



## Strategic Wealth Advisors

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Until March...

The SWA Team

### February 2020

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# The SWA Newsletter

## Tips for Targeting Your Retirement Savings Goal



What if you're saving as much as you can, but still feel that your retirement savings goal is out of reach? As with many of life's toughest challenges, it may help to focus less on the big picture and more on the details.

### Regularly review your assumptions

Whether you use a simple online calculator or run a detailed analysis, your retirement savings goal is based on certain assumptions that will, in all likelihood, change. Inflation, rates of return, life expectancies, salary adjustments, retirement expenses, Social Security benefits — all of these factors are estimates.

That's why it's important to review your retirement savings goal and its underlying assumptions regularly — at least once per year and when life events occur. This will help ensure that your goal continues to reflect your changing life circumstances as well as market and economic conditions.

### Break down your goal

Instead of viewing your goal as ONE BIG NUMBER, try to break it down into an anticipated monthly income need. That way you can view this monthly need alongside your estimated monthly Social Security benefit, income from your retirement savings, and any pension or other income you expect.

This can help the planning process seem less daunting, more realistic, and most important, more manageable. It can be far less overwhelming to brainstorm ways to close a

gap of, say, a few hundred dollars a month than a few hundred thousand dollars over the duration of your retirement.

### Stash extra cash

While every stage of life brings financial challenges, each stage also brings opportunities. Whenever possible — for example, when you pay off a credit card or school loan, receive a tax refund, get a raise or promotion, celebrate your child's college graduation (and the end of tuition payments), or receive an unexpected windfall — put some of that extra money toward retirement.

### Reimagine retirement

When people dream about retirement, they often picture exotic travel, endless rounds of golf, and fancy restaurants. Yet people often derive happiness from ordinary, everyday experiences such as socializing with friends, reading a good book, taking a scenic drive, and playing board games with grandchildren.

While your dream may include days filled with extravagant leisure activities, your retirement reality may turn out to be much different, and that actually may be a matter of choice.

### Do your best

Setting a goal is a very important first step in putting together your retirement savings strategy, but don't let the number scare you. As long as you have an estimate in mind, review it regularly, break it down to a monthly need, and increase your savings whenever possible, you can take heart knowing that you're doing your best to prepare for whatever the future may bring.

## The SECURE Act Offers New Opportunities for Individuals and Businesses



The SECURE Act (Setting Every Community Up for Retirement Enhancement Act) is major legislation that was passed by Congress as part of a larger spending bill and signed into law by the president in December. Here are a few provisions that may affect you. Unless otherwise noted, the new rules apply to tax or plan years starting January 1, 2020.

### If you're still saving for retirement

To address increasing life expectancies, the new law repeals the prohibition on contributions to a traditional IRA by someone who has reached age 70½. Starting with 2020 contributions, the age limit has been removed, but individuals must still have earned income.

### If you're not ready to take required minimum distributions

Individuals can now wait until age 72 to take required minimum distributions (RMDs) from traditional, SEP, and SIMPLE IRAs and retirement plans instead of taking them at age 70½. (Technically, RMDs must start by April 1 of the year following the year an individual reaches age 72 or, for certain employer retirement plans, the year an individual retires, if later).

### If you're adding a child to your family

Workers can now take penalty-free early withdrawals of up to \$5,000 from their qualified retirement plans and IRAs to pay for expenses related to the birth or adoption of a child. (Regular income taxes still apply.)

### If you're paying education expenses

Individuals with 529 college savings plans may now be able to use account funds to help pay off qualified student loans (a \$10,000 lifetime limit applies per beneficiary or sibling). Account funds may also be used for qualified higher-education expenses for registered apprenticeship programs. Distributions made after December 31, 2018, may qualify.\*

### If you're working part-time

Part-time workers who log at least 500 hours in three consecutive years must be allowed to participate in a company's elective deferral retirement plan. The previous requirement was 1,000 hours and one year of service. The new rule applies to plan years beginning on or after January 1, 2021.

### If you're an employer offering a retirement plan

Employers that offer plans with an automatic enrollment feature may automatically increase employee contributions until they reach 15% of

pay (the previous cap was 10% of pay). Employees will have the opportunity to opt out of the increase.

Small employers may also benefit from new tax credit incentives. The tax credit that small businesses may take for starting a new retirement plan has increased. Employers may now take a credit equal to the greater of (1) \$500 or (2) the lesser of (a) \$250 times the number of non-highly compensated eligible employees or (b) \$5,000. The previous maximum credit amount allowed was 50% of startup costs up to a maximum of \$1,000 (i.e., a \$500 maximum credit).

In addition, a new tax credit of up to \$500 is available to employers that launch a new SIMPLE IRA or 401(k) plan with automatic enrollment.

These credits are available for three years, and employers that qualify may claim both credits.

\*There are generally fees and expenses associated with 529 savings plan participation. Investments may lose money or not perform well enough to cover college costs as anticipated. Investment earnings accumulate on a tax-deferred basis, and withdrawals are tax-free if used for qualified higher-education expenses. For withdrawals not used for qualified higher-education expenses, earnings may be subject to taxation as ordinary income and possibly a 10% federal income tax penalty. Discuss the tax implications of a 529 savings plan with your legal and/or tax advisors; these can vary significantly from state to state. Most states offer their own 529 plans, which may provide advantages and benefits exclusively for residents and taxpayers, including financial aid, scholarship funds, and protection from creditors.

*Before investing in a 529 savings plan, consider the investment objectives, risks, charges, and expenses carefully. Obtain the official disclosure statements and applicable prospectuses — which contain this and other information about the investment options, underlying investments, and investment company — from your financial professional. Read these materials carefully before investing.*



## Key Retirement and Tax Numbers for 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

### Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,500 in compensation in 2020 (up from \$19,000 in 2019); employees age 50 and older can defer up to an additional \$6,500 in 2020 (up from \$6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,500 in 2020 (up from \$13,000 in 2019), and employees age 50 and older can defer up to an additional \$3,000 in 2020 (the same as in 2019).

### IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
<b>Single/head of household (HOH)</b>	\$64,000 - \$74,000	\$65,000 - \$75,000
<b>Married filing jointly (MFJ)</b>	\$103,000 - \$123,000	\$104,000 - \$124,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

**Note:** The 2020 phaseout range is \$196,000 - \$206,000 (up from \$193,000 - \$203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
<b>Single/HOH</b>	\$122,000 - \$137,000	\$124,000 - \$139,000
<b>MFJ</b>	\$193,000 - \$203,000	\$196,000 - \$206,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

### Estate and gift tax

- The annual gift tax exclusion for 2020 is \$15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is \$11,580,000, up from \$11,400,000 in 2019.

### Standard deduction

	2019	2020
<b>Single</b>	\$12,200	\$12,400
<b>HOH</b>	\$18,350	\$18,650
<b>MFJ</b>	\$24,400	\$24,800
<b>MFS</b>	\$12,200	\$12,400

**Note:** The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is \$1,650 (the same as in 2019) for single/HOH or \$1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

### Alternative minimum tax (AMT)

	2019	2020
<b>Maximum AMT exemption amount</b>		
<b>Single/HOH</b>	\$71,700	\$72,900
<b>MFJ</b>	\$111,700	\$113,400
<b>MFS</b>	\$55,850	\$56,700
<b>Exemption phaseout threshold</b>		
<b>Single/HOH</b>	\$510,300	\$518,400
<b>MFJ</b>	\$1,020,600	\$1,036,800
<b>MFS</b>	\$510,300	\$518,400
<b>26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount</b>		
<b>MFS</b>	\$97,400	\$98,950
<b>All others</b>	\$194,800	\$197,900
*Alternative minimum taxable income		

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### IMPORTANT DISCLOSURES

The information presented here is not specific to any individual's personal circumstances.

To the extent that this material concerns tax matters, it is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding penalties that may be imposed by law. Each taxpayer should seek independent advice from a tax professional based on his or her individual circumstances.

These materials are provided for general information and educational purposes based upon publicly available information from sources believed to be reliable—we cannot assure the accuracy or completeness of these materials. The information in these materials may change at any time and without notice.



## Do independent living communities differ from CCRCs?

Independent living communities, also known as rental retirement communities, offer housing options for active seniors and retirees who require little or no assistance with daily activities. Most independent living residents desire an environment where they don't have to be concerned about safety, maintenance, and homeownership responsibilities.

One of the major offshoots of the burgeoning number of baby boomers retiring every day is the growing retirement living industry. More and more communities dedicated to senior living are opening each year. Two popular options are continuing care retirement communities (CCRCs) and independent living communities. While there are similarities between the two, there are important differences as well.

Both CCRCs and independent living communities may offer amenities such as a clubhouse, lounge, dining rooms, fitness centers, swimming pools, housekeeping services, and transportation. CCRCs usually offer a higher level of amenities and services than independent living communities.

The main difference between CCRCs and

independent living communities is the extent of health-related, or continuing care, services offered by CCRCs, which include assisted living services, memory care, and long-term care. Independent living communities typically do not offer continuing care services. Instead, the resident may arrange for such services through an outside agency. Generally, independent living communities do not offer assisted living services or long-term care.

Another difference between CCRCs and independent living communities relates to the costs. Most CCRCs require a substantial entry fee plus a monthly fee. Typically, independent living communities charge a monthly fee, similar to rent. Independent living fees are usually not covered by any type of insurance, including Medicare and long-term care insurance. However, health-related services and care that a resident receives (which are not offered by the independent resident community) may be covered by insurance or Medicare.

Determining which type of community is the best choice depends on a number of factors including the services needed or desired and the costs associated with each type of residential community.



## What are continuing care retirement communities?

Continuing care retirement communities (CCRCs) are living arrangements that combine independent living, assisted living, and nursing home care on a single campus. CCRCs offer residents a continuum of care throughout their lives.

Typically, you enter a CCRC as a resident of an independent housing unit, which may be a condominium, apartment, or single-family home. When you need more care or are unable to live independently, you can move to the assisted living facility on campus. Should you need the next level of care, you can move into the on-site nursing home.

While specific services and benefits may differ, communities generally offer dining facilities, transportation, lawn care, housekeeping, social activities, laundry, emergency call monitoring, and security. As needs arise, additional services may include preparation of meals, health services such as medical care, and personal care such as assistance with toileting, bathing, and personal hygiene.

The fee arrangements for CCRCs vary and generally include both a monthly fee and an

entrance fee. These fees can be quite substantial depending on the location of the community, the services offered and chosen, and the living arrangements desired. The entry fee may be fully or partially refundable, and monthly fees may increase over time. Medicare and/or health insurance may pay for some of the services provided.

There are three basic types of residential arrangements for CCRCs:

- **Life care or extended contract.** This option offers unlimited assisted living, medical treatment, and skilled nursing care. This alternative is often the priciest because there are typically no additional fees or charges.
- **Modified contract.** This contract is similar to the life care option, except that only certain defined services are included for a predetermined price and/or for a specified length of time. Extra charges will apply if you need additional services or are able to extend the contract's time frame.
- **Fee-for-service contract.** While the initial enrollment fee may be lower, assisted-living and skilled-care services are paid for at their market rates.