Norman J. Politziner's
Financial Planning

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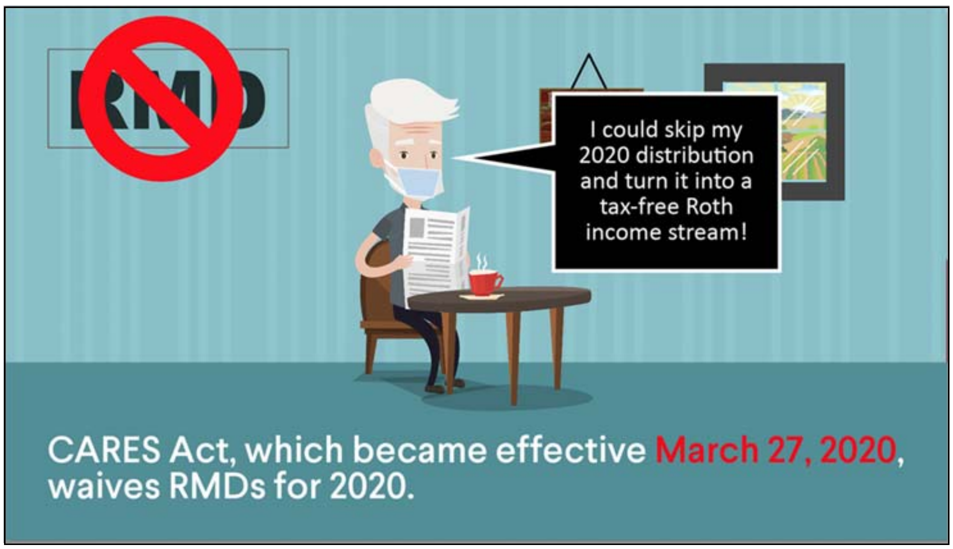
Act By The End Of 2020 For A Major Retirement Income Tax Break

A confluence of events have suddenly aligned to create a major tax planning opportunity for individuals who are currently taking IRS-mandated required minimum distributions (RMDs) from an individual retirement account or are about to start taking RMDs.



A provision of the CARES Act – the Covid crisis emergency aid law in effect since March 27, 2020 -- lets you skip your required minimum distribution in 2020. Since many individuals of RMD-age (72 and above) have been remaining homebound during the Covid crisis and are spending less, skipping all or part of an RMD is easy and often makes sense over the long term. Skipping an RMD in 2020 would leave that money in the IRA to compound tax-free over a longer time period.

Here's where the unusual alignment of factors takes a special twist. Instead of skipping your 2020 RMD and simply leaving it in your retirement account , you can withdraw all or part of it, pay the income tax on the withdrawal amount and use that amount to fund a tax-free Roth IRA!

Distributions taken as RMDs from pre-tax retirement accounts are always taxable whereas distributions from a Roth IRA are never taxable! Converting assets to a Roth IRA in this manner could provide tax-free income for years, and when you die, to your spouse and your IRA beneficiaries for the life of the Roth IRA.

2020 also happens to be a particularly good year to convert assets from a traditional pre-tax retirement account to a Roth IRA. Why? Because when you withdraw assets held in a traditional IRA or other qualified pre-tax retirement account, you will owe income tax on the withdrawals. The

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The Good, The Bad, The Possibilities

2020 has been a most amazing year. It started out great, with a dream role in *Guys and Dolls*, then got smacked with lockdowns. Then I decided to take the opportunity to learn new technologies, relax, and have some fun.

OK, not all fun, to be sure. But when you are an "old dog," learning new tricks can be invigorating. Did you know about Zoom in 2019? Me neither. But today, I am meeting new clients using it, attending conferences on it, and running my harmonica classes with it.

To tell the truth, I would rather be face-to-face with my clients, but this is the next best option for me.

The warm fall allowed me to continue playing basketball with my grandson, Ethan, who, at 13, is 5'10" and (don't tell him I said this) is running circles around me. Fortunately, I still know how to cheat on the court, pull on his pants as he drives around me, and gently push him out of the way for a rebound.

I am still learning the dance routine my granddaughter tried to teach me four months ago. Maybe next year.

When I see the hardships faced by so many, I am grateful for the blessings that I have—my wife, kids, grandkids, and you, my clients and friends.

Happy New Year.

Norm

Confronting Mortality's Details

The Covid pandemic is causing families unimaginable suffering, worry, and grief. It is forcing many individuals to confront mortality, to consider, in very real terms, perhaps for the first time, what will happen when their life comes to an end. Here, in less than 300 words, are key facts about documents that govern what happens to you at the end of your life.

A health care proxy and living will name someone to make medical decisions if you're unable to express your wishes and contain instructions about end-of-life care. This is understandably top-of-mind for a lot of people now.

A durable power of attorney (POA) permits someone else to manage financial and other matters while you're alive. The POA empowers someone you appoint to pay bills, write checks, or sell and purchase assets on your behalf should you become incapacitated.

Your last will and testament provides the details which take effect at your death for distributing your property. It should be reviewed annually so that the trustee, executor, and guardians of minor children you have appointed still conform to your current wishes. It's best to speak with whomever you're appointing about your wishes so that they're aware of your intentions.

A revocable trust can also provide for the disposition of your property after you die while avoiding the probate court process. Because courts across the country were shuttered for a time, they must now deal with a surge in filings due to the pandemic. In times like these, it's advantageous to have a revocable trust to avoid probate court delays. Setting up a revocable trust requires changing the titling of bank and brokerage accounts, real estate, and other assets, and may require signing documents with a witness or notary present, which is now complicated due to social distancing. Fortunately, remote signings can be properly executed via online meeting such as Zoom.

Finally, and most importantly, you will want to be certain that the beneficiary designations on both your retirement plans and your life insurance policies are up to date, as circumstances change over time. As a financial advisor, creating legal documents is beyond the scope of our work, but we can refer you to experienced professionals who can create these documents so they can be properly integrated into a comprehensive financial planning strategy. ●

How Negative Interest Rates In Germany Limit Pandemic Economic Damage To U.S.

While the coronavirus pandemic has exacted a once-unimaginable toll in human life, its financial cost is cushioned by an unusual confluence of global conditions shielding Americans from a much-worse economic catastrophe.

A country's economic growth is the product of two factors: growth in its labor force and productivity gains. National productivity gains can be altered or enhanced almost immediately by government policy or extraneous factors beyond government control. However, growing the labor force, even if a national policy to have more children were instituted today, would take 20 years to kick in. That's is the earliest time frame in which children born within the next year will start entering the labor force. To investors, 20 years is an eternity! Thus, a nation's economic growth hinges on an almost permanent axis based on national demographics.

Currently, the working age population in Germany is growing slowly relative to the U.S. This led the German central bank to lower interest rates to stimulate economic activity. Lending rates have been lowered so much that long-term German bonds are priced to trade at yields below zero. This means that bondholders of German government bonds are paying the government to keep their money!

Because bonds are traded worldwide and Germany is the second-largest supplier of sovereign bonds worldwide, negative rates in Germany have led investors worldwide to buy U.S Treasury bonds instead of lower-yielding German Bunds. That anomaly is causing U.S. long term bonds to rise in price and that in turn has depressed yields on U.S. Treasury debt. As a result, the massive aid packages are costing the U.S. Government next to nothing in terms of interest on the borrowings!

Financial Planning For The Long Run Amid The COVID-19 Epidemic

By August 4, 2020, the Institute of Health Metrics and Evaluation (IHME), an independent public health research center at the University of Washington, expected 68,841 deaths from COVID-19 in the U.S. IHME's April 13 statistical model, if accurate, would exceed the 58,209 Americans killed in the 14-year Vietnam War and the 54,246 American lives lost in the three-year Korean War. The human toll in sickness, suffering, and grief is unimaginable.

Almost overnight, the crisis has changed the financial and economic outlook. Change like this is frightening and brings new risks, but it also brings new opportunities. Here's a short list of what to do now.

Do Not Despair. As grim as things are, the models forecast an end to the epidemic. It's not a permanent condition. It will end. IHME, which is funded by the Bill and Melinda Gates' foundation, may turn out to be imprecise about the exact date of the end of COVID-19 deaths, and a second wave of the virus is a risk. Life may not be quite the same, for at least a couple of years and possibly longer, but life goes on. A survivor of the 1918 Spanish flu epidemic, according to The Wall Street Journal, said it took a couple of years before social, and, in turn, economic conditions returned to normalcy.

Stocks. The Standard & Poor's 500 lost about a one-third of its value from an all-time closing high on February 19 through the ultimate low on March 23 and it then has subsequently rebounded 25% off its low. Lower stock valuations may present a unique tax and financial planning opportunity. For example, if you own securities with large losses in a taxable portion of your portfolio, you might consider selling those assets at a loss. This concept is known as tax-loss harvesting. Losses on assets held for more than one year can be used to offset capital gains realized on other assets. So long as you do not buy securities that are identical or substantially the same, you can buy a similar asset to match your portfolio's risk level. The replacement asset will then have a lower cost-basis and more of your investment will ultimately be subject to favorable long-term capital tax treatment.

Roth IRA Conversions. Lower stock values may present an opportunity to convert some portion, or all, of a traditional IRA to a Roth IRA. Traditional IRAs are taxed as ordinary income upon withdrawal, while Roth IRAs are always tax free upon withdrawal. However, when you convert any portion of a traditional IRA to a tax-free Roth account, you must pay tax on the withdrawn amount at your current income tax rate. With asset values having been lowered by the bear market, the taxes owed on assets you wish to convert are commensurately lower, making the cost of converting to a tax-free Roth account less costly and lowering your tax bracket in the years ahead on withdrawals from the Roth IRA.

Paycheck Protection Program (PPP). On Friday, March 27, 2020, the Coronavirus Aid Relief Economic Security Act, a history-making $2.2 trillion stimulus law, allocating $349 billion in loans to business owners in need, and the loans are to be forgiven if you spend the money within the proscribed eight- week time frame to retain your employees. PPP is the primary relief program sponsored by the U.S. Government to aid business owners. PPP is expected to distribute its $349 billion by late April. Additional funding from Congress is widely expected, but it should be noted that the forgivable loans are distributed on a first-come, first-served basis. With 30 million small businesses, this is the one thing business owners want to get right. Contact us if you have questions about how to proceed.

Wealth Transfers. For individuals with taxable estates, unprecedented low interest rates make it smart to consider the use of specially-designed trusts, such as a:

- Grantor Retained Annuity Trust (GRAT)
- Intentionally Defective Grantor Trust (IDGT)
- Generation Skipping Trust (GST)

Estates Currently In Administration. If you are a beneficiary of an estate in the administrative process of distributing assets, the change in asset values may have created a tax-loss harvesting opportunity. In addition, the lower asset values make it prudent for spousal beneficiaries of a qualified retirement account under administration to evaluate a partial or complete disclaimer of inherited assets.

Stay In Touch. The strategic opportunities for individuals described above do not necessarily contemplate your unique personal situation. If you have a specific question about any of this, or how it may apply to you, please contact us. ●

While this may seem academic, it has real world consequences. Anomalous global economic conditions are supporting greater U.S. Government largesse while adding a negligible amount to the long-term national debt. Negative interest rates in Germany are making it possible for Uncle Sam to bolster funding for the CARES Act, as well as programs like the Paycheck Protection Program, the Supplemental Nutrition Assistance Program (SNAP) for food stamps, the hike to unemployment insurance compensation payments and other U.S. Federal Government aid.

Conclusion: The U.S. is benefiting from foreign demographic trends in its fight to limit the pandemic’s economic damage. ●

Financial And Tax Planning For The Long Run

After paying a terrible price in lost lives, suffering, and grief, the Covid economic crisis will pass, along with emergency tax relief in the history-making $2.2 trillion CARES Act of 2020. The tax law with us permanently, and the rules that will be affecting you every year for years to come, is the SECURE Act.

Signed by President Donald J. Trump on December 20, 2019 the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE) Act mandates non-spouse beneficiaries of IRAs deplete their accounts within 10 years of inheriting a federally qualified retirement account. A non-spouse beneficiary may be your child, grandchild, nephew or niece, or other family members you want to support after you're gone.

New Retirement Income Planning Choices. SECURE Act encourages using more lifetime income annuities to secure retirement. While this may be good generally, there is one huge caveat: annuities can be expensive. Lifetime income backed by an insurance company's creditworthiness makes for a great sales pitch but are best advised on by a professional who places your best interest above all else, including the sales commissions they will earn.

Business Owner Tax Breaks. SECURE Act also makes it less expensive and easier for business owners to establish and administer "safe harbor" retirement plans, including, boosting the "gig economy," and making part-time workers eligible for employer retirement plans.

Delaying Distributions Until Age 72. Postponing required minimum distributions (RMDs) 18 months is another idea you may want to consider. The SECURE Act lets you delay RMDs on IRAs, effectively extending the benefit of compounding. Instead of requiring you to begin depleting your retirement account at age 70½, you can now delay it until age 72. This small change can amount to big bucks because your IRA can compound without being taxed for an extra 18 months. Deferring taxes for 18 months on a large IRA is a no-brainer, if you can afford it. Implementing this step in your retirement income plan should be part of your overall strategy to outlive your money and create a legacy for your family.

The SECURE Act and other tax reforms passed before the CARES Act make tax and financial planning more important to individuals who are about to retire or who recently retired. Weighing SECURE Act's sweeping tax implications as well as Covid-19 emergency tax relief provisions in CARES Act making Roth IRA conversions more attractive requires detailed knowledge of your personal situation. Please contact us with your questions. ●

Act By The End Of 2020

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unusual confluence of events making it possible for you to live on a lower income during the Covid crisis creates this unique tax saving opportunity for long-term investors who act before December 31, 2020.

With stock prices still off their all-time highs and continuing to suffer frequent and often vicious one-day drops, taking the opportunity to sell stocks in your retirement account and converting the proceeds into a Roth IRA makes particularly good sense. In addition to selling these stocks when they are relatively cheap, you would also be realizing the taxable income from the retirement account at a time when the Covid crisis has kept your expenses low.

Between now and the end of 2020, the unusual confluence of events makes it wise to evaluate skipping a required minimum distribution and converting to a tax-free Roth IRA. It is a major tax saving opportunity that you do not want to miss. ●

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