November 20, 2020

Financial Planning As A Result Of The SECURE Act

The Setting Every Community Up for Retirement Enhancement Act (SECURE) was signed into law in December 2019, which seems like a lifetime ago. Its provisions became effective in 2020. Let's review the important provisions:

- There are no longer age restrictions to contributing to an Individual Retirement Account (IRA). You can continue to contribute after reaching 70½ years of age.
- For those born on or after July 1, 1949, the age for starting required minimum distributions (RMDs) has been increased to 72 years of age from 70½ years of age. Therefore, you can leave your assets in your tax deferred account for a longer period before recognizing income, and, hopefully, to grow.
- Distributions from IRAs, SEPs, SIMPLEs for qualified birth or adoption expenses are penalty-free, up to $5,000.
- Beneficiary distribution choices for deaths that occur starting in 2020 have been changed so that the payout period to beneficiaries have, in general, been shortened and amount of the payouts have increased as will the tax liabilities.

You should review your situation for planning purposes for the remainder of 2020 and more importantly for 2021.

The Greatest Trade Of All Time
Or Why the March 2020 Market Drop Occurred?

In our May Newsletter we discussed in our article "How Did Coronavirus Nearly Break the Markets?" the extraordinary events of March 16, 2020 that nearly broke the financial markets in general and the bond market in particular. As a preface, my father always told me, "Beware of left field, because that is where surprises always come from." This is a left field story.

When I wrote the article, we did not know of an important factor, that Bill Ackman of Pershing Square Capital Management exacerbated the problem. His hedge fund used a $27 million premium to buy credit default swaps on the order of 26% of the investment bond index or $51 billion, $18 billion of protection on the European investment grade bond index and $2.5 billion on the U.S. high yield bond index.

He purchased the credit default swaps (CDS) from Blackrock and Bridgewater (another hedge fund) who thought some stupid guy who did not know about the CDS market was buying. It took him several days to accumulate his position which was in force at the end of February. He thought the fear of the novel coronavirus would spread and affect the market while most others ignored the potential effects of the virus. Within one week his play started to pay off and then bounced up and down on a daily basis. He sold out in 10 days and his $27 million bet turned a profit of $3.6 billion.

He then went on CNBC for a 28-minute appearance on March 18 after he had unwound 50% of his CDS position with the intention of sending a confident bullish message to the public and instead the DOW dropped 6.5% when he started talking and finished the day down 10%. Instead of calming people, Ackman's comments scared the "Bejeezus" out of viewers. CNBC played his clip over and over again throughout the day. People thought that Ackman was talking the market down to increase the value of his CDS hedges when, in fact, he had unwound half of the hedge and had been buying stocks in a big way. He lost money on his portfolio that day.

His 28-minute CNBC appearance said "Look, we're at a fork in the road. One path leads to death and destruction and hell is coming. That's if we do nothing about the virus and it runs roughshod over the country, and we're in a rolling 18 month disaster and no company can survive. Or, we do a hard shutdown of the country for 30 days, but we're out of the soup in a very short period of time. We can reopen the economy. Everyone's got to wear masks. I'm very confident the government is going to do the right thing and that's why I'm buying stock today." *The Wall Street Journal 9/29/20 p. S1 & S2.*

IRS Issues Final Regulations To Update Life Expectancy And Distribution Tables

Because of longer life expectancy, the IRS has issued final regulations that update the life expectancy and distribution tables used to calculate Require Minimum Distributions (RMDs) from qualified retirement plans, individual retirement accounts and annuities (IRAs) and certain other tax-favored employer provided retirement arrangements. This will result in lower calculated RMDs than under the prior tables.

In general, a retirement plan must require that the plan distribute the employee's (or owner's in the case of an IRA) interest over the life of the employee or the lives of the employee or the lives of the employee and a designated beneficiary. To calculate an RMD one must use the life expectancy and distribution tables in Treasury Regulation 1.401(a)(9)-9.

There are transition rules under which there is a one-time reset for the relevant life expectancy because the general population has a longer life expectancy than the life expectancy in the former tables. *Treasury Decision 9930*.

NY Banks Hit Hard

The New York banks have been hit hard out of fear the economic recovery here will be slower. New York Community Bank, the local preeminent lender to rent-regulated multi-family housing, has indicated that borrowers who still need more time to resume paying loans are really struggling and as a corollary, the landlords who need the rent to repay the loans. In New York, tenants do not have to pay rent during the pandemic lockdown and landlords are not allowed to evict the tenants until January 1, 2021. The bank said the deferred payments of its office loans equals $400 million. Extend that to the loan portfolios of other banks to determine the full extent of the problem.

The question is how many of the troubled real estate loans will go bust and will buyers snap up the assets if the borrowers' default on the office loans. The bank says people are a little nervous to do lending in New York. *Crain's New York Business 11/2/20 p. 7.*

As always, if you have any questions about these or any other matters, do not hesitate to call us.