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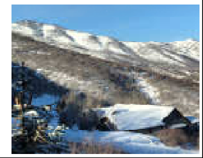

Welcome to the Q1-2020 issue of *Frank***lySpeaking**©, now in its 28th year. The purpose of this newsletter is to keep you informed of current issues and global events that could impact your finances. Please feel free to share your thoughts with us, as we welcome your comments.

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In This Issue

Economic and Market Commentary

US economic growth is forecast to settle at 2.1% in 2020 with recession risks contained.

The real US GDP growth rate for 2019 came in at 2.3%, above earlier estimates of 2.2%. While this rate is slower than the 2.9% growth rate in 2018, it is believed the worst of the slowdown is behind us and that quarterly growth will settle around or slightly above its long-term potential growth rate of 2.1% in 2020.

While the six-month growth rate of the US leading economic index remains slightly negative, following three consecutive declines, the index was unchanged in Q4.

This sideways movement is encouraging and supports an outlook of 2.1% GDP growth for 2020.

The drivers of growth this year will shift somewhat from what was experienced in 2019. The growth contribution from real consumer spending is likely to remain strong but will gradually soften over the course of 2020 as personal income growth slows somewhat.

However, it is expected that the decline in industrial production will ease and eventually bottom out which should lead to improvements in business sentiment and bolster business investment.

This will help to offset slower growth in consumer spending. Additionally, the strong pick-up in housing starts and permits data indicate that residential investment will support economic growth over the coming quarters.

Financial markets have had a good run. US labor markets and parts of Europe are extremely strong, as are corporate earnings, at least for now.

Companies have solid balance sheets, loan defaults are rare, oil is affordable and there is little-to-no risk of interest-rate hikes.

On the other hand, the US yield curve inverted in August 2019, but then uninverted which, in the past, has usually signaled an approaching recession.

The US Federal Reserve (the Fed) was clearly nervous and implemented preemptive insurance interest-rate cuts. Those who jumped out of the equity market quickly lost out because every setback since 2009 has proven just a brief pause in the enduring rally.

This has made everyone more cautious now about predicting recession or saying the bull market is over. Even the bulls are not suggesting that recessions have been banished forever.

Central banks are distorting financial markets with their continuing pursuit of unorthodox monetary policies, such as quantitative easing and negative interest rates.

One result is that bonds worth more than 16 trillion dollars now yield negatively worldwide. Half of the outstanding bonds with investment-grade status are outside the US.

That clearly forces downward pressure on long-term US interest rates, which may reduce the predictive power of the yield curve.

The two largest economies in the world are locked in a trade dispute. That dispute is having negative global effects.

As China focuses on stimulating its domestic economy, raw material exporters such as Australia, European machinery and car exporters and US mobile-phone companies are all feeling the impact.

There are also many good reasons to be concerned about the medium term, but there is too much positive data, a reflection of the length of this already record breaking upswing.

One reason for that may be the steadily growing service sector, which does not have inventory and investment cycles as large as those of the manufacturing sector.

Additionally, a strong labor market means consumers are still spending heavily. Finally, the slight expected economic slowdown reduces the risk of overheating and means central banks have again softened their policies.

It might seem tempting to lean towards risky assets, especially as we don't expect any further slowdown in global economic growth in the coming year.

But, keep in mind the concerning signals from the bond markets, negative nominal interest rates in Europe, negative real interest rates in the US and last year's inverted yield curve, should, in no way, be ignored altogether.

In the US, there are some concerns of profit margins getting squeezed. In the past, corporate America has typically reacted by laying off workers, sometimes quite suddenly.

It remains too early to say, though, whether the trade war induced shock will play out exactly along those lines.

Contrary to much of the recent conventional wisdom, trade wars do not usually, or even necessarily, cause recessions.

They tend to damage how much existing plants and businesses are worth in the long term, not necessarily how much of the remaining capacity might remain idle for a few quarters.

Mortgage Rates Decrease Slightly

MCLEAN, VA, January 2, 2020) (Globe Newswire) - Freddie Mac (OTCQB: FMCC) today released the results of its Primary Mortgage Market Survey® (PMMS®), showing that the average 30-year fixed-rate mortgage averaged 3.72%.

The 30-year fixed-rate mortgage (FRM) averaged 3.72% with an average 0.7 point for the week ending January 2, 2020, slightly down from the previous week when it averaged 3.74%. A year ago, at this time, the 30-year FRM averaged 4.51%.

The 15-year FRM averaged 3.16% with an average 0.7 point, down from the previous week when it averaged 3.19%. A year ago, at this time, the 15-year FRM averaged 3.99%.

The 5-year Treasury-indexed hybrid adjustable-rate mortgage (ARM) averaged 3.46% with an average 0.3 point, up from the previous week when it averaged 3.45%. A year ago, the 5-year ARM averaged 3.98%.

(Average commitment rates should be reported along with average fees and points to reflect the total cost of obtaining the mortgage. Borrowers may still pay closing costs which are not included in the survey.)

Sam Khater, Freddie Mac's chief economist, reported that "The combination of improved economic data and market sentiment has led to stability in mortgage rates, which have hovered around 3.7% for nearly the last two months."

He also noted that the stability is welcome news after the interest rate turbulence of the last year, which caused a slowdown in the housing market and other interest rate sensitive sectors.

The low mortgage rate environment combined with the red-hot labor market is setting the stage for a continued rise in home sales and home prices.

2020 Medicare Changes

The base premium for Medicare Part B, which covers doctors' fees and outpatient services, has increased to $144.60 per month in 2020, up from $135.50 in 2019.

The annual deductible for all Medicare Part B beneficiaries will also increase next year, rising from $185 in 2019 to $198 in 2020.

Higher-income Medicare beneficiaries will also pay more for Medicare Part B and Part D prescription drug premiums plans in 2020 as a result of income-based surcharges, officially known as income-related monthly adjustment amounts, or IRMAA.

Currently, there are six income tiers that determine high-income surcharges for both Part B and Medicare D prescription drugs plans.

The income thresholds that determine who pays the Medicare surcharges have been fixed at their current levels since 2011.

Individuals with modified adjusted gross income of $85,000 or less and married couples with joint MAGI of $170,000 or less are not subject to IRMAA surcharges in 2019.

They pay the standard Medicare Part B premium of $135.50 per month. MAGI includes adjusted gross income plus any tax-exempt interest from municipal bonds.

In 2019, individuals with incomes above $85,000 and married couples with joint income above $170,000 pay combined Medicare premiums and surcharges ranging from $189.60 per month to $460.50 per month per person.

The initial thresholds for income brackets that will be used to determine surcharges will increase in 2020 for the first time in a decade.

Next year the initial income threshold for IRMAA surcharges will increase to $87,000 for individuals, up $2,000 from this year, and to $174,000 for married couples filing jointly, up $4,000 from this year's level.

High-income beneficiaries who are married and lived with their spouse at any time during the taxable year but who file separate tax returns are subject to IRMAA surcharges in 2020 when their individual income exceeds $87,000.

Combined Medicare Part B premiums and IRMAA surcharges will range from $220.40 per month to $491.60 per month per person in 2020.

High-income Medicare beneficiaries are also subject to monthly surcharges for their Medicare Part D prescription drug plans.

2020 Social Security Changes

Of the approximately 2,700 rules that govern Social Security benefits, one of the most confusing is the annual earnings test that limits how much someone can earn from a job without losing some or all of their Social Security benefits.

The earnings limit applies to people claiming Social Security benefits before their full retirement age while continuing to work.

In 2020, people who are under the full retirement age for the entire year temporarily lose $1 in benefits for every $2 earned over $18,240.

In the year individuals reach their full retirement age, which is 66 for anyone born from 1943 through 1954, there is a much higher earnings test.

Social Security beneficiaries who are turning 66 in 2020 can earn up to $48,600 during the months before their birthday. If your earnings exceed that limit, you will forfeit $1 in benefits for every $3 earned over that limit.

Once you reach full retirement age, the

earnings restrictions disappear, meaning they can earn as much money as they like without jeopardizing any of your Social Security benefits.

At that point, Social Security automatically recalculates your benefit amount to adjust for any months that you lost benefits due to excess earnings, resulting in a higher monthly benefit in the future.

The retirement age is higher for people born after 1954. Beginning with 1955, two months are added for every birth year until the full retirement age reaches 67 for people born in 1960 and later.

SECURE Act Retirement Plan Changes

Retirement accounts such as individual retirement accounts and Internal Revenue Code Section 401(k)s (401(k)) are subject to mandatory distributions at some point.

For most people, these rules kick in once the account owner reaches age 70½ or until retirement if they kept working past age 70½.

These required minimum distributions (RMDs) prevent individuals from experiencing the tax benefits of a 401(k) or IRA forever.

The government wanted these accounts to be retirement accounts, not tax shelters for multi-generational planning.

However, current RMD rules offer significant tax benefits to beneficiaries once the account owner dies.

RMD rules are complex and vary on the beneficiary, account type and when the owner died.

You can always withdraw more than is required, but you won't get credit for taking a higher withdrawal in one year to offset any RMDs the next year.

RMDs are an annual calculation and require looking back at the previous year account balance on Dec. 31, then dividing it by the applicable divisor.

The **Setting Every Community Up for Retirement Enhancement Act**, better known as the **SECURE Act**, was signed into law on Friday, December 20, 2019.

The SECURE Act is one of the most dynamic changes to retirement legislation since the Pension Protection Act of 2006 and addresses a wide variety of retirement planning topics.

Given that many of these changes became effective on January 1, 2020, there are a few key areas that may immediately affect your retirement plan.

Here are four major changes created by the new law:

1. **Required Minimum Distributions (RMDs) Will Start at Age 72, Not Age 70½**. Beginning January 1, 2020, you will need to start withdrawing money from your traditional IRAs and employer tax deferred accounts such as 401(k)s, 403(b)s, and 457s at age 72.

If you turned age 70½ in 2019 (born prior to July 1, 1949), you will still need to take your RMD for 2019 no later than April 1, 2020.

If you are currently receiving RMDs because you are over age 70½, you must continue taking these RMDs. Only those who will turn 70½ (born on or after July 1, 1949) in 2020 or later may wait until age 72 to begin taking RMDs.

2. **You Can Contribute to Your Traditional IRA After Age 70½.** Beginning in the 2020 tax year, the new law will allow you to contribute to your traditional IRA in the year you turn 70½ and beyond, provided you have earned income.

You still **may not** make 2019 (prior year) traditional IRA contributions if you are over 70½.

3. **Inherited Retirement Accounts -** Upon death of the account owner, distributions to non-spouse individual beneficiaries must be made, in full, within 10 years.

The current rules that allowed a non-spouse IRA beneficiary to stretch RMDs from an inherited account over their lifetime, allowing the funds to grow tax-free for decades, has been eliminated.

The rule applies to inherited funds in a 401(k) account or other defined contribution plan as well.

There are exceptions for spouses, disabled individuals, and individuals not more than 10 years younger than the account owner.

Minor children who are beneficiaries of IRA accounts also have a special exception to the 10-year rule, but only until they reach the age of majority.

If you've already inherited a stretch IRA, these changes from the bill that close loopholes that allowed stretch IRAs apply only to beneficiaries of someone who dies after the end of 2019.

4. **Adoption/Birth Expenses.** The new law allows up to $5,000 of penalty-free withdrawals to each parent from retirement plans for birth or adoption expenses, including those who have adopted children.

A couple could take out up to $10,000 from their retirement savings, if they both have separate accounts in their own names.

These are just some of the highlights of the new Act. We will be discussing more in future articles. We strongly suggest that you discuss any questions you have with your tax planning professional.

Understanding Long-Term Care

Addressing the potential threat of long-term care expenses may be one of the biggest financial challenges for individuals who are developing a retirement strategy.

The U.S. Department of Health and Human Services estimates that 70% of people over age 65 can expect to need long-term care services at some point in their lives.

Long-term care is not a single activity. It refers to a variety of medical and non–medical services needed by those who have a chronic illness or disability most associated with aging.

Long-term care can include everything from assistance with activities of daily living such as help dressing, bathing, using the bathroom, or driving to the store, to more intensive therapeutic and medical care requiring the services of skilled medical personnel.

Long-term care may be provided at home, at a community center, in an assisted living facility, or in a skilled nursing home.

Long-term care costs vary state by state and region by region. The 2018 national average for single occupancy care in a skilled care facility is $100,380 a year.

The national average for single occupancy care in an assisted living center is $48,000 a year. Home health aides cost a median $22 per hour, but that rate may increase when a licensed nurse is required.

Often, long-term care is provided by family and friends. Providing care can be a burden, however, and the need for assistance tends to increase with age.

Individuals who would rather not burden their family and friends have two main options for covering the cost of long-term care. You can choose to self-insure or you

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can purchase long-term care insurance.

Consider purchasing long-term care insurance, which can cover all levels of care, from skilled care to custodial care to in-home assistance.

Estate Planning Facts

A staggering 78% of millennials (ages 18-36) do not have a will. Even more surprising is that 64% of Generation X (ages 37 to 52) do not have a will and nearly half of respondents in the 53 to 71 year-old age group said they don't have one.

According to a new Caring.com survey, only 42% of US adults currently have estate planning documents such as a will or living trust.

For those with children under the age of 18, the figure is even lower, with only 36% having an end-of-life plan in place.

A will is an instrument of power. If you die without one, the state decides what becomes of your property, without regard to your priorities.

It is a legal document by which an individual or a couple, known as the testator, identifies their wishes regarding the distribution of their assets after death.

A simple will can typically be broken down into four main parts.

First: Designating an executor who is responsible for carrying out the wishes outlined in the Will. That involves assessing the value of the estate, gathering the assets, paying inheritance tax and other debts, if necessary, and distributing assets among beneficiaries.

It's recommended that you name at least two executors in case your first choice is unable to fulfill the obligation.

Second: Designating a guardian in the case of any minor children. You will want to make sure, beforehand, that the individual is able and willing to assume the responsibility.

For many people, this is the most important part of a will since, if you die without naming a guardian, the court will decide who takes care of your children.

Third: This section enables you to identify people or organizations to whom you wish to give gifts of money or specific possessions, such as jewelry or a car.

You can also specify conditional gifts, such as a sum of money to a minor, but only when they reach a certain age.

Fourth: Specifying your entire estate encompassing everything you own, including real property, financial investments, cash and personal possessions.

Once you have identified specific gifts you would like to distribute, you can designate the rest of your estate in equal shares among your heirs, or you can split it into percentages you deem applicable.

The law does not require that a will be drawn up by a professional and some people choose to create their own wills at home, but, where wills are concerned, there is no room for interpretation or error.

You will not be around when the will is read to correct technical errors or clear up confusion so we strongly recommend you enlist the help of a legal and financial professional, especially if you have a large estate or complex family situation.

Preparing for the eventual distribution of your assets may not sound enticing, but remember, a will puts the power in your hands.

Frankly Funny

Late one night in Washington, a mugger wearing a ski mask snuck up behind a well-dressed man and stuck a gun in his ribs.

"Give me your money or I'll shoot you," he demanded.

Indignant, the affluent man replied, "You can't shoot me, I'm a US Congressman!"

"In that case," replied the robber, "Give me MY money!"