TILIA NEWS

INVESTMENT MANAGEMENT | FIDUCIARY ADVICE | RETIREMENT PLANNING

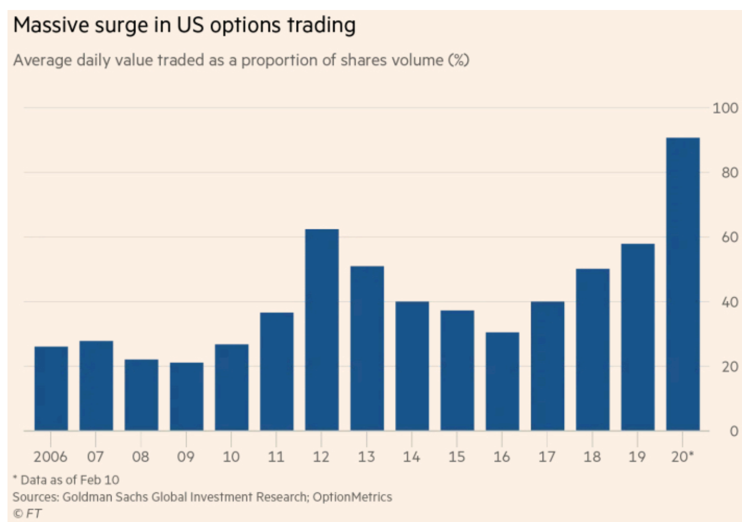
SECURE Act Takeaways

Last December the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) was signed into law, impacting millions of Americans' retirement accounts. The SECURE Act made numerous changes - mostly positive - to individual and small business retirement account rules. We condensed the top three changes most likely to impact you.

1) Required Minimum Distribution (RMD) for IRAs now begin at age 72. This change positively impacts clients who do not take RMDs from their Traditional IRA. Previously, IRA account owners who turned 70 1/2 in a calendar year were required to take RMDs by April 1st of the following year. Starting January of this year, an IRA account owner not currently taking RMDs has until the year after they turn age 72 to take their first RMD. For clients currently younger than 70 who do not want or need to pull income from their IRA, this change effectively provides 1 to 2 additional years of tax-free compounding. Of note, this change only impacts Traditional IRAs, as Roth IRAs continue to not

Markets Waking Up to the Impact of COVID-19

Following a very strong showing for global stocks in 2019, the outbreak of COVID-19 is finally giving investors a good reason to pump the breaks on risk-taking. Up until the last few days, markets had largely ignored the spread of the virus and warnings from major corporations about the impact to near-term earnings. Speculation had picked up dramatically, with average daily volume of options contracts exploding higher in early 2020 as pictured in the chart below. Parabolic moves in "hot" stocks such as Tesla & Virgin Galactic further indicated that greed was becoming more widespread in the markets.



The tide seems to be turning now, with a spike in COVID-19 cases outside of China. Sporting events over the weekend were cancelled in Italy, after the first major uptick in cases in a European country. One of the largest, most organized quarantine efforts in modern history continues to expand and is no doubt terrifying for those affected. We certainly aren't have any RMD requirement.

2) Traditional IRA Contribution Age Limit Removed. This change positively impacts clients working after their 60s who want to lower their taxable income. Previously, the IRS imposed an age limit of 70 1/2 for making contributions to a Traditional IRA. Clients with earned income may now contribute to their Traditional IRA regardless of age. This change benefits workers who plan to be in a lower tax bracket when they ultimately decide to stop working. For workers who plan for the same or higher tax bracket in retirement, contributing to a Roth IRA may make more sense.

3) Inherited or "Stretch" IRA Distribution Option Removed. This change impacts the heirs of an IRA or defined contribution plan. Previously, heirs to their parents' IRA were able to take distributions from the account over their lifetime, a practice known as "stretching" the account. Starting January of this year, beneficiaries who inherit an IRA must now withdraw the entire account balance (and pay income tax on those distributions) within 10 years. While this change is generally negative for heirs, the upside is that spousal beneficiaries (along with a handful of other exceptions) are able to continue to stretch distributions over their lifetime.

For clients impacted by these and other changes in the SECURE Act, we look forward to advising you on the best path forward unique to your circumstances. At Tilia, we continue to remain aware of changes in the law and of industry best practices to better serve you.

experts in modern pandemics and won't pretend to be for this newsletter. We've read the data on mortality rates (thankfully they are below 3% and far less for people below age 80) and have followed the rise in cases tracked by the World Health Organization. From an investor's perspective, it seems like a foregone conclusion that we are looking at several quarters of depressed corporate earnings, especially for companies that rely on Asia for at least a portion of the supply chain or that cater to Asian consumers. A temporary decline in earnings is likely not enough to cause a deep market decline. Investors are typically willing to give companies a pass for these short-term events, provided the future outlook remains bright. Chances are high that by the middle of the summer, virus fears will have subsided and market pundits will be back to doing what they do best - exaggerating the market impact from an upcoming election!

To summarize, although the virus is scary and the cost to human life is terrible, we are welcoming the lower stock prices that have come as a result. The U.S. market was getting a little frothy, and a reset of investor behavior is healthy. For investors in the accumulation phase, sell-offs based on short-term events are a gift that allows you to buy stocks at more attractive prices & get a better deal on your dividend-reinvestments. This sell-off is also a chance for investors in the preservation phase to revisit their tolerance for risk. If the market action of the last few days has made you question your investment plan, now is a great time to come see us and discuss. If you've got an upcoming need for cash from your portfolio (beyond normal distributions) and we don't know about it - this would be a great time to let us know so we can shelter those funds from further volatility.

As always, feel free to call, email or set up a meeting if you have questions or fears about the current headlines and the impact on your investments.

Sources: irs.gov; kitces.com; World Health Organization; worldometers.info/coronavirus; cdc.gov