PARTNERING WITH YOU

January 2020

SECURE After All?

You can be forgiven if you have forgotten the mild hoopla in the press last May, when the U.S. House of Representatives passed something called the SECURE Act (Setting Every Community Up for Retirement Enhancement) by a 417 to 3 margin. It seemed at the time like the measure would sail through the Senate—until it became clear that the Senate was not planning to take up any House-passed legislation in 2019.

That was then. Now the Senate has attached the provisions of the SECURE Act to the December 20 fiscal 2020 spending authorization bill. This bill passed on December 19 and was signed by the President.

What does that mean for financial consumers? Among other things, the new law would increase the tax credit for small businesses to set up new retirement plans for their employees, from $500 to $5,000. It would allow small employers to automatically enroll their employees, and allow smaller companies to create multiple employer plans with other companies in the area, reducing the obstacles to offering 401(k) and other retirement plans. A great deal of insurance industry lobbying support went into another provision that would require all qualified plans to show participants how they can convert their existing balances into “lifetime income” through an annuity.

Of more substance to many financial consumers is a plan to delay when we all have to take out required minimum distributions from our IRAs from the current age 70 1/2 to age 72, and require people who inherit IRAs to take the money out over a ten-year period, instead of over their lifetimes (the so-called “stretch” provision). This last change has significant tax implications, since currently an IRA inheritor age 25 would only have to take out 1/58th of the money in that year, 1/57th the year after, and so forth for the rest of his/her life. Taking all the money from a large IRA out in the tenth year after inheritance could have potentially severe tax consequences on the unsuspecting inheritor.

In addition, for people who are working past age 70 1/2, the bill would allow them to contribute to an IRA. (They cannot now, but surprisingly, at that age they are still allowed to contribute to a Roth IRA.) Moreover, the bill would allow families who adopt or have newborn children to take out up to $5,000 from their retirement plan without the usual 10% early distribution penalty.

In all, the SECURE bill has 29 new provisions or major changes in 20 sections. We will be studying these provisions and how they impact our clients, to see whether it changes our advice on tax and estate planning in the future.

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Dear Clients and Friends,

Welcome to the January edition of our newsletter, "Partnering With You". We hope you had an enjoyable New Year and Holiday Season.

Estimated tax payments for the fourth quarter of 2019 are due on January 15th. If you're not sure if you need to make a quarterly payment, or if you have misplaced your vouchers, we are here to help.

Jim, Pam, Rich, Todd, Chris, Stephen, Joseph, Kimberly, Traci, and Monique

PIFP newsletter - January 2020

PARTNERS IN FINANCIAL PLANNING

Hindsight Is 2020: What Will You Do Differently This Year?

Live within your means

It's easy to want what your friends, colleagues, or neighbors have — and spend money to get those things. That's a mistake. Live within <u>your</u> means, not someone else's.

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.[1]

The saving conundrum

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

Paying too much for housing

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover *all* your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

Potential solutions: To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

Paying too much for college

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15 million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.[2]

Potential solutions: If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand *exactly* how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

Paying too much for your car

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.[3] As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

Potential solutions: Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

Keeping up with the Joneses

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within *your* means, not someone else's.

Potential solutions: Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

[1] Bankrate's Financial Security Index, May 2019

[2] Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

[3] *The Wall Street Journal,* The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019

PARTNERS IN FINANCIAL PLANNING

Key Retirement and Tax Numbers for 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $19,500 in compensation in 2020 (up from $19,000 in 2019); employees age 50 and older can defer up to an additional $6,500 in 2020 (up from $6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to $13,500 in 2020 (up from $13,000 in 2019), and employees age 50 and older can defer up to an additional $3,000 in 2020 (the same as in 2019).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is $6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
Single/head of household (HOH)	$64,000 - $74,000	$65,000 - $75,000
Married filing jointly (MFJ)	$103,000 - $123,000	$104,000 - $124,000
Married filing separately (MFS)	$0 - $10,000	$0 - $10,000

Note: *The 2020 phaseout range is $196,000 - $206,000 (up from $193,000 - $203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
Single/HOH	$122,000 - $137,000	$124,000 - $139,000
MFJ	$193,000 - $203,000	$196,000 - $206,000
MFS	$0 - $10,000	$0 - $10,000

Estate and gift tax

- The annual gift tax exclusion for 2020 is $15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is $11,580,000, up from $11,400,000 in 2019.

Standard deduction

	2019	2020
Single	$12,200	$12,400
HOH	$18,350	$18,650
MFJ	$24,400	$24,800
MFS	$12,200	$12,400

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is $1,650 (the same as in 2019) for single/HOH or $1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Alternative minimum tax (AMT)

	2019	2020
Maximum AMT exemption amount		
Single/HOH	$71,700	$72,900
MFJ	$111,700	$113,400
MFS	$55,850	$56,700
Exemption phaseout threshold		
Single/HOH	$510,300	$518,400
MFJ	$1,020,600	$1,036,800
MFS	$510,300	$518,400
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	$97,400	$98,950
All others	$194,800	$197,900
*Alternative minimum taxable income		

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Partners in Financial Planning, LLC is a fee-only financial planning and investment management firm located in Salem, Virginia. Our mission is to provide comprehensive, caring financial guidance that allows our clients to spend less time worrying about their finances and more time enjoying their lives.

The information provided herein is intended for general educational and informational purposes. Please consult with your financial advisor for tailored advice related to your specific situation.

Could you survive a no-spend month?

Would you take on a 30-day challenge to spend money only on necessities such as rent, utilities, and groceries? During a no-spend month, many common activities — including dining out, buying movie or concert tickets, and shopping for clothes — are avoided at all costs.

The idea behind a 30-day challenge is that the time period is just long enough to help change bad habits without seeming intolerable. If frugality isn't normally your forte, closely scrutinizing your spending could reap hundreds of dollars in savings. More important, it could help identify ways you might be wasting money on a regular basis.

Start by setting a positive goal for the money. Will you use the extra savings to pay down credit card debt or build up your emergency fund?

Here are some other ways to prepare for a successful challenge.

Time it right. Periods that include major holidays, planned vacations from work, and family birthdays are probably not the best for taking on this type of household experiment. On the other hand, it could be ideal to begin the new year with a "fiscal fast."

Establish rules. Take your fixed expenses (i.e., rent/mortgage, utilities, phone bill, insurance payments) into account when planning your no-spend month. Evaluate your typical monthly discretionary spending to figure out where you can reduce or eliminate your spending for the month.

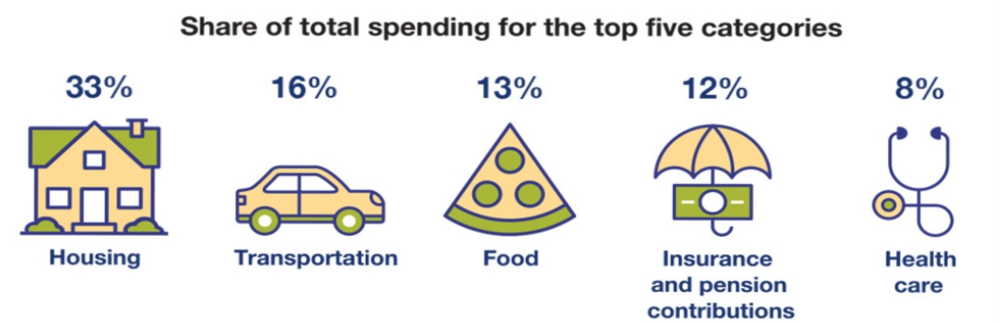
Plan to break patterns. Fill up your freezer and pantry with groceries and collect ideas for easy homemade meals. Steer clear of your personal spending triggers, which could mean staying off the Internet or waiting until later to meet up with friends who are big spenders.

Seek out free and fun entertainment. You don't have to stay home for an entire month. Spend the day visiting a public park or beach, or look for free concerts, outdoor movies, art festivals, workshops, and other special events hosted by community groups.

Stay focused. When you get tempted to spend, remember your goal for the money you've saved. Keep a record of your progress to have a tangible reminder that your efforts will pay off.

How Consumers Spend Their Money

Each year, the Bureau of Labor Statistics reports on consumer spending patterns. According to the 2019 report, consumers spent an average of $61,224 in 2018.*



*Average annual expenditures per consumer unit. Consumer units include families, single persons living alone or sharing a household with others but who are financially independent, and two or more persons living together who share major expenses.

U.S. Bureau of Labor Statistics, Consumer Expenditures 2018, released September 2019