Planning Opportunities - YES!

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Most of us are social distancing at home and have a lot more time to ponder as we approach more than half a year living with COVID-19. As the end of the year approaches, set aside some time to revisit your goals and reflect upon your financial plans while looking forward to the future.

The SECURE Act was put into law in December of 2019 and on March 27th, the CARES Act was also signed into law. These two pieces of legislation provide us with some unique planning opportunities as we approach the end of the year.

RMDs (Required Minimum Distributions)

The SECURE Act raised the age limit for taking RMDs to 72. With the recently passed CARES Act, the legislature made RMDs optional for 2020. In addition, 2019 RMDs which were delayed to 2020 are not required. Many folks take their RMD, pay taxes on it, and then invest the proceeds in a non-retirement account because they do not need the income. This year, those funds can be left in the IRA and potentially continue to grow tax-deferred. If you took your RMD already for 2020, then you may contribute those funds back into the IRA.

ROTH IRA Conversions

Now may be a good time to consider converting some or all of your IRA to a Roth, which converts pre-tax dollars to post-tax dollars. Typically, if you were required to take an RMD, you would need to take out your RMD first and then convert your IRA to the Roth. With the CARES Act suspending the need to take an RMD, you can convert the entire IRA. Many factors should be considered before doing a conversion and your accountant should be part of the discussion.

- Possible increased tax bracket
- Impact of the increased income on income-related healthcare costs
- Method of paying the taxes on the conversion. It may be more beneficial for you to pay the taxes on the conversion from an outside source to increase the amount retained within the Roth for future growth potential.

Gifting

It may be a good time to consider family gifts which can include individual equities, equity mutual funds, or ETFs, cash gifts to 529 plans, and/or making cash gifts to family members, which might allow them to contribute to eligible retirement plans such as Roth and Traditional IRAs.

Stock/Equity gifts – If you have a stock that has declined in value, you may be eligible to give more shares away at lower values.

529 Plans – you may gift up to $15,000 per beneficiary and can front load up to 5 years of contributions for a

total of $75,000 with no further contributions until four more years have passed. If you invest $15,000 at the birth of your grandchild and it grows at 8%, that initial investment would be worth $59,940 at his/her 18th birthday.

Some other changes to the 529 Plans from the SECURE Act:

- Funds may be used for qualified expenses associated with registered apprenticeships such as fees, books, supplies, and equipment.
- $10,000 per year can be used for tuition at K-12 education at public, religious, or private elementary or secondary schools.
- Up to $10,000 can be used for the repayment of qualified educational loans including both principal and interest. An additional $10,000 can be used to pay for a sibling's loans.

Portfolio Allocation and Risk

In revisiting your goals and plans during this time, you may decide that you want to take more or less risk. These are discussions you can have with your financial advisor. This might be a good time to rebalance your portfolio back to your long-term target allocations to better align it with your goals.

For retirees, the discussion should be about income over the next few years and to ensure there is enough in bonds and cash to accommodate those needs. If you reduced your monthly payments when the stock market was down in March, consider returning them to the previous level.

For pre-retirees – it is important to decide how much should be set for growth potential and how much to allocate for lower volatility in your portfolio. This will vary, depending on how many years until you retire and the amount you will need from your investment portfolio. Is your current objective/asset allocation proper? Is your allocation strategy guided by an investment policy statement (IPS)?

You should also look for opportunities to do 'tax-loss' selling and concentrated stock deleveraging. If you have investments that are currently worth less than what you paid for them, selling them at a loss may offset capital gains on other investments. One should be mindful of the 'wash sale' rule that requires an investor to wait thirty days after the sale at a loss to repurchase the same security to deduct the loss from the original sale.

An example:

Henry bought 100 shares of XYZ Stock in 2018 for $10,000 and it is now worth $8000. He can sell XYZ and take a loss of $2000. If he still feels XYZ is a good company to own, then he can repurchase after 30 days and continue to hold it.

If you have a large concentration in a stock due to potential capital gains taxes, and it has declined in value, it may allow you to sell some of the stock while potentially minimizing painful tax consequences. Looking for opportunities to sell a stock or fund that is out of favor at a loss can also assist in keeping your tax bill lower for 2020 and possibly future years too.

Conclusion

While these times are trying on us all, we will get through this and come out the other side. Now is the time to look to the future and ensure that your plans are still on track. You may also want to speak with your accountant about tax planning or your banker about refinancing your mortgage as interest rates are low. It is a great time to have a conversation with your advisors.