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SECURE Act Shifts Some IRA Strategies

Somehow, amidst the political war raging in the nation's capital, Congress passed the SECURE Act with large bipartisan majorities, and the president signed it into law effective January 1st. The Act includes a handful of practical retirement and financial planning changes, adding flexibility and access for retirement savers while curtailing a bit of tax generosity on retirement assets passed to the next generation.

Limiting the "Stretch"

For individuals with significant retirement plan assets, the Act's headline provision involves the "stretch IRA." That refers to the beneficiary of an inherited IRA being able to stretch taxable required distributions over his or her own life expectancy. This has allowed IRA assets left to much younger heirs (adult children, grandchildren, nieces, nephews, etc.) to sustain significant tax-deferral for decades.

The SECURE Act now limits that stretch to a spouse, minor children, chronically ill or disabled individuals, and anyone not more than 10 years younger than the IRA's original owner. Other IRA inheritors will have to withdraw the newly inherited IRA assets within 10 years of receiving the bequest.

That may call for a review of many estate plans, but changing IRA beneficiaries is usually a simple matter. Also, the new 10-year rule does *not* require *annual* withdrawals, so there is flexibility for timing those withdrawals over the 10-year window. Anyone who inherited an IRA before 2020 can continue to use the prior stretch provisions.

Expanded Access and Flexibility

- Taxpayers over age 70½ can now contribute to a traditional IRA, up to the lesser of $7,000 or the amount of one's earned income. This aligns with Roth IRA contribution rules already in place, a logical bit of updatng, as more folks continue working into their 70s.
- The age at which one must start annual required minimum IRA distributions (RMDs) is raised from 70½ to 72. This applies to anyone who had not yet turned 70½ by the end of 2019. Longevity trends and savings imperatives make this a timely change as well.
- New parents can now take up to $5,000 from their retirement plans within a year of the birth or adoption of a child without incurring the 10% penalty for pre-59½ withdrawals. Income taxes still apply to such withdrawals from traditional retirement accounts.
- Up to $10,000 may now be drawn tax-free from a 529 plan to make student loan payments.
- The law makes it easier for employers to offer annuities in retirement plans. Converting part of a plan account into a life annuity may help hedge longevity risk. Plan sponsors also must report on the sustainable level of income your 401(k) balance could support.
- Through provisions designed

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For additional coverage related to the SECURE Act
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- ***Annuity Options in Your 401(k)? Hmmm.***
- ***Age Cap Lifted for IRA Contributions***
- ***A Tax-Smart Gift With a Very Long Tail***

Why All the Fuss About 5G?

It was just 25 years ago that the *Client Quarterly* first focused on the Internet, that "information super highway" destined to transform the world of business and so much of our daily lives. Today, the world's great powers and myriad companies are jockeying for the lead in a race to the *fifth* generation of wireless communication.

With transmission speeds from 10 to 100 times the current 4G standard, 5G will support dynamic real-time synchronization for a world of connected devices as well as the rapidly expanding demand for streaming entertainment and information. One salient lesson of the Internet era is that such foundational advances can have remarkably far-reaching effects, some easily anticipated and others barely imaginable.

Each generation of the cellular network has moved the ball forward. The second generation facilitated text messages and eventually photos on our phones. The third improved speed and reliability. The fourth generation, rolled out barely a decade ago, converted nearly all cell networks to digital streams, making possible much of today's ecosystem of smartphone apps, including social networking, streaming music and video, and portable gaming.

The big gain expected from 5G is reduced latency – the time lag it takes two devices to communicate. When we make cell calls, that familiar moment of silence before the other phone rings may not seem like a big deal. But those milliseconds can be critical for such applications as industrial robots executing tightly synchronized tasks, remote surgery, driverless vehicles, and all manner

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The Fateful Lightning of that Terrible Swift Sword

A "Battle Hymn of the Republic" reference may be a bit over the top, but we are conditioned to equate market volatility with risk. We might also equate it with opportunity, but that is a hard perspective to hold amidst a market riot. In less than two weeks we saw the fastest-ever stock market correction, defined as a decline of 10% or more from a market high, followed by record one-day point moves, both up and down, for the Dow Industrials.

We do well to remember that these kinds of market events reflect hyper-activity among those whose passions or occupations require relatively short-term bets. Those strategies may include aggressive momentum plays, leveraged futures and options, short-selling, currency and interest rate arbitrage, etc. These exploits may be amplified by the deployment of automated trading driven by artificial intelligence.

Inherent in many of those strategies is *the need to be right in the very short run or cut losses quickly*. If something – say, a mysterious new virus from a far corner of the world – upsets the widely held views of the near future that underlie those bets, the adjustment can be fast and furious indeed – a shock to the equilibrium of major capital markets.

For long-term investors, opportunity is inherent in *not* having to react to every bolt of lightning from that terrible swift sword. Individuals and portfolio managers looking out decades rather than weeks generally can see through the turmoil, perhaps with a little fine-tuning rather than dramatic realignment.

This past winter's *Client Quarterly* gave a nod to the traditional balanced portfolio – a broadly diversified mix of roughly 60% stocks and 40% bonds. Some had been suggesting that that venerable standard no longer offers effective diversification, an argument with some cogency given historically low bond yields. But in the current struggle, investors may feel the tempering effect of that balance.

From the market peak on February 19th through the month's close – just seven trading days – the Standard & Poor's 500 Index *fell* 12.8%, while the Bloomberg Barclay's U.S. Aggregate Bond Index *rose* 1.3%. A 60/40 mix of the two held the decline to 7.1% – still a tumble but with a cushion. Of course, asset allocation and strategy will differ by age, circumstances, and objectives. The point is to reinforce a portfolio's resilience and staying power.

By the way, the foregoing comments on short-term market players are not meant as criticism or condemnation. Their activity does contribute to the daily liquidity that helps make public stock and bond markets a viable place for the rest of us to participate in economic growth and build real wealth. We just need to stick to *our* game and resist getting caught up in *theirs*. ■

Investment Performance Review	**TOTAL RETURN *** (Dividends and capital gains reinvested.)			
Selected Mutual Fund Categories *	**--- Annualized through March 6, 2020 ---**			
	1 yr.	***3 yr.***	***5 yr.***	***10 yr.***
Large-Cap Stocks (Blend)	6.2 %	7.8 %	7.5%	10.7 %
Mid-Cap Stocks (Blend)	- 1.5	3.1	3.9	8.9
Small-Cap Stocks (Blend) †	- 7.1	0.7	3.5	8.7
Foreign Stocks (Large Blend) †	- 0.8	3.3	2.1	4.0
Diversified Emerging Markets †	- 0.7	4.3	2.7	2.8
Specialty Natural Resources †	-16.1	- 6.9	- 3.8	0.0
Specialty Real Estate †	10.1	6.5	6.2	10.6
Cons. Allocation (30-50% Equity)	6.3	4.5	3.9	5.6
Long-Term Bond	28.0	11.1	7.6	8.1
World Bond †	6.5	4.1	2.7	2.5
High Yield Taxable Bond †	4.6	3.8	4.1	6.0
Long-Term Municipal Bond	10.3	5.7	4.1	4.6

* Source: Morningstar. **Past performance is NOT indicative of future results.**

† Small-cap stocks, high-yield (lower rated) bonds, and sector-specific funds may exhibit greater price volatility than the stocks of larger, established companies and/or more broadly diversified funds. Securities of companies based outside the U.S. may be affected by currency fluctuation and/or greater political or social instability.

A Correction, by Whatever Name

They might call this the "Coronavirus correction," but stepping back from the latest headlines, we note that 2019 delivered exceptional returns for U.S. stocks. Investors may have been primed for *any* clear and present reason to take some chips off the table. Moreover, the *global* economy generally slackened last year, and corporate earnings growth was slower than in 2018.

When stock prices rise faster than underlying earnings, we call it "multiple expansion." By the end of 2019, common measures of stock valuation were hovering near historic highs. The forward price-earnings multiple (P/E) for the Standard & Poor's 500 Index stood at 18.3, higher than 88% of such readings in the past. Price-to-book-value averaged 3.6 times, roughly the 93rd percentile of all prior readings.

At this early stage of the Coronavirus saga, economic growth and corporate earnings are expected to see some slippage. Markets will be recalibrating valuations for a while as this plays out. Eventually, other headlines will vie for naming rights to the *next* correction. ■

Annuity Options In Your 401(k)? Hmmm.

As noted in our lead article, the recently passed SECURE Act paves the way for more lifetime income options in defined contribution plans such as a 401(k). If you participate in such a plan, it may pay to understand a few pros and cons of annuity-based options.

Plan sponsors have rarely offered annuities due to uncertainty over their fiduciary responsibilities for such vehicles. The SECURE Act defined a fiduciary "safe harbor" for choosing an annuity provider through an objective, thorough analysis. That process must make a cost-benefit assessment of the annuity offering as well as the insurance carrier's ability to meet its financial obligations. The Act also makes the annuity more portable for plan participants who change jobs.

Whether or not a plan offers an annuity, the Act requires plan sponsors to provide a periodic estimate of annuity-based income that could be supported by a participant's account balance. That requirement starts 12 months after the Department of Labor issues relevant guidelines.

If your plan introduces an annuity option, you want to exercise the same cautions and considerations that apply to buying an annuity *outside* of a retirement plan. Weigh the competitiveness of the interest provisions and projected lifetime income stream in the context of your age, risk tolerance, and your plan's other investment options.

Plan sponsors should provide information on any fees associated with an annuity option, including surrender charges that apply if you change your mind. Your advisor can help with those considerations. ■

A Tax-Smart Gift with a Very Long Tail

So, the SECURE Act put a little crimp in that next-generation "stretch IRA" strategy (see accompanying article). If you are looking for other ways to favor the younger set, how about contributing to their Health Savings Accounts (HSA)?

An HSA is a tax-advantaged medical savings account available to those with the kind of high-deductible health insurance popular with employers and individual buyers. Maximum contribution for 2020 is $3,550 on behalf of an eligible individual or $7,100 for a family with at least two eligible members.

A little-known provision allows *anyone* to contribute to another person's HSA. The individual making the contribution does *not* need to be HSA-eligible. The contribution is deductible for the account holder, in *addition* to their standard or itemized deductions. Withdrawals are tax-free if used for medical costs. Otherwise, the assets stay invested, tax-free, more or less indefinitely. HSAs do not require minimum distributions at any age.

At death, the account passes without tax implications to a surviving spouse. Or it is distributed to non-spouse beneficiaries as taxable income, except for funds used to pay medical costs incurred by the deceased. Yes, an HSA contribution can be a gift with a nice up-front tax break and a *very* long tail. ■

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to reduce their contingent liabilities and costs, small businesses are encouraged to join with other employers to offer *multiple employer* 401(k) plans (MEPs).

As outlined above, the SECURE Act riffs on two main themes: updating and expanding retirement savings opportunities and reinforcing the IRA as a tax-advantaged plan for savers, not a tool for *perpetual* tax-deferral. Your advisor can help you focus on any aspects of the SECURE Act that could affect your plans. ■

Age Cap Lifted for IRA Contributions

Another provision of the recently passed SECURE Act is the ability for those over 70½ to contribute to a *traditional* IRA. A key attraction is the up-front tax deductibility of such contributions, but not all older taxpayers will qualify, and the value of any tax benefit may vary.

First, you must have *earned* income, not just investment, pension, or Social Security income. Today's work force does include a meaningfully higher share of older workers than just a couple decades ago.

Second, deductibility of an IRA contribution may be limited if you also participate in an employer sponsored retirement plan.

If those hurdles are cleared, the question is whether a contribution makes sense if you are nearing or have reached the age for required minimum taxable IRA distributions (RMDs). This is a question of gauging the up-front tax savings of a contribution against slightly higher subsequent RMDs.

The annual contribution limit is the lesser of earned income or $7,000, and your investment or tax professional can help approximate the value of such a deduction at your marginal tax rate. This may be higher than you think, especially if your adjusted gross income is in the range where each added dollar boosts the tax on your Social Security benefits.

Against the up-front tax savings, any bump in subsequent RMDs should be relatively small for many years. The RMD for a 75-year-old is just over 4% of the prior year's closing IRA balance, and still under 7% for an 85-year-old.

One last note: The SECURE Act retains the ability of those over 70½ to make qualified *charitable* IRA distributions (QCDs). A QCD is not taxed but does count toward satisfying the RMD. However, the Act established an offset against your QCDs in the amount of prior, post-70½ contributions to a traditional IRA. That is a bit of a complication; otherwise it all might have been a little too good to be true. ■

The New *Senior-Friendly* 1040 from Internal Revenue

If you are over 65, and you have not yet tackled your 2019 tax return, be sure to check out the new alternative Form 1040-SR. The Bipartisan Budget Act of 2018 called on the Internal Revenue Service to design the new form to feature larger type, better readability when printed, and other aids for seniors.

That visual aid for older eyes is 1040-SR's primary distinction. Otherwise, the new form's lines and checkboxes mirror the regular 1040 and correspond to the same ancillary schedules, forms, and revised instructions for tax year 2019. Form 1040-SR facilitates reporting your earned income and other sources common to seniors such as investment income, Social Security benefits, and distributions from qualified retirement plans, annuities, etc.

A couple can file jointly on Form 1040-SR as long as one of its members was born *before* January 2, 1955. And you can use the new form whether you itemize or take the standard deduction. One of its more useful features is a chart specifying the higher *standard* deduction amounts for taxpayers over 65.

Complete information and the new form itself are posted at www.IRS.gov (or go direct to *http://www.irs.gov/forms-pubs/about-form-1040-sr*). Of course, if your eyesight is still sharp and/or you're just more comfortable with the standard 1040, that's fine as well. ■

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of streaming services. Today's 4G networks typically take about 50 milliseconds to transmit a request from your phone. 5G may cut that to a single millisecond.

The global 5G competition has economic and national security implications. Countries that most broadly and effectively implement the new standard are expected to reap an innovation windfall spanning business, government, public infrastructure, and people's personal lives. Military considerations are also paramount, with high-tech weaponry and communications already critical to the major powers' defense and warfare capabilities.

Of course, the race to 5G has to contend with its own latency in working through the growing pains and competing interests in such a grand rollout. Technological standards are still in flux, and major infrastructure investments hang in the balance. On the investment front there are bound to be both winners and losers as 5G creates openings for business models and processes that do not exist today. As usual, forward looking portfolio managers will try to deploy cautious yet opportunistic diversification to achieve prudent, positive participation in that dynamic future. ■

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