Keeping Grounded when the Financial World is Shaking

August 13, 2020 * 12:00 noon

Overview

- Recent Bad News & Good News
- What matters: The Future
  - What to expect in the future, for the economy, the stock market, and jobs
- What does that mean for YOU?
  - What are the most useful parts of the new tax laws (2018, SECURE Act, CARES Act)?
- What should you change, and not change?
  - How to adjust your financial plan, if you have one
  - How to start planning, if you haven't already
- What if your income is low in 2020?
- What if you can afford to help others?

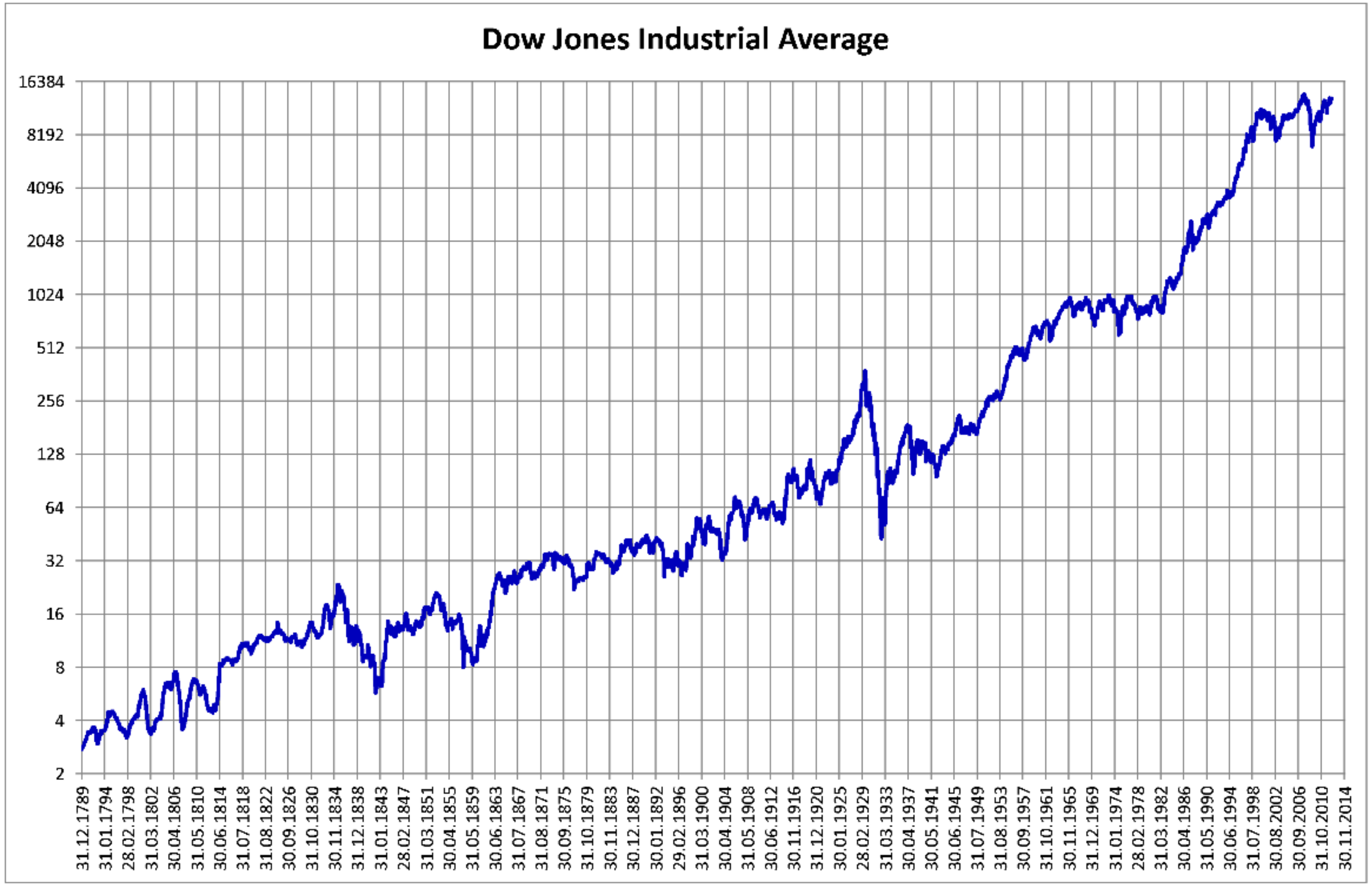
Bad News and Good News

- March 9, 2020: largest plunge in history for the Dow Jones Industrial Average (DJIA)
- Two more record-setting drops on March 12 and March 16
- July 30, 2020: Biggest drop in GDP in history (32.9%)
- Unemployment rate of 14.7% in April 2020: an all-time high
- Market volatility continues

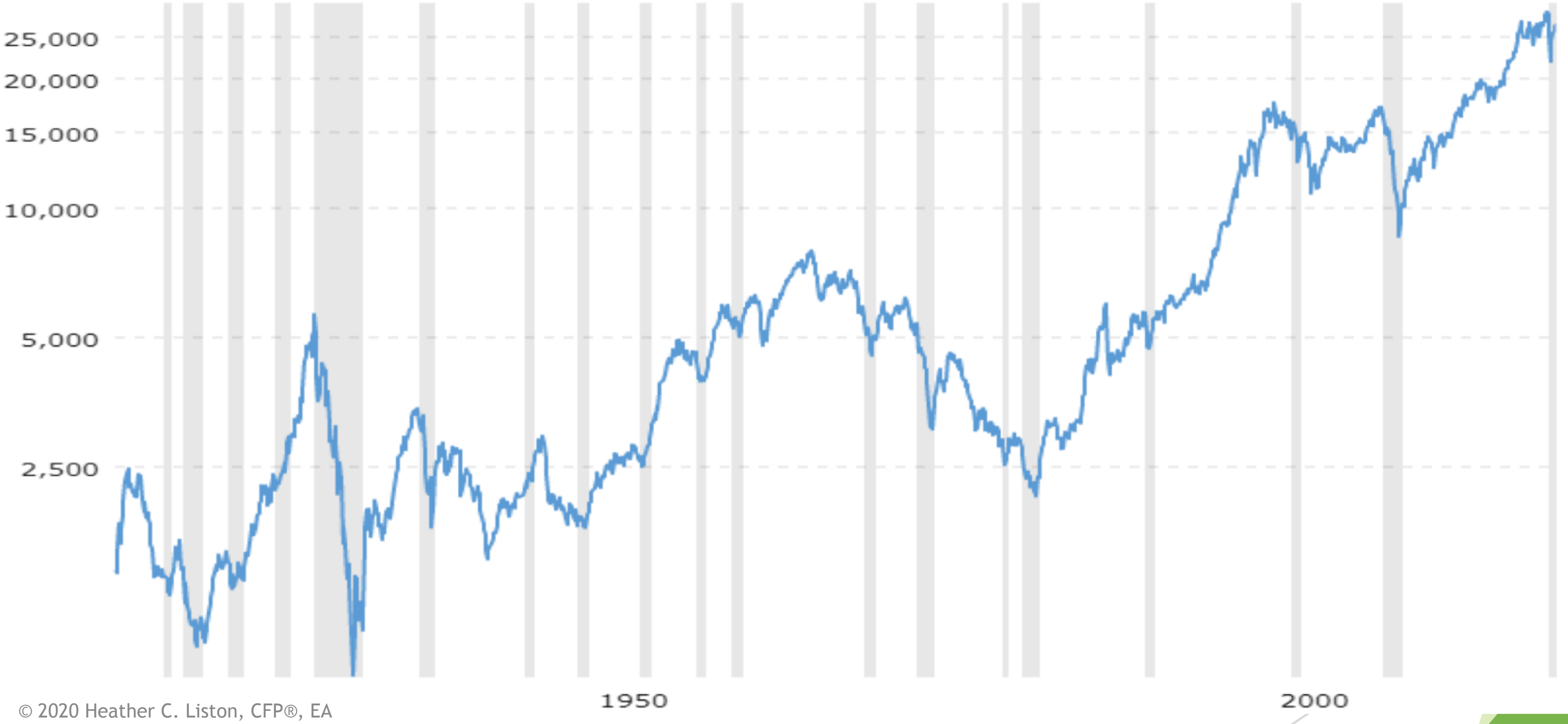
- Some of the stock market losses have been reversed—at least for now
- Local tech companies (Apple, Tesla, Google, Facebook, Amazon) continue to thrive, counter to some national trends
- Unemployment rate in June 2020 came down to 11.1%

Dow Jones Industrial Average YTD 2020

DJIA: 1789 to 2014



100 years of DJIA: 1920 to July 2020 Inflation Adjusted



What Matters: The Future

Your Financial Plan

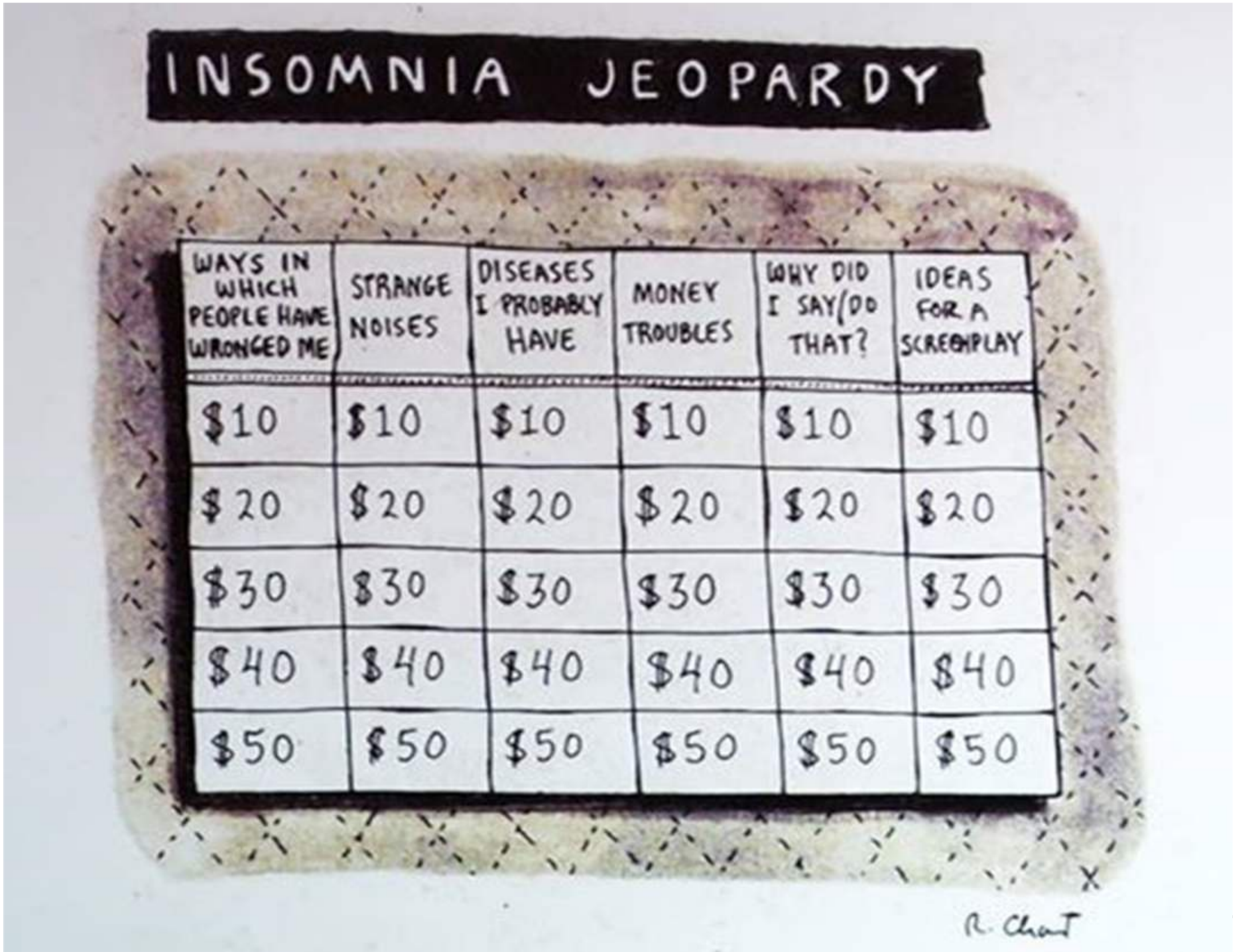
- Stick to your plan
- Buy low; sell high
- Avoid attempts at market timing
- Set it and forget it
- Remember: Plans are for the bad times; not the good ones

Questions for YOU

1. What's your Risk Tolerance?

2. What's your Time Horizon?

Risk Tolerance



Risk Tolerance

- 10%?
- 30%?

Time Horizon

- Retirement
- Home purchase
- College

Time Strategies

- Short Horizon:
  - Hold more cash
  - Diversify

- Long Horizon:
  - Keep saving & investing
  - Enjoy the sales
  - Diversify
  - Trust the long arc

Saving in 2020

Limits

Ordinary Updates for 2020

- 401(k), 403(b), 457(b)
  - $19,500 + $6,500 catch-up
- IRA & Roth IRA
  - $6,000 + $1,000 catch-up
- SIMPLE IRA
  - $13,500 + $3,000 catch-up
- Total 415 Limits
  - $57,000 + $6,500 catch-up
  - For SOLO 401(k) & Mega-Backdoor
- FSA Medical
  - $2,750
- HSA Contributions
  - $3,550

Recent Changes

2017-2020

Current Tax Law & Recent Changes

- New Tax Law of 2018
  - Passed December 22, 2017
  - Effective (mostly) January 1, 2018
- SECURE Act December 19, 2019
  - Effective (mostly) January 1, 2020
- CARES Act
  - Passed March 27, 2020

The SECURE Act

Setting Every Community Up for Retirement Enhancement Act of **2019**

KEY 2019 SECURE ACT AND TAX EXTENDERS

NEW IRA RULES	401(K) PROVISIONS	OTHER PROVISIONS	TAX EXTENDERS
• Elimination of the lifetime "stretch" provision for non-spouse beneficiaries of inherited IRA and other retirement accounts, replaced by a 10-year distribution cap	• Provision of ERISA fiduciary Safe Harbor for selecting an annuity provider for retirement plans.	• Employers may adopt employer-funded retirement plans up to the due date of the employer's tax return	• Discharge of certain qualified principal residence indebtedness is excluded from gross income
• RMDs for IRAs required to start beginning at age 72 (instead of 70 ½)	• Creation of a "distributable event" for annuities no longer allowed as plan invstment options	• Increased penalties for employers failing to file taxpayer and employee benefit plan returns	• Allowance of mortgage insurance premium deduction
• Removal of 70 ½ contribution age limit	• Tax credit for small businesses that establish a 401(k) (or a 403(b), SEP IRA, or SIMPLE IRA)	• Qualified education expenses for 529 plan funds expanded for student loans and apprenticeships	• Deduction for qualified tuition and related expenses
• $5,000 Qualified Birth or Adoption Distribution	• Tax credit for adoption of auto-enrollment of participants in 401(k) plans	• Kidde tax reverts applicable children's income to be subject to child's parents' marginal tax rate	• AGI 'hurdle rate' for deducting qualified medical expenses to remain at 7.5%
• Taxable non-tuition fellowship and stipend payments treated as compensation for IRA purposes	• Maximum contribution for 401(k) automatic enrollment increased to 15%	• Allowance of qualified Disaster Distributions up to $100,000 per disaster, from retirement accounts	• Miscellaneous incentives for economic growth, energy production, and green initiatives
• Non-deductible IRA contributions can be made with certain foster care payments	• Long-term. part-time employees who work at least 500 hours in at least three consecutive years will be eligible to participate in their employer's 401K plan		
	• Provides for MEPs to maintain qualified status overall, if only one employer's portion is disqualified		
	• Elimination of 401(k) loans made via credit cards or similar arrangements		

The Big Items

- RMDs at 72
  - (Not 70.5)
- Traditional IRA contributions OK for as long as you have earned income
  - (Not 70.5)
- Inherited IRAs for non-spouses: 10 years
  - (Not inheritor's lifetime)

The Golden Years: Age 59.5 to 72

- The time span when you have most control
- You CAN take money out of any retirement plan
- But you don't HAVE to
- So plan away!
  - Smooth out your taxes
  - Reduce your eventual RMDs
  - Avoid a big jump when Social Security starts
  - Do some Roth conversions
  - Go on vacation! Live a little!

Stretch IRAs

Changed but not Eliminated

Change in Stretch IRAs

- Spouses: No change

Change in Stretch IRAs: Non-Spouses

- Inherited IRA
  - Technically, no RMDs for the first 10 years
  - 100% RMD in year 10

Summary of Recommendations

- Know what is deductible now.
- Charitable giving: Use DAFs & QCDs, and give appreciated stock
- Get a mortgage under $750,000
- Retirement Savings: If you have a small business and a job, use workplace plan first
- Tax Diversification: Get more money into Roths
- Asset Location: Put REITs in your taxable account and aggressive stock in your Roth
- Medical Expenses: Use your FSA. Get an HSA if you qualify.
- If you inherit an IRA, plan your withdrawals carefully over 10 years
- Plan your retirement plan withdrawals. The years from 59.5 to 72 are in your control

The CARES Act

The Coronavirus Aid, Relief, and Economic Security Act

March 27, 2020

Key Points

- Response to the COVID-19 pandemic
- Includes:
  - Individuals: $1,200 stimulus checks for adults with taxable income in 2019 (or 2018) of less than $99,000
  - Small Business:
    - Paycheck Protection Program for up to 8 weeks of payroll & benefits + some overhead
    - Economic Injury Disaster Loans
  - State, Local, and Tribal Governments: relief fund for public health expenditures
  - American Industry: 50% wage credit; deferral of ER payroll taxes over next 2 years; other tax credits & loans; specific loans for airlines and “national security businesses”

CARES Act: Health Plans

- FSAs and HSAs can cover OTC medications (again) and feminine hygiene products (first time ever)
- You (an employee) can change your 2020 benefit elections going forward for
  - Employer health insurance
  - Medical FSA
  - Dependent Care FSA
- Your employer MAY extend the grace period for using up FSA money in 2020
- HDHPs may be used for tele-health services, retroactive to 1/1/2020

CARES Act: Retirement Plan Withdrawals

- In 2020, you may withdraw 100% of your own vested balances up to $100,000 (whichever is less) from your 401(k), 403(b), 457(b) plan.

- No early withdrawal penalty.

- Still subject to federal income tax on your withdrawal, but it can be spread evenly over 3 years.

CARES Act: Retirement Plan Loans

- Increases the maximum amount you can **borrow** from your Employer Plan.
- This increase is available until September 23, 2020 (180 days since the CARES Act was enacted).
- Currently, you can borrow up to 50% of your total account balance up to $50,000 IF YOUR PLAN ALLOWS IT.
- Under the CARES Act, you can borrow up to 100% of your vested plan balance up to $100,000.

CARES Act

- RMDs* are suspended for 2020.
  - Both inherited and regular Traditional IRAs

  - RMD = Required Minimum Distribution

CARES Act: Charitable Deductions

- New above-the-line charitable deduction, up to **$300**
  - No need to itemize
  - Cash only

- No limit on itemized charitable giving deduction in 2020
  - Previously limited to 50% of AGI
  - And then, from 2018 to 2025, 60% of AGI

Charitable Giving

2020

If You Itemize

- Normally: Deduct all of your charitable contributions up to 50% of your AGI
- New Tax Law, 2018-2025: up to 60% of AGI

- CARES Act: 2020 only: **NO LIMIT** on deducting itemized charitable contributions
  - Keep your documentation
  - (receipts, canceled checks, thank-you notes)

But What if You Don’t Itemize?

2020

Pro Tips: Charitable Giving Now
(Without Itemizing)

1. $300 Above-the-Line
2. QCDs
3. Bunching
4. DAFs
5. Appreciated Securities

1. $300

- Under the CARES Act—in 2020 only--we can all deduct $300 in contributions during 2020.
- All qualified 501(c)(3) charities.
- Cash contributions only
  - Not goods or services

2. Qualified Charitable Distributions (QCD)

- From tax-advantaged retirement accounts
- For RMDs
- Available to people 70.5 and older (not 72)
- Does NOT increase your AGI!
- And the QCD counts towards your Required Minimum Distribution obligations
- No need to itemize!

QCDs and AGI

- By not including the distribution in AGI, a client can potentially avoid:
  - The loss of exemptions, deductions, credits, and phase-outs
  - The alternative minimum tax
  - The 3.8% surtax on net investment income
  - Increase in Social Security premiums for Medicare Part B and Part D

3. Donation Bunching

- If you're single, your Standard Deduction for 2020 is $12,400
- If you give $12,400 per year: no deduction.
- OR: Give $25,000 one year; $0 the next year. Deduct $12,600.

4. Donor Advised Funds or, Sophisticated Bunching

- Make a charitable contribution, receive an immediate tax benefit, and then recommend grants from the fund over time.
- Like a charitable savings account.
- Donor contributes to the fund as often as she likes, and then recommends grants to her favorite charities when she's ready.

Donor Advised Funds

1. You make an irrevocable contribution of personal assets.
2. You immediately receive the maximum tax deduction that the IRS allows.
3. You name your donor-advised fund account, advisors, and any successors or charitable beneficiaries.
4. Your contribution is placed into a donor-advised fund account where it can be invested and grow tax free.
5. At any time afterward, you can recommend grants from your account to qualified charities.
6. Donor Advised Funds are subject to AGI limitations (60% for 2018 to 2025; EXCEPT: No limit in 2020)

5. Giving Appreciated Securities:2017

- Historically, people gave appreciated securities because they got a tax deduction for the FMV on the date of the gift, no matter what they paid for the stock originally.
- Pay no capital gains or other taxes on the appreciation.
- For example, in **2017** and prior:
  - Ms. Donor buys XYZ stock for $1/share in 1995.
  - In 2017, it's worth $500/share.
  - If she sells it, she pays capital gains tax on $499 of gain
  - If she gives it to charity, the charity can sell it for $500 and enjoy the full value.
  - Nobody pays any tax on it.
  - In fact, for the donor, it's even better than paying no tax. She takes a deduction of $500 on her 1040 Schedule A and reduces her taxable income from other sources, thereby reducing her overall tax bill.

5. Giving Appreciated Securities: 2018-2025

- It is unlikely the donor can take the $500 deduction,(because she's not itemizing).
- However, assuming she has enough of both cash and stocks to make a choice about her giving, she is still better off giving the highly appreciated XYZ stock than giving cash.
- She can give one share of stock, worth $500, to the charity.
- The charity sells it and enjoys $500.
- The donor uses $500 of her cash to buy another share of XYZ.
- Her investment portfolio is unchanged. She still owns one share of the same stock she just gave away.
- However: the old share had a basis of $1. The new share has a basis of $500.
- If and when she sells the new share, she will realize far less in taxable capital gains than she would have if she'd sold a share with a basis of $1.

Low Income Year

How to Make the Best of It

Smart Moves for a Low-Income Year

- Harvest Gains
- Do Roth Conversions
- Consider Covered California
- Savers Credit

Harvest Gains

- Fill up low tax brackets
- Upgrade the basis on your investments
- Wash sale rules do not apply

Roth Conversions

IF you are in a low tax bracket for 2020, it's a great time to

- Convert some of your Traditional IRA $ to Roth IRAs.
- Pay tax on the converted amount, at your current marginal rate.
- Deadline: Conversion must be completed by **12/31/2020** to count in 2019.

- Advantages:
  - Once the funds are in a Roth, they will *never* be subject to more taxes. All growth is tax *free* (not deferred)
  - No RMDs! (At least in your lifetime)

Premium Tax Credit

- Began in 2014
- REFUNDABLE Credit
- Credit can be received in advance, or when you file your tax return
- To be eligible, you must meet ALL of these criteria:
  - Purchase your coverage through the marketplace
  - Have household income below 400% of Federal Poverty Line
  - Not have access to affordable coverage through a qualified employer health plan
  - Not be eligible for Medicaid, Medicare, or other government health plans
  - Not file MFS
  - Not be a dependent of another person

Program Eligibility by Federal Poverty Level

Medi-Cal and Covered California have various programs with overlapping income limits

COVERED CALIFORNIA

SEE NOTE BELOW FOR INCOMES IN THIS RANGE

California State Subsidy

Federal Tax Credit

American Indian / Alaska Native (AIAN) Zero Cost Share | AIAN Limited Cost Share

Silver 94 (100%-150%) | Silver 87 (>150%-200%) | Silver 73 (>200%-250%)

New for 2020

% FPL	0%	100%	138%	150%	200%	213%	250%	266%	300%	322%	400%	600%
1	$0	$12,490	$17,237	$18,735	$24,980	$26,604	$31,225	$33,224	$37,470	$40,218	$49,960	$74,940
2	$0	$16,910	$23,336	$25,365	$33,820	$36,019	$42,275	$44,981	$50,730	$54,451	$67,640	$101,460
3	$0	$21,330	$29,436	$31,995	$42,660	$45,433	$53,325	$56,738	$63,990	$68,683	$85,320	$127,980
4	$0	$25,750	$35,535	$38,625	$51,500	$54,848	$64,375	$68,495	$77,250	$82,915	$103,000	$154,500
5	$0	$30,170	$41,635	$45,255	$60,340	$64,263	$75,425	$80,253	$90,510	$97,148	$120,680	$181,020
6	$0	$34,590	$47,735	$51,885	$69,180	$73,677	$86,475	$92,010	$103,770	$111,380	$138,360	$207,540
7	$0	$39,010	$53,834	$58,515	$78,020	$83,092	$97,525	$103,767	$117,030	$125,613	$156,040	$234,060
8	$0	$43,430	$59,934	$65,145	$86,860	$92,506	$108,575	$115,524	$130,290	$139,845	$173,720	$260,580
add'l, add	$0	$4,420	$6,100	$6,630	$8,840	$9,415	$11,050	$11,758	$13,260	$14,233	$17,680	$26,520

Household Size

DHCS

Medi-Cal for Adults | Medi-Cal for Pregnant Women | Medi-Cal Access Program (for Pregnant Women)

Medi-Cal for Kids (0-18 Yrs.) | County Children's Health Initiative Program

Saver’s Credit

- 10%-50% of contributions to a retirement account up to $2,000 contribution a year.
- Total Credit max = $1,000
- Eligibility:
  - 18 years old or over
  - Cannot be claimed as a dependent by someone else
  - Must not be a full-time student

Parting Words

- Stick to your plan
- If you don’t have a plan, build one that makes you feel comfortable
- Consider your time horizon and risk tolerance
- Don’t panic; don’t react
- Diversify
- Consider holding more cash
- Turn off the computer and go outside as often as you can
- Take care of yourself!

QUESTIONS?

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