Registered Investment Advisor Firm

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Pandemic Updates

Setting Every Community Up for Retirement Enhancement (SECURE) Act provisions have made significant impacts to some retirement accounts. Key changes include:
-Removes the prohibition on contributions into traditional IRAs by individuals with earned income who have reached age 70.
-Increases the age for Required Minimum Distributions (RMDs) for IRAs from 70 ½ to 72 for individuals turning 70 ½ as of January 1, 2020 or later.

Coronavirus Aid, Relief and Economic Security (CARES) Act was designed to stimulate the economy. Some of the most noteworthy impacts of the provisions are:
-All RMDs for 2020 have been suspended.
-The Small Business Administration Paycheck Protective Program (SBA PPP) provides loan forgiveness for retaining employees by temporarily expanding the traditional SBA 7(a) program.

CARES Act waiver details.
The RMD rules set a date which a retirement account owner must begin taking withdrawals from the account. For 2020, RMDs apply to anyone who was at least age 70 ½ years old by the end of 2019 (for future year, the SECURE Act increased the RMD beginning age to 72). Under normal circumstances, if you turned 70 ½ in 2019 you would be required to take two distributions by December 31,2020 – their 2019 distribution by April 1, 2020 and their 2020 distribution by December 31.

The CARES Act waived all RMD obligation for 2020 – account owners who turned 70 ½ in 2019 can skip both distributions in 2020, account owners who turned 70 ½ before 2019 and account beneficiaries can skip their 2020 distributions. The waiver also applies to all types of accounts subject to the RMD rules including 401(k)s, IRAs, 403(b)plans, SEP IRAs and 457(b) plans.

Beneficiaries who are subject to the five-year distribution rules for inherited accounts do not have to count 2020 – giving them six years to deplete the account.

If you turned 70 ½ in 2019 and elected to take the first RMD in 2019, the 2020 waiver does not apply.

If you have scheduled RMDs for 2020 (because you are taking periodic distributions throughout the year) you should be advised you can cancel those distributions.

The bill also allows people younger than 59 ½ to take an early distribution, up to $100,000, from a traditional IRA to pay for a coronavirus-related hardship, such as job loss. The early distribution is penalty free, though not necessarily tax free. The tax bill can be avoided if the money is returned to the IRA in three years: if not, the taxes can be paid over the three years instead. Distributions are taxed as ordinary income.

SECURE Act impacts retirement savings in several ways:

-Pushes the age that triggers RMDs from 70 ½ to 72, which means you can let your retirement funds grow an extra 1 ½ years before tapping into them. That can result in a significant boost to overall retirement savings for many seniors.

-With many people working and living longer, having a cap on IRA contributions was a hinderance for older workers. The act repeals the rule that prohibited contributions to IRAs by taxpayers age 70 ½ and older. Now you can continue to put money away in a traditional IRA as long as you are working and have earned income.

-The act eliminates the rule that allows nonspouse IRA beneficiaries to "stretch" RMDs from inherited accounts over their lifetimes. Instead, all funds from an inherited IRA must now be distributed within 10 years of the IRA owner's death. (The rule also applies to 401(k) accounts or other defined contribution plans).

There are some exceptions to the general rule:

-Distributions over the life expectancy of a nonspouse beneficiary are allowed if the beneficiary is a minor, disabled, chronically ill or not more than 10 years younger than the deceased IRA owner. For minors, the exception only applies until the child reaches the age of majority. At that point, the 10-year rule kicks in.

If the beneficiary is the IRA owner's spouse, RMDs are still delayed until the end of the year that the deceased IRA owner would have reached age 72 (age 70 ½ before the new law).

If you planned on having your heirs stretch the IRAs they were to inherit, it's time to revisit your estate plans. Some strategies to consider: doing ROTH IRA conversions so your heirs will inherit tax-free income instead of taxable income from a traditional IRA; drawing down your IRA for living expenses and bequeathing other assets to heirs; and using RMDs to buy life insurance with heirs as beneficiaries for the income-tax-free death proceeds.

-Starting in 2021, the new law guarantees 401(k) plan eligibility for employees who worked at least 500 hours per year for at least three consecutive years. The part-timer must also be 21 years old by the end of the three-year period.

-Auto-enrollment 401(k) plans are enhanced. More companies are automatically enrolling eligible employees into their 401(k) plans. Workers can always opt out of the plan, but most don't. Auto enrollment boosts overall participation in employer-sponsored plans and encourages workers to start saving for retirement as soon as they are eligible.

-The act has three provisions to help more small businesses offer retirement plans for their employees.

First, the new law increases the tax credit available for 50% of a small business's retirement plan start-up costs. Before, the credit was limited to $500 per year, now it is $5,000 maximum credit.

Second, a new start-up cost $500 tax credit for new 401(k) plans and SIMPLE IRA plans that include auto-enrollment. The credit is available for three years and is in addition to the existing credit as described above. Small businesses that convert an existing retirement plan to an auto-enrollment is also allowed the credit.

Third, the act makes it easier for small businesses to join together to provide retirement plans for their employees. Starting in 2021, the new law allows completely unrelated employers to participate in a multiple-employer plan and have a "pooled plan provider" administer it, which ultimately lowers administrative costs.

-Credit card access to 401(k) loans will be prohibited. Some plans allow employees to access plan loans by using credit or debit cards. Prohibiting the use of cards, the law is designed to prevent easy access to retirement funds to pay for routine or small purchases. Over time, that could result in a total loan balance the account holder can't repay.

-Contributing to a 529 plan to help pay a grandchild's tuition is a popular move. The act now allows 529 money to pay up to $10,000 of student loan debt. That $10,000 is a lifetime limit per 529 beneficiary. While the act mostly makes changes to retirement law, this provision helps whittle the burden of student debt.

Q&A

Q: Economic Impact Payments (EIP), are they taxable? And must they be repaid?

A: They are not taxable. They are stimulus payments, a tax rebate as an advance payment of a special 2020 refundable tax credit (refundable means you receive the credit no matter what your tax liability is). On your 2020 federal tax return, you will reconcile the stimulus payment you receive with the actual amount allowed. For most, the rebate will equal the tax credit. If your credit exceeds the rebate, you claim the balance as a refundable tax credit. If the rebate is more, you are generally not required to repay the excess.

Q: What can I do to manage stress during the COVID-19?
A: It is important to stay home and practice social distancing. While at home don't let fear and anxiety about the pandemic overwhelm you. The Centers for Disease Control and Prevention (CDC) recommends:
-Take breaks from watching, reading or listening to news stories and social media.
-Connect with others. Talk with friends and loved ones over the phone or video chat about your concerns and how you are feeling.
-Take care of yourself. Take deep breathes, stretch or meditate. Try to eat healthy meals, exercise regularly and get plenty of sleep.

If you need help understanding the new laws, EIP or PPP or any other financial questions, contact me at (707) 648-2024.

STAY THE COURSE

FED Watch

There was no FED Meeting in May, but the FED was busy reporting on the economy and their predictions of a slow recovery despite seeing green shoots (signs of hope).

The FED has acted aggressively to bolster the economy to try to mitigate the effects of the widespread business closures and a surge in job loss. The central bank cut its key overnight interest rate to near zero in March, launched a round of open-ended assets purchases and announced a slate emergency lending tools to support businesses and households.

Most of the FED districts reported that firms felt the worst of the crisis was behind them and there was a small pickup in economic activity.

Currently, there is very little chance of a rate increase for the rest of the year.

Next meeting:
June 9th and 10th.

Castle Rock Wealth Management

Castle Rock Wealth Management is a Hybrid Advisory firm servicing the needs of clients across the United States.

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If you have questions or would like further information on this month's topics or any other financial or investment related subjects, please contact me by phone or through my email address at:
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