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Guide...Protect...Preserve

Navigating Required Minimum Distributions

When you are halfway through your 70th year on the planet, U.S. law says you must start taking money out of IRAs, SEPs and SIMPLE plans as well as 401(k), 403(b) and other U.S. Government qualified retirement plans. Only a Roth IRA account, which you fund with after-tax dollars, is exempt from federally-required minimum distributions (RMD).

Here are five tips that can add up to substantial savings in navigating the withdrawal maze:

Delay your first payment. You don't have to make your initial withdrawal at the midpoint of your 70th year. You can delay it up to April 1st of the following year. So, if you hit 70½ in October 2019, you could delay your withdrawal to March 31st, 2020. The downside is that, in 2020, you must pay taxes on two RMDs. That second withdrawal must occur by year-end of 2020. Planning it matters!

From Uncle Sam's perspective, it's only fair to tax you; you avoided paying tax on money you placed in a non-Roth IRA account, and he wants his cut. From your perspective, it's time to maximize your life savings by paying as little as possible in income tax on your withdrawals.

When RMDs kick in at age 70½, not following the rules can cost you real money. With a bit of strategic financial planning, however, you can turn the rules to your advantage.

Ask your plan custodian about how much you are required to withdraw. Firms like Fidelity and Vanguard will calculate how much you must withdraw. At age 70, in most cases, you must tap 1/27.4 of your account, based on a 27.4-year life expectancy of 96 and a few months, according to the IRS Uniform Lifetime

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Fed Actions Are Driving Markets

It's notable that the stock market in 2019 has not suffered a 10% correction on worries about the China trade confrontation, the manufacturing slump or concerns about the U.S. political situation — three bad-news narratives currently haunting markets.

But look at this: The three major stock market drops in the past year were all related to the Federal Reserve Board's actions.

Since the Fed backed off its forecast for rising rates and inflation in January, consumer spending and income have been about as strong as they have ever been in post-War American history!

For months now, the actions of the Federal Reserve, as it works to extend the economic expansion into 2020, have driven the stock market — both up and down.

The point is, it's always been wise not to get emotional about the news affecting markets that may seem so dismal at any bleak moment in history.

This is the longest business cycle in modern history, and it is sustainable as long as the Fed does not make a policy mistake, which is always possible.

A Fed mistake in December of 2018 caused the inversion of the yield curve!

Fortunately, the Fed quickly recognized its mistake and has eased rates twice by a quarter-point since then.

The Fed is what matters most in the current situation.

Mary Jane Callaghan & Mitch Glicksman

Tax Law Changes Delayed But Not Dead

For years, year-end tax tips were delivered in this space every September, but this year's story is a real cliffhanger. The twist in the plot is the pending tax legislation. Ironically known as the SECURE Act, an acronym, the legislation is officially named, "Setting Every Community Up for Retirement Enhancement." The bill is likely to cause frantic last-minute tax maneuvering at the end of 2019.

In the spring of 2019, the SECURE Act passed a vote in the House of Representatives by a 417 to 3 margin and seemed like it would sail through enactment because it gained favor with both the House of Representatives and Senate as well as the President. But its enactment was stalled in the Senate all summer. However, it has some popular provisions, like delaying from age 70½ to 72, and expanding the use of annuities in 401(k)s and other federally-qualified retirement accounts. The Act still is expected to be signed into law, though it might not happen until this December.

Perhaps the biggest impact financially would be felt by distributions of income from IRAs to your children and other non-spouse beneficiaries. Non-spouse heirs, under current rules, may elect to draw minimum annual distributions from inherited IRAs over their actuarial life expectancy. Under the SECURE Act, they'd be required to withdraw everything in an inherited IRA in 10 years, accelerating tax payments.

This provision would prevent your heirs from taking minimum annual distributions based on their life expectancy on inherited IRAs — a popular strategy known as a "Stretch IRA." If the SECURE Act is indeed enacted and you have already set up a Stretch IRA for your children or other beneficiaries other than your spouse, be aware that you may need to consider some careful tax planning. IRA owners in this situation would be wise to be prepared for enactment, particularly if you live in a state with a high income-tax rate. You may want to consider utilizing a trust to move the IRA distributions to a state with no income tax, enabling your beneficiaries to avoid state income tax on those required distributions of income on inherited IRAs.

This aspect of retirement income planning is fraught with complexity. New York and California recently enacted laws adversely affecting non-spouse beneficiaries residing in states with an income tax. Please contact us with questions about this topic, as this strategy requires personal advice from a qualified tax professional. ●

The Fed Just Cut Rates Again; What's It Mean To You?

The Fed cut rates again on October 30th, for the third time in 2019. What's it mean to your long-term financial plan?

The rate cut is a reversal in policy and not what the Fed had expected to do, which is worrisome because the Fed has caused every recession in modern U.S. history by making a policy mistake. However, admitting its previous financial plan had been wrong, the Fed's abandonment of its earlier forecast, that inflation was a danger, is encouraging.

Federal Reserve policy has grown far more responsive to economic fundamentals and market sentiment. Former Fed Chair Ben Bernanke, who had studied financial crises for decades before becoming the nation's top central banker, was the right person to guide the economy when the global

Last Chance In 2019 For Pre-Retired Professionals & Biz Owners

Doctors, dentists and business owners with more than $321,400 of 2019 adjusted gross income have one last chance not to pass up on this tax and retirement planning opportunity.

With just weeks before the end of the year, time is running out to reduce your 2019 tax bill while socking away a large sum in federally tax-advantaged retirement savings accounts. These tax breaks written and ratified by the U.S. Congress and signed by the President, and their enactment meets judicial standards. Although the government never gets credit for doing anything right, these laws provide a reliable framework for strategic tax and financial planning.

This strategy is particularly useful to professionals and business owners in their peak earning years, who have not saved enough to retire or want to jump-start the process and try to retire as soon as possible.

The linchpin of this tax and retirement planning strategy is a defined benefit (DB) plan. DB plans are tax-advantaged under federal law. This strategy is subject to the risk that the U.S. Government could become irrational and U.S. law could be less reliable and subject to change.

Past performance is never guaranteed to be the same in the future. However, America has a history of meriting the full financial faith of investors, and investors are rational to rely on federal law, which is a great strength of the United States. If U.S. law is a contract with Americans, the U.S. Government will remain faithful to federal laws, such as those treating IRA withdrawals as income and other laws exempting Roth IRA withdrawals from income tax. Assuming the U.S. keeps such implicit promises in the U.S. Internal Revenue Code, this is a highly effective strategy for putting retirement savings on steroids.

DB plans are much less well-known than defined contribution (DC) plans. It's retirement savings on steroids; a way to catch up fast on years of neglecting to properly fund your lifestyle retirement.

Professionals and business owners must spend years learning, testing, and gaining experience to be great at their chosen paths. Delayed gratification makes it common for high-income professionals and entrepreneurs to live well but not save nearly enough. A DB plan bursts savings in a federally empowered tax-advantaged account.

With a DB plan, your retirement contribution is defined; your retirement benefit is not. DC plans pose less financial risk to employers, so they are much more common. The federal tax code imposes much higher contributions than on DC plans as well as more elaborate rules because a DB plan is designed to last your actuarially-expected lifespan. DC plans are not intended to last your lifetime.

High-income business owners and professionals often find that, after their children are launched, having paid for college and maybe a wedding, a sudden glut of free cash enables stashing away a large sum and funding the comfortable retirement they have earned.

Here an illustration showing just how much retirement savings accelerates in a DB plan:

In 2019, the maximum contribution to a DB plan is $225,000 versus $56,000 for a DC plan. If a business owner has a DC plan already and now adds a DB plan, they could reduce their taxable income by as much as $281,000! If socking away $281,000 would make it impossible to meet current expenses, you can contribute less.

Consider a dentist, doctor or business owner in her peak earnings years and married. Her annual income of $515,000 is diminished by a 37% federal tax rate and high living expenses, which made it difficult to save enough for retirement. Funding a DB plan as well maxing out a DC plan lowers her taxable income and lowers her tax bracket. If this dentist places $200,000 into the retirement accounts, it would reduce her $515,000 taxable income to $315,000, putting her in the 24% federal tax bracket instead of the 37% bracket. The point is, you want to manage your tax bracket to optimize your personal situation.

Because her dental business is NOT a "C corporation," she also qualifies for a 20% deduction under Section 199A of the new tax code for owners of S corps, LLCs, sole proprietorships, and other pass-through entities. To get this extra tax break, her taxable income must not exceed $321,400 for a married couple in 2019.

If she hadn't taken steps to whittle down her high income, her taxes would be much higher. Morever, she has socked away a large defined benefit for retirement!

Setting up a DB plan requires tax and actuarial expertise and careful planning but can be worth the trouble, especially because of the new 20% tax deduction and the opportunity to accelerate your retirement savings. But it takes time to set up your plan, and you only have until the end of the year. If you wait any longer, you will be passing up on this opportunity. ●

financial crisis occurred in 2008. He implemented policies never-before tried in a major world economy. His successor, Janet Yellen, a labor economist, who fatefully had spent her professional life studying how to increase employment, continued Mr. Bernanke's quantitative easing plan and deftly extended the expansion.

Although opinions about the direction of interest rates or stock prices in the next year or two will always vary, it is clear that the Federal Reserve has made progress in achieving its dual mandate to promote employment and control inflation. The Fed — led by Jerome Powell and backed by a deep team of the world's best minds — has abandoned its long-held forecast for a 2% inflation rate — and in admitting its mistake to raise rates on December 14th, 2018, its change of policy should be viewed in the context the Fed's progress. The third interest-rate cut of 2019 signaled that the Fed is no longer worried about inflation and determined to defend the 10½-year long expansion in 2020 and beyond, even if it means admitting it made a mistake and is changing course.

Amid the cacophony of modern-day living, don't lose sight of the unceasing progress in the world, and always try to frame your long-term investment perspective from this easily overlooked trend of civilization. ●

Europe's Growth Problem And Your Portfolio

Aging populations are reshaping the world's largest economies; it's caused a global savings glut and is driving current U.S. financial economic conditions.

The demographic trends are behind the U.S. yield curve inversion and stock market volatility, but rarely make headlines in the financial press.

Here are the facts.

Germany's working age population is shrinking, as is all of Europe's, Japan's and China's, too.

In contrast, the U.S. working age population is expected to grow in the years ahead.

With the world's largest economies home to a growing population of retirees, demand for secure retirement income is driving prices for sovereign bonds higher.

The glut of savings from income-starved retirees is chasing the certainty of government guaranteed bonds, driving prices higher and yields down.

Exacerbating the bond market problem, Germany, the world's second largest supplier of sovereign bonds after the U.S., has been issuing *fewer* bonds to avoid burdening its growing population of retirees with paying down government debt.

Shrinking the supply adds to the upward pressure on sovereign debt prices and depresses yields.

Demand for secure retirement income is driving prices for sovereign bonds higher.

In addition, rising likelihood of a recession in Germany, has forced its central bank to keep interest rates low to stimulate growth.

This confluence of the demographic and economic slowdown has boosted demand for U.S. Treasury bonds, driving prices on long-term bonds higher and yields lower.

With the yield on a three-month T-bill at 1.99% higher than the yield on a 10-year Treasury bond, at 1.5%, the yield curve is inverted — as it has been for much of 2019.

For the past several decades, yield curve inversions were rare and usually were followed within 18 months by a recession.

So, the current inversion has spread fears of a U.S. recession and caused increased volatility in the stock market in recent months.

Retirement income investors may want to consider how lower yields on fixed income allocations in their portfolios might affect them in the years ahead, because the change in supply and demand for sovereign debt is being driven by long term demographics.

Significantly, the yield curve inversion is caused by bond market supply and demand and not U.S. economic fundamentals.

The baby-boom spawned an "echo" baby-boom generation and that makes the growth path of the U.S. comparatively favorable to the other major world economies. ●

Navigating RMDs

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Table. By the way, your required minimum distribution stays the same from January 1st through December 31st and does not fluctuate with the performance of your portfolio.

Where the money comes from in your account is up to you. You don't have to draw from every single fund you own to make RMDs. You could take equal amounts from every fund in your IRA, yes, but you can also withdraw from the best-performing funds. Similarly, if you own several IRAs, you could withdraw from each of them, or you can add up all of your assets from the separate IRAs and take a large single withdrawal from one of them.

Pay taxes later. Your plan provider can withhold whatever percentage amount you specify before distributing the remainder to you. That's easy, but it deprives you of the full use of your RMD. Alternatively, the provider could send you all the money intact. At tax time, you must pay what you owe the United States. Meanwhile, you have use of your entire RMD to invest with or whatever you want. Again, it just requires a little planning and the savings can add up when this tip is applied in concert with the other strategic planning tips on this list.

If you haven't left the labor force, you don't have to withdraw from your employer's 401(k) or other retirement plan. An exemption from RMDs is available if you are still working. To qualify for the "still-working exemption," you must own no more than 5% of the company for which you work and be employed throughout the entire year. While most qualified plans permit this exemption, it's best to confirm with your employer before doing so.

One caveat: The mandatory initial RMD age of 70½ is the subject of pending tax legislation and could be pushed back to age 72. It's a wrinkle to be mindful of in tax planning currently.

Implementing these tips requires knowing the rules regulating required minimum distributions and devising a strategic lifetime plan for maximizing retirement income in your personal situation. If you have questions or need a professional tax advisor, please call us with any questions. ●

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