

# The Current Yield

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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.

**68%**

Homeowners who are confident in having a comfortable retirement

**75%**

Homeowners who plan to leave home or proceeds from sale of home to their children or family members

**68%**

Homeowners who plan to stay in their current home for the rest of their lives

**42%**

Renters who are confident in having a comfortable retirement

**40%**

Women who would consider moving in with adult children

**34%**

Homeowners who still live in the first home they owned

**25%**

Men who would consider moving in with adult children



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.<sup>1</sup> 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.<sup>2</sup>

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

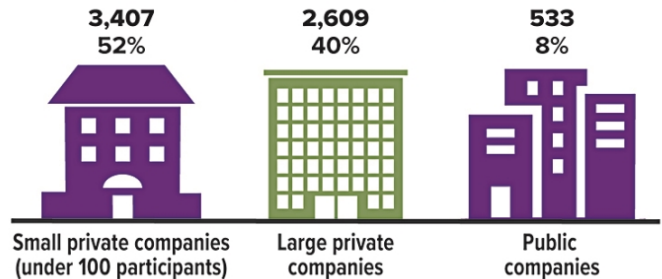
There may also be tax benefits for a retiring owner who sells a business to an ESOP. If the ESOP owns at least 30% of the company after the sale, the capital gains tax on the sale may be deferred by reinvesting

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.

Number of ESOPs in the United States, and share of total (2022)



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.*



# Three Ways to Help Build Financial Resilience

Roller-coaster markets, global events, and unexpected life changes can catch you off guard. Little wonder that you might worry about the potential effects on your financial well-being. Fortunately, you can take steps to build the resilience you need to help handle challenging times and hopefully emerge even stronger.

## **Fortify your foundation**

Developing a new budget or reviewing an existing one may help reduce stress and feelings of vulnerability by reminding you that you still have control over many aspects of your personal finances. A budget is a foundational tool that outlines your income and expenses and shows how much money you have coming in compared to how much money you have going out. If you find that you are spending more than you realized, you can make adjustments.

An important companion to a budget is an emergency fund. When you have an unexpected expense, you can use your emergency reserves to cover it instead of dipping into long-term savings or racking up costly credit card debt that could throw your budget off track at a time you can least afford it. Consider starting an emergency fund and building it up over time. Having some short-term savings might also help you get through difficult economic times.

## **Stress-test your portfolio**

When you're investing for retirement or another financial goal, assessing the potential impact of

various scenarios may help you prepare for and manage the financial impact of unexpected events. This could be done using computer simulations to analyze how your portfolio might perform. Doing this at regular intervals may help take some of the emotion out of decision-making during stressful times, helping you address gaps and opportunities.

There is no assurance that a simulation will be accurate. Because of the many variables involved, you should not rely on simulations without realizing their limitations. All investing involves risk, and there is no assurance that any financial strategy will be successful.

## **Anticipate future challenges**

Of course, you're never going to be prepared for every financial scenario. But developing a written financial strategy and reviewing it periodically may help you thoughtfully navigate life's twists and turns. It documents and organizes the pieces of your financial picture, helping you stay focused on the future as you weather current storms.

Building financial resilience is an ongoing process, and it's never too late to start. Becoming better positioned for downturns can help you feel more confident that you can handle whatever challenges come your way.

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