced new features designed to make 401(k)s even more appealing to workers. The following features are optional for employers, and while some have been adopted, others have yet to gain traction.

Emergency access

In most cases, early withdrawals from 401(k) plans are subject to ordinary income tax and an additional 10% early distribution penalty. However, there are certain exceptions to the penalty, including several introduced by SECURE 2.0:

- Withdrawals of up to $1,000 for personal or family emergencies
- Distributions of up to $22,000 for expenses related to a federally declared natural disaster
- Withdrawals of up to the lesser of $10,500 (in 2025) or half the account balance for an account holder who is the victim of domestic abuse
- Distributions to a terminally ill employee

In addition, SECURE 2.0 ushered in a new option to help employees save for emergencies, known as a pension-linked emergency savings account (PLESA). Also called a "sidecar" account, a PLESA allows workers to make Roth-type contributions, which means they are not tax deductible, but withdrawals are tax-free. Employees can save up to $2,500 each year (or a lower limit, as determined by the employer), and money is invested in lower-risk vehicles. Employees are allowed to make withdrawals at least once per month, generally for any reason.

SECURE 2.0 also authorized employers to allow workers to "self-certify" their need for hardship withdrawals, which are distributions permitted in certain situations if the employee has limited financial resources. Previously, employees were required to prove they had an "immediate and heavy financial need" for the money. (Note that hardship withdrawals and $1,000 emergency withdrawals are different types of distributions.)

Super catch-ups

Catch-up contributions, which allow employees age 50 and older to contribute more to their 401(k) plans than younger workers, have existed since 2001. Thanks to SECURE 2.0, employers may now allow workers who reach age 60 to 63 during the year to contribute even more through what have become known as "super catch-ups." In 2025, all 401(k) plan participants can contribute up to $23,500. Employees age 50 to 59 and 64 and older can contribute an additional $7,500, and those who reach age 60 to 63 can contribute an additional $11,250. These limits are indexed to inflation, which means they are periodically increased.

Student loan match

This program is designed to help alleviate the risk that some workers may be unable to save for retirement while paying off student debt. Through the student loan match, employers can make matching contributions into a retirement savings account based on an employee's student loan payments.

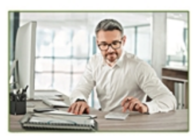
Roth match

With this option, employees can have their employer matching and non-elective contributions invested on a Roth, rather than a pre-tax, basis. The benefit is that, under current law, this feature can help workers build a source of potentially tax-free retirement income, provided certain conditions are met. A Roth distribution is tax-free if it is made after the account has been held for at least five years and the employee reaches age 59½, dies, or becomes disabled.

401(k) Appreciation Day

Percentage of retirement plan participants who agree with the following statements:

89%
"My plan account helps me think about the long term, not just my current needs."



87%
"Payroll deduction makes it easier for me to save."

48%
"I probably wouldn't save for retirement if I didn't have a retirement plan at work."

Source: Investment Company Institute, January 2025

Which features are being adopted?

The new exceptions to the 10% penalty, the self-certification for hardship withdrawals, the super catch-ups, and the Roth matches are among the new plan features employers are adopting. On the other hand, employers have been slow to launch PLESAs and offer the student loan match. Industry observers indicate it may be due to the technology and/or added administrative burden these features require. In the case of the student loan match, some plan sponsors have noted that not enough employees have a need for the benefit.[2]

1) MarketWatch, February 27, 2025

2) Plansponsor.com, February 3, 2025; PSCA.org, January 21, 2025; Alight, 2025

Could Employee Ownership Be Part of Your Succession Plan?

An employee stock ownership plan (ESOP) is a type of qualified retirement plan that enables a business owner to gradually transfer ownership shares to employees. Moreover, establishing an ESOP sets up opportunities for the owner of a closely held business to cash out (in whole or in part) in the future, while keeping the company going for employees and the community.

An ESOP may be a good option for small-business owners who don't plan to pass the reins to family members when they retire, but instead have loyal and capable managers who would be interested in taking over the company. In the meantime, an ownership mentality may enhance efficiency and productivity, because employees have a stake in the company's long-term success.

How ESOPs work

ESOPs are designed to invest their assets primarily in company stock rather than investing in the public markets. Annual cash contributions are made to the ESOP and used to purchase stock from the company, or the company may contribute the stock directly. In either case, the company can take a tax deduction for the value of each year's contribution, while the cash stays with the company.

Unlike other retirement plans, ESOPs are permitted to borrow money to purchase company stock. The company then makes annual contributions to the ESOP in the amount equal to the ESOP's principal and interest payments on the loan and uses the contributions to pay back that debt. The company's contribution as a whole is deductible, so the interest and the principal on the loan are deductible as well.

With an ESOP, an employee never buys or holds the stock directly while still employed with the company. If an employee is terminated, retires, becomes disabled, or dies, the plan will distribute the vested shares of stock in the employee's account.

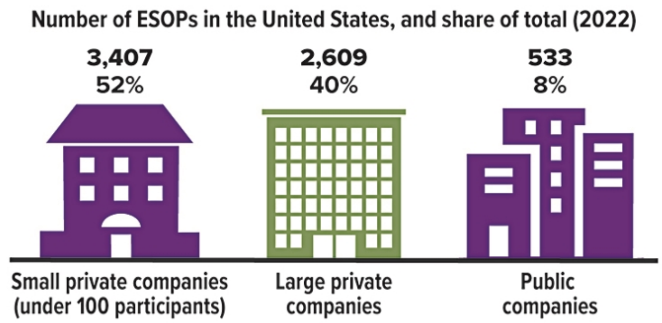
ESOP participants are investing heavily in a single stock, and their investment is tied to the financial health of the business. If the company declines in value, the ESOP may also. Thus, an ESOP should generally be offered alongside a standard retirement plan [such as a (401k)] with more diversified investment options.

A tax-deferred exit

There may also be tax benefits for a retiring owner who sells a business to an ESOP. If the ESOP owns at least 30% of the company after the sale, the capital gains tax on the sale may be deferred by reinvesting the proceeds in domestic U.S. securities ("qualified replacement property"). No tax would be due until the replacement securities are sold. If they are held until death, a stepped-up basis may apply, and the original gain may never be taxed.

In It Together

At last count, 6,548 businesses had ESOPs holding more than $1.8 trillion in assets, covering more than 14.9 million employees.



Source: National Center for Employee Ownership, 2025 (percentages rounded to the nearest whole number)

Business owners can defer taxes on the sale of business interests to an ESOP only if the shares were held for at least three years, and if the ESOP was established by a C corp (not an S corp). Among other conditions, stock bought by the ESOP may not be allocated to the seller or certain members of the seller's family, or to any shareholder of the company establishing the ESOP who owns more than 25% of any class of company stock. If this rule is violated, the company would be subject to a 50% excise tax, and the person receiving the allocation would also be subject to tax consequences.

ESOPs can be complicated and costly to establish and maintain, but they offer significant tax advantages that make them worthwhile in certain situations. It would be wise to consult an attorney with experience in the formation and maintenance of qualified retirement plans to help evaluate whether an ESOP could be appropriate for your business.

All investing involves risk, including the possible loss of principal. There is no guarantee that any investing strategy will be successful. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

Staycations Are About More Than Saving Money

In March 2025, 61% of respondents to a travel-related survey expressed concern that a recession might impact their vacation plans. The same percentage were planning a staycation instead.[1]

Common during the pandemic when air travel and large crowds were not viable options, staycations involve spending your vacation at or near home. While they may be a great way to save money, staycations can also help you reduce stress, one of the primary reasons many people take time off.

Address stress

From booking airfare and lodging to securing tickets to attractions, along with making restaurant reservations and renting cars, traditional vacations typically require a great deal of advance planning and coordination. Tack on the need to pack for uncertain weather and various activities, find someone to care for pets, and make it to the airport on time — only to discover your flight has been delayed, your luggage was lost, and your hotel bed is uncomfortable — and you have a recipe for vacation aggravation. On the other hand, a staycation requires little to no advance planning, may be flexible and spontaneous, and can include activities to suit your mood, budget, energy level, and even the weather.

Staycation options

Using your home as base camp for a staycation is a great way to help reduce spending and explore regional attractions and activities. You can hike in local state parks, attend a major or minor league sporting event, visit museums or amusement parks, dine at the trendiest restaurants, or try a new activity, such as kayaking or pickleball. Or you can simply read, play yard games, and barbecue in the backyard. If it's raining, head to the movies, check out an escape room or indoor sports complex, or try out a new recipe.

If staying home presents too strong a temptation to check email or log in to work for "just one quick virtual meeting," consider a getaway within driving distance. In this case, your staycation can take the form of a few nights at a nearby hotel and taking advantage of such amenities as room service, the fitness center, or pool. Many hotels offer packages that include tickets to a show or local attraction, spa treatments, or meals. For a change of scenery, you might consider renting a condo or house with a pool, near a beach, or on a farm. Camping is also a cost-effective, adventurous way to shed the day-to-day monotony and build great memories.

Regardless of how you spend your time, keep in mind that the two keys to a restorative break, according to a recent study in the *Journal of Applied Psychology,* are fully disengaging from work and participating in physical activity.[2]

1) Beach.com, March 2025

2) ScienceDaily, January 2025