Clark Associates

Clark Associates Financial Planning, Inc.
146 Lakeview Drive South, Suite 301
Gibbsboro, NJ 08026
ClarkAssociates.net
mail@ClarkAssociates.net
Fax: (609)-567-2028
Phone: (609)-567-1884

The SECURE ACT or How the Government Doesn't Like Your Kids

Dear Constant Investor,

First, thank you for your business and trust. We know you are bombarded by electronic noise constantly, so we love getting something tangible and specifically tailored into your hand. Our letter title is obviously a bit cheeky, but sadly it's also kind of true.

The SECURE ACT was inexcusably jammed into a spending bill, at the end of 2019, to keep the government open and is the most massive overhaul in retirement planning in a decade. Before I explain the ACT's reach, always remember what IRA stands for- <u>Individual</u> <u>Retirement</u> <u>Arrangement</u>. This is the reason I do not like, for the most part, Qualified Plans (401k, 403b, etc.), beyond a company match, and traditional IRA's. The Arrangement may be changed at any time, on the whim of the government. And that, Constant Investor, is what Congress did in the dead of the night.

The US government, 401k plan administrators, and insurance companies will probably love this bill. That should tell you all you need to know. Much of the ACT deals with the esoteric guts of 401k plans. Part of the ACT may automatically start enrolling employees into these tax time bombs. I'll leave how this all shakes out to your own plan administrators.

Let's talk about the 3 major changes you need to know about. These interpretations of the ACT may change when the IRS gets its hands on it. Then, the IRS will give us more guidance in a publication to come out (hopefully) in the near future.

CHANGE # 1

When someone attained age 70.5, they had to stop putting money away into an IRA. That age limit is gone. Now, as long as a person is working, they may keep on putting money away into the IRA. But...

CHANGE # 2

That person still needs to take out the Required Minimum Distribution (RMD). The SECURE ACT changed the starting age. It changes the age from 70.5 to age 72. Congress says it has to do with increased life expectancy (Even though current IRS life expectancy for a 60-year-old is 25.2 years or age 85.5!) Very important (IF YOU TURNED 70.5 IN 2019, you have to take the RMD). This will probably trick many people, which would not be a big deal, if the penalty for messing it up wasn't 50%!!!

CHANGE # 3

I cannot stress how awful this change is. When a legislative body acts swiftly in a bipartisan way, be warned. It is almost always a sneaky tax increase. Welcome to Change 3! When an IRA owner died, the surviving spouse could roll it over into their name as long as the beneficiary sheet was correct, and this still remains. But, for other beneficiaries like children, grandchildren, a sibling, etc. the ACT really hurts. They must take the IRA out by the 10th year.

Let me use an example to show how the government does not like your children. Imagine you died and left your IRA to your child age 30. This child could spread the tax out over their life expectancy of about 50 years. NOT ANYMORE. The IRS will force the child to take it out over 10 years. This is a potential loss of over 40 years of tax deferral. The so-called Stretch IRA is Dead!

The taxation scenario becomes worse when the child beneficiary is younger. A 2-year old's life expectancy is 80.6 years. Instead of spreading the tax and withdrawals over 80 years, it's down to 10 years. They will not even be 18 years old then!

Never fear, we already have some really great strategies in the works! But we really will not know how this will shake out until the IRS guidelines are published. I can understand your frustration. It's like getting a box of LEGOS and the instructions keep changing as you are building.

On to Volatility-

At the time of this writing, we do not know the true impact of impeachment, middle east rumblings, and presidential elections. I will say it is very rarely wise to allow an ever-changing news cycle to derail your plans. This might be a good time to reevaluate your exposure to the stock market for the long term, if short volatility will shake you. Although, after the previous 2 impeachments, the market[i] rose over the next 10 years. In the past, every market downturn was temporary. You probably know what I'm going to write next...

"But, no one knows the future and past gains are no guarantee of future gains."

I leave you with this. Over the years, we have seen many clients go through the different phases of retirement. The 2 most dramatic factors on retirement had very little to do with market volatility. They were saving too little and spending too much. Stay tuned to Facebook and "The 1884 Blog" on our site for SECURE ACT updates and other words of brilliance from the Clark Associates. We wish you peace in the New Year and stop being so hard on yourselves. Peace...

With warmest regards from,
John P. Clark, CFP® and the whole Clark Associates Financial Planning Team!

---

[i] S&P 500 with Monthly Dividends is an unmanaged market capitalization weighted price index composed of 500 widely held common stocks listed on the New York Stock Exchange, American Stock Exchange and Over-The-Counter market. The value of the index varies with the aggregate value of the common equity of each of the 500 companies. The stocks represented by this index involve investment risks which may include the loss of principal invested.