·HORWITZ·
& ASSOCIATES
Orchestrating dreams for over 4 decades

Investment News

March 2020

Coronavirus & More

The 24-Hour News Cycle moves from Impeachment to COVID-19 to the Primaries — What's next?

In recent weeks, we've seen several major stories in the news. On the political front, in addition to the arrival of the presidential election through the 2020 caucuses and primaries, we have just experienced the third presidential impeachment in American history. In international news, the latest coronavirus outbreak has hit China, now referred to as COVID-19, leading to closed borders and heightened screening at hospitals worldwide.[1]

It's not so much the facts of what's going on that are unusual – none of these matters are unprecedented – but the way that they are reported in the media can be alarming. Even frightening.

How might this affect me? When major events make headlines, it's easy to put yourself in the picture. Knowing, as well, how such events might affect the financial markets, it's also easy to wonder how your investments and retirement strategy might fare.

The truth? Political ups and downs, virus outbreaks, and other circumstances might lead to some short-term volatility on Wall Street. But it's important to remember two things: 1) Your portfolio is positioned to reflect your risk tolerance, time horizon, and goals. 2) The way we experience news has changed over the years, and not all of it for the better.

Never-ending news. On June 1, 1980, businessman and broadcaster Ted Turner debuted Cable News Network (CNN), the world's first 24-hour television news channel. In the four decades since, other similar channels have emerged. Collectively, they changed how the world experiences news. Notably, it was the dawn of the 24-hour news cycle.[2]

Before 1980, news was very different. Major newspapers might have published several editions during a day, but most areas only had a morning or evening edition. Radio might offer news break updates at the top of the hour, with news programs in the morning, afternoon, and evening. Television followed a similar pattern.

The never-ending news cycle means that news organizations have an interest in continuing to report on the same news story even though little or nothing has changed. Twenty-four hours is a lot of time to fill, and they need ratings in order to be of value to advertisers. While this doesn't necessarily mean that the news has become inaccurate or sensationalistic, it might be perceived as repetitive.

It's also becoming ubiquitous. With our smartphones, we're often receiving news updates immediately throughout the day.

Keep informed, but don't be rattled. Your investment and retirement strategy, which you have designed and put into place with your trusted financial professional, has considered big news events, both major and minor. Your professional knows the difference between something that may be a minor force in your financial life and something that might require you to make some changes. A good strategy gives you room for market changes that might see reactions that last a few days – even a few years. Staying the course is often the smartest move, partially because you aren't reacting immediately to a dip, and you might benefit from a potential recovery.

So, keep yourself informed, but if you get too worried, have a conversation with your financial professional. They can help you understand what the news means for your financial life and offer you the context you need to remain confident in your strategy.

Citations.
1 - sciencemag.org/news/2020/02/bit-chaotic-christening-new-coronavirus-and-its-disease-name-create-confusion [2/12/20]
2 - history.com/this-day-in-history/cnn-launches [2020]

INSIDE THIS ISSUE:

That First Distribution from Your IRA

What you need to know.

When you are in your seventies, Internal Revenue Service rules say that you must start making withdrawals from your traditional IRA(s). In I.R.S. terminology, these withdrawals are called Required Minimum Distributions (RMDs).1

Generally, these distributions from traditional IRAs must begin once you reach age 72. The money distributed to you is taxed as ordinary income. (When such distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty.)1

If you fail to make these withdrawals or take out less than the required amount, the I.R.S. will notice. In addition to owing income taxes on the undistributed amount, you will owe 50% more. (This 50% penalty can be waived if you can show the I.R.S. that the shortfall resulted from a "reasonable error" instead of negligence.)1

Many owners of traditional IRAs have questions about these IRA distributions and the rules related to them, so let's answer a few.

When is the deadline for your initial IRA distribution? It must be taken by April 1 of the year after the year in which you turn 72. So, if you turn 72 in 2020, your first distribution from your traditional IRA has to occur by April 1, 2021. All the distributions you take in subsequent years must be taken by December 31 of each year.1

The starting age for these distributions has changed from 70½ to 72 due to a new federal law, the Setting Up Every Community for Retirement Enhancement (SECURE) Act. IRA owners born on or after July 1, 1949 are now scheduled to take initial IRA distributions after they turn 72.2

Is waiting until April 1, 2021 a bad idea? Maybe. While the I.R.S. allows you three extra months to take that initial IRA distribution, putting off the withdrawal could bring on a tax issue. These distributions are taxable in the year that they are taken. If you postpone the initial distribution slated for 2020 into 2021, then the taxable portions of both your first mandatory IRA distribution (deadline: April 1, 2021) and your second mandatory IRA distribution (deadline: December 31, 2021) must be reported as income on your 1040 form for 2021.1

A hypothetical example: James and his wife Stephanie file jointly, and together they earn $168,400 in 2020 (the upper limit of the 22% federal tax bracket). James turns 72 in 2020, but he decides to put off his first IRA distribution until April 1, 2021, so that means he must take two IRA distributions before 2021 ends. His 2021 taxable income jumps as a result, and it pushes the pair into a higher tax bracket. The lesson: if you will be 72 by the time 2020 ends, take your initial distribution by the end of 2020 – or risk potentially higher taxes.1,3

How do I calculate my first IRA withdrawal? If your IRA is held at one of the big investment firms, it may calculate the withdrawal amount for you and offer to route the amount into another account of your choice. It will give you and the I.R.S. a 1099-R form recording the distribution, and the amount of it that is taxable.5

Otherwise, I.R.S. Publication 590 is your resource. You calculate the amount of the distribution using Publication 590's life expectancy tables, and your IRA balance on December 31 of the previous year. If you Google "how to calculate your required IRA distribution," you will see links to worksheets at irs.gov and a host of other free online calculators.1,4

If your spouse is more than 10 years younger than you and is designated as the sole beneficiary for a traditional IRA that you own, you should use the I.R.S. IRA Minimum Distribution Worksheet (downloadable as a PDF) to help calculate your distribution.6

Can I take my IRA distribution in increments? Yes, if time permits. Your IRA custodian may be able to schedule these incremental withdrawals for you, perhaps with taxes withheld.7

What if I have more than one traditional IRA? You can figure out the total mandatory distribution by separately calculating the distribution for each of your traditional IRAs. You can take the total distribution amount from a single traditional IRA or multiple traditional IRAs.1

What if I have a Roth IRA? You don't need to make mandatory IRA withdrawals from a Roth IRA if you are its original owner. Only inherited Roth IRAs require these withdrawals.1

Be proactive. Delaying your first IRA distribution until 2021 could mean higher income taxes in 2022.

MARKET PERFORMANCE
01/01/2020 to 02/29/2020

DJIA ^DJI Down –10.96%
S&P 500 ^GSPC Down –8.56%
NASDAQ ^IXIC Down –4.52%
Russell 2000 ^RUT Down –11.51%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

Citations.
1 - irs.gov/retirement-plans/retirement-plans-faqs-regarding-required-minimum-distributions [2/7/20]
2 - forbes.com/sites/kristinmckenna/2020/01/10/you-can-now-take-required-minimum-distributions-at-72-but-should-you [1/10/20]
3 - nerdwallet.com/blog/taxes/federal-income-tax-brackets/ [2/5/20]
4 - google.com/search?client=firefox-b-1-d&q=how+to+calculate+your+required+IRA+distribution [2/10/20]
5 - finance.zacks.com/everyone-ira-1099r-4710.html [3/6/19]
6 - irs.gov/pub/irs-tege/jlls_rmd_worksheet.pdf [2/10/20]
7 - fidelity.com/viewpoints/retirement/smart-ira-withdrawal-strategies [1/27/20]

Tax Considerations for Retirees

Are you aware of these potential tax breaks and tax-saving opportunities?

The federal government offers some major tax breaks for older Americans. Some of these perks deserve more publicity than they receive.

At age 65, the Internal Revenue Service gives you a larger standard deduction. For 2020, standard deductions look like this for taxpayers 65 and older: single filer or married filing separately, $14,050; head of household, $20,300; married filing jointly or qualifying widow(er), $26,100 (when one spouse is 65 or older) or $27,400 (when both spouses are 65 or older). The standard deductions for younger taxpayers range from $1,650-$2,600 less.[1]

There are two situations where your standard deduction may be limited at age 65 or older, or disappear entirely. One is when another taxpayer claims you as a dependent. The other is when you are married and filing separately, and your spouse itemizes deductions.[1]

You may be able to write off some medical costs. The I.R.S. will let you deduct qualifying medical expenses once they exceed 7.5% of your adjusted gross income (AGI). The list of eligible expenses is long. Beyond out-of-pocket costs paid to doctors and other health care professionals, it also includes things like insurance premiums for extended care coverage, travel costs linked to medical appointments, and payments for durable medical equipment, such as dentures and hearing aids.[2]

Are you thinking about selling your home? Many retirees consider this. If you have lived in your current residence for at least two of the five years preceding a sale, you can exclude as much as $250,000 in gains from federal taxation (a married couple can shield up to $500,000). These limits, established in 1997, have never been indexed to inflation. This exclusion is only allowed once every two years.[3]

Low-income seniors may qualify for the Credit for the Elderly or Disabled. This incentive, intended for people 65 and older, can be as large as $7,500 based on your filing status. You must have very low AGI and nontaxable income to claim it, though. It is basically designed for those living wholly or mostly on Social Security benefits.[4]

Affluent IRA owners may want to make a charitable IRA gift. Generally, once you reach age 72, you must begin taking required minimum distributions (RMDs) from a traditional IRA. You may not be looking forward to these annual withdrawals, especially if you are well off. You have another option: you can make a Qualified Charitable Distribution (QCD) using those traditional IRA assets.[5]

You can donate up to $100,000 of traditional IRA assets to a qualified charity in a single year this way, and the amount donated counts toward your required withdrawal. The amount of the QCD is excluded from your gross income for the year of the donation. Eligibility to make a QCD still begins at 70½, even though the Setting Every Community Up for Retirement Enhancement (SECURE) Act raised the starting age for annual traditional IRA distributions from 70½ to 72.[5]

It must be mentioned that withdrawals from traditional IRAs are taxed as ordinary income (and, if taken before age 59½, may be subject to a 10% federal income tax penalty).

Of course, some states also give seniors tax breaks. For example, the following 11 states do not tax federal, state, or local pension income: Alabama, Hawaii, Illinois, Kansas, Louisiana, Massachusetts, Michigan, Mississippi, Missouri, New York, and Pennsylvania. Twenty-eight states (and the District of Columbia) refrain from taxing Social Security income.[6]

Unfortunately, your Social Security benefits could be partly or fully taxable. They could be taxed at both the federal and state level, depending on how much you earn and where you happen to live. Whether you feel this is reasonable or not, you may have the potential to claim some of the tax breaks mentioned above as you pursue the goal of tax efficiency.[7]

Citations.
1 - efile.com/tax-deduction/federal-standard-deduction/ [1/20/20]
2 - thebalance.com/deducting-medical-expenses-retirement-2894613 [11/4/19]
3 - investopedia.com/ask/answers/06/capitalgainhomesale.asp [2/16/20]
4 - thebalance.com/tax-breaks-for-seniors-and-retirees-4148392 [1/14/20]
5 - giving.princeton.edu/giftplanning/current-ira-gifts [2/18/20]
6 - thebalance.com/state-income-taxes-in-retirement-3193297 [7/15/19]
7 - smartasset.com/retirement/is-social-security-income-taxable [1/16/20]

We hope you enjoy our newsletter!
Please e-mail us any topics you would like to see covered in future newsletters.

We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

A Roth IRA's Many Benefits

Why do so many people choose them over traditional IRAs?

The IRA that changed the whole retirement savings perspective. Since the Roth IRA was introduced in 1998, its popularity has soared. It has become a fixture in many retirement planning strategies because it offers savers so many potential advantages.

The key argument for going Roth can be summed up in a sentence: ***Paying taxes on your retirement contributions today may be better than paying taxes on your retirement savings tomorrow.***

Think about it. Would you rather pay taxes today or wait 10 years and see where the tax rates end up? With that in question in mind, here are some of the potential benefits associated with opening and contributing to a Roth IRA.

What you see is what you get. Roth IRA contributions are made with after-tax dollars, and any potential earnings on investments within a Roth IRA are not subject to income tax or included in the account owner's income. Instead, they accumulate on a tax-deferred basis and are tax-free when withdrawn from the Roth if the distribution is qualified.[1]

You can arrange tax-free retirement income. Roth IRA earnings can be withdrawn tax-free as long as you are 59½ or older and have owned the account for at least 5 years. The IRS calls such tax-free withdrawals qualified distributions.[2]

HORWITZ & ASSOCIATES
1650 LAKE COOK ROAD
SUITE 190
DEERFIELD, ILLINOIS 60015

(224) 632-4600 PHONE
(224) 632-4590 FAX
WWW.HORWITZADVISORS.COM

EDWARD HORWITZ—
ED@HORWITZADVISORS.COM

GERALD HORWITZ—
GAH@HORWITZADVISORS.COM

Withdrawals don't affect taxation of Social Security benefits. If your provisional income is between $25,000 and $34,000 — or $32,000 and $44,000 for joint filers — then your Social Security benefits may be taxed if you take withdrawals before your full retirement age. Luckily, a qualified distribution from a Roth IRA doesn't count as taxable income, which may be a means of avoiding taxation on your social security benefit.[3,4]

You have until your tax-filing deadline to make a Roth IRA contribution for a given tax year. For example, IRA contributions for the 2019 tax year may be made up until April 15, 2020. While April 15 is the annual deadline, many IRA owners who make lump sum contributions for a given tax year make them as soon as that year begins, not in the following year. Making your Roth IRA contributions earlier gives the funds in the account more time to potentially grow. Remember, though that Roth IRA contributions cannot be made by taxpayers with high incomes. In 2019, the income phaseout limit was $137,000 for single filers and $203,000 for married couples who file jointly.[5]

Who can open a Roth IRA? Anyone with earned income (and that includes a minor).

How much can you contribute to a Roth IRA annually? The combined annual contribution limit to all of your traditional and Roth IRAs is $6,000 for 2019 and 2020 ($7,000 if you're age 50 or older), but income limits may reduce or eliminate your ability to contribute. To sweeten the deal even further, you can keep making annual Roth IRA contributions all your life.[6]

All this may have you thinking about opening up a Roth IRA. A chat with the financial professional you know and trust may help you evaluate whether a Roth IRA is right for you, given your particular tax situation and retirement horizon.

Citations.

1 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]
2 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]
3 - kiplinger.com/slideshow/retirement/T055-S001-how-retirement-income-is-taxed/index.html [1/27/20]
4 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]
5 - morningstar.com/articles/852560/20-ira-mistakes-to-avoid [2/10/20]
6 - irs.gov/retirement-plans/traditional-and-roth-iras [1/28/20]