PLANNING OPPORTUNITIES

Over the last few weeks we have been updating you on market volatility, our outlook going forward, and portfolio adjustments. The goal has been to keep you informed on what is happening in the markets. Many, if not most of you, are social distancing at home and have a lot more time to ponder your finances. Now is a great time to revisit your goals and reflect upon your financial plans. We have identified specific planning opportunities that may be a good fit for your situation.

We included a piece on the newly enacted CARES Act with our quarterly reports. At the end of 2019, the SECURE ACT was also signed into law. These two pieces of legislation coupled with the recent downturn in markets provide us with some unique planning opportunities.

RMDs (Required Minimum Distributions)

The SECURE Act raised the starting age for taking RMDs to 72. The recently passed CARES Act made RMDs optional for 2020. In addition, if you still had an RMD for 2019 that you needed to take in 2020, you no longer need to do that. Many of you have been taking your RMD, paying the taxes on it, and then contributing it to a non-retirement account because you do not need the income. This year, you can leave those funds in the IRA which provides the opportunity for tax-deferred growth and reduces taxable income.

We will be reaching out to those subject to an RMD in 2020 in the next few weeks, if we have not already discussed this with you.

Roth IRA Conversions

With the recent decline in market values, now may be a good time to consider converting all or some of your IRA to a Roth. 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 account. Many factors should be considered before doing a conversion and your accountant should be part of the discussion.

Factors include:

- 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 potential growth.

Gifting

With the stock market being lower, now may be a good time to consider gifting which can include individual equities, equity mutual funds or ETFs, cash gifts to 529 plans, and/or making cash gifts to family members allowing them to contribute to eligible retirement plans such as Roth and Traditional IRAs.

Stock/Equity gifts – because the market is down, 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' worth of gifting ($75,000). With the market at lower valuations, this may provide more opportunity for growth in the future.

Other changes to 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

While revisiting your goals and plans during this time, you may decide that you want to take more or less risk. These are discussions we can have during our reviews.

PLANNING OPPORTUNITIES

We are rebalancing your portfolios to the chosen objective due to the recent downturn in stock prices.

For retirees, we can discuss income needs with you over the next few years and make sure there is enough in bonds and cash to accommodate those needs. Some have decided to reduce your monthly payments. Most have kept those payments steady. If you would like to discuss this, please email us to schedule a time to discuss further.

For pre-retirees the goal is to gradually increase the allocation to bonds and income producing investments as you get closer to retirement while maintaining the potential for long term growth. This will vary, depending upon how far from retirement you are and how much income you will need in retirement. Is your current objective/asset allocation proper? A few pre-retirees have asked if they should delay retirement and when looking at our plan for them, we often find that is not necessary. These are good discussions for us to have as we meet and revisit your plans over the next year.

We also look for opportunities to do 'tax-loss' selling and concentrated stock deleveraging. If there has been a need to hold a large concentration in a particular stock due to potential capital gains taxes, the decline in equities in general and specifically with that stock may allow us to reduce our exposure while minimizing painful tax consequences from the sale. Looking for opportunities to sell a stock or fund that is out of favor at a loss can also assist us lowering your tax bill for 2020.

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, make sure your plans are still on track, and make adjustments if necessary. You may also want to speak with your accountant about tax planning or your banker about refinancing your mortgage as interest rates are low. Feel free to reach out to any of us on the team as we would enjoy having a conversation with you.

Sincerely,

Bert Languet, CFP®