A Review of 2019 and Preview of 2020

January 2020

"The definition of insanity is doing the same thing over and over again and expecting different results." – Albert Einstein

What a year and what a decade! Coincidentally, they both came after a rough patch; 2019 started after a painful December 2018, whereas the 2010-2019 decade started after the Great Recession, enough said. So, using rose-colored glasses, each period started with the wind at its back – things were more likely to get better than worse. And get better they did, although it could be seen as a bifurcated recovery in each case; both 2019 and the 2010-2019 decade saw a huge run-up in the US equity market (both fueled initially by a recovery) while most other asset classes seemed to languish (although there is still ample research and evidence as to why investors should diversify globally).

What do we expect in the coming year and the coming decade? We are actually pretty optimistic for the year, but maybe less so after the election regardless of who or what party wins. The fact of the matter is that this bull market and economic expansion are both long in the tooth, and we believe recessions tend to be a healthy part of any business cycle (not that we are predicting one in 2021) - and we do get nervous looking at current debt levels (corporate, personal, and student) and the deficit.

As always, the question that's begged is, what to do? Well, stealing a few lines from the January 2019 newsletter (since it was timeless advice), "our answer has always been and always will be to plan for what can go right and what can go wrong – so that, in times like these, we can ignore the emotional short term noise (be it fear or greed, the two most prominent emotions when it comes to investing), and remember that this thing called retirement planning is meant to be a marathon and not a sprint."

Plus, as strong as we, or anyone, feel about the next year or decade, we are a million times more convinced that no one knows what will happen in the future as it is unknowable! The true lesson from a previous year should only be that hindsight is 20/20 and has very little bearing on what will happen in the future. Unfortunately, too many people rely upon annual prognostications by so-called experts and advisors who do not make disclosures like we have above. I can only assume Albert Einstein would think this is crazy since prognostications are, by definition, never any better than a guess and thus should never be relied upon, yet people keep repeating the mistake of believing in and reacting upon them!

Ok, so much for the rant on what is unknown and unknowable, let's talk about the new SECURE Act (Setting Every Community Up for Retirement Enhancement) signed into law last December. Among others, one pertinent change is the elimination of the so-called "stretch" provision. Previously, non-spousal beneficiaries could take distributions over their life expectancy; now, for most retirement account owners who pass away in 2020 and beyond, beneficiaries other than "eligible designated

beneficiaries" will have ten years to deplete the account (with no required schedule). "Eligible designated beneficiaries" include: spouses, disabled or chronically-ill persons, individuals who are not more than 10 years younger than the decedent, and certain minor children of the original retirement account owner (but only until they reach age of majority); for these beneficiaries the old rules (lifetime stretch) still apply. Please also note that federal and state governmental plans (403b and 457 plans) and the federal Thrift Savings Plan are not impacted until January 1, 2022. Further, annuities in which individuals have irrevocably annuitized over a life or joint life expectancy, or in which an individual has elected an irrevocable income option that will begin at a later point, are exempt as well.

The real challenge with the reduced 10-year distribution timeline may be with estate planning techniques that involve designating a trust as a beneficiary. Specifically, some "see-through" trusts that have been drafted to serve as beneficiaries of retirement accounts may conflict with the new, shorter ten-year distribution requirement. Accordingly, we strongly recommend anyone who has a trust as a primary or contingent beneficiary to consult with their attorney regarding this issue.

As for other pertinent provisions of the new law, the Required Mandatory Distribution ("RMD") age has increased from 70 ½ to 72, but only if you turn age 70½ after January 1, 2020 (if you turned age 70½ on December 31, 2019, the old rules still apply and you will need to continue to take distributions under the old rule). However, the SECURE Act does not change the age at which an individual can make a Qualified Charitable Distribution ("QCD") from their IRA, which remains at age 70 ½, creating a unique 1- or 2-year window where IRA distributions may qualify as QCD but not as RMD. The law also lifted the restriction on making contributions to a traditional IRA after age 70 ½ as long as there is earned income (or have a spouse that is still working and contributing under the Spousal IRA rules).

Finally, there are a number of miscellaneous provisions, including a penalty-free distribution up to $5,000 for a qualified birth or adoption, an increased tax credit for small businesses that establish a retirement plan, improved access to employer plans for part-time workers, a pathway to creating Multiple Employer Retirement plans, the repeal of the TCJA-introduced Kiddie Tax changes, and an allowance for 529 plans to be used for apprenticeships and up to $10,000 of student loan repayments. This list is not exhaustive, so obviously there were many substantive changes in the new SECURE Act.

As always, please email or call with any questions. And have a great start to the new year and the new decade, knowing that we will stay hard at work on your behalf for the unknowable future!

R. Timothy Curran, JD, CFP®

tcurran@lpl.com Direct 704.499-9703

Information in this material is for general information only and not intended as investment, tax or legal advice. Please consult the appropriate professionals for specific information regarding your individual situation prior to making any financial decision. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and may not be invested into directly.

www.TheFinanceCouple.com

1422 S. Tryon Street, Ste 300, Charlotte, NC 28203

Securities offered through LPL Financial, Member FINRA/SIPC. Investment advice offered through TWC Wealth Management, a Registered Investment Advisor. TWC Wealth Management and The Finance Couple™ are separate entities from LPL Financial.