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CARTER FINANCIAL, LLC

CLIENT BULLETIN

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➢ *New Year's Perspective*

"Progress is invisible to most people because they don't get their understanding of the world from numbers; they get it from headlines. Journalism by its very nature conceals progress, because it presents sudden events rather than gradual trends. Most things that happen suddenly are bad: a war, a shooting, an epidemic, a scandal, a financial collapse. Most things that are good consist either of nothing happening - like a nation that is free of war or famine - or things that happen gradually but compound over the years, such as declines in poverty, illiteracy and disease" (Steven Pinker, Financial Times, December 27, 2019).

➢ *Feeling SECURE*

On December 20th President Trump signed into law the torturously named Setting Every Community Up for Retirement Enhancement Act (SECURE Act). It makes the most sweeping changes to the U.S. retirement system in more than a decade. On balance the law expands opportunities for individuals to increase their retirement savings, something that is near and dear to our hearts.

➢ *Planning Opportunities*

Every new law brings with it new strategies to reduce taxes and maximize wealth. Here is a sampling of the retirement-friendly provisions included in the SECURE Act and the planning points we will be focusing on in 2020:

- New age 72 start date for required minimum distributions. PLANNING POINT: Clients reaching age 70 ½ **after 2019** don't have to begin taking required minimum distributions from tax-favored retirement accounts until age 72. This allows for a few more years of tax-deferred growth in tax deferred accounts.
- Under previous law, you could not make traditional IRA contributions beginning the year during which you reached age 70 ½. The SECURE Act repeals that restriction. PLANNING POINT: With increasing longevity, more people are working or consulting longer and making additional IRA contributions will improve their financial independence situation.
- The SECURE Act incentivizes small business employers to provide retirement savings plans for their workers with tax credits and the ability to band together into "multiple employer plans" to benefit from economies of scale. PLANNING POINT: We will be coordinating with appropriate business-owner clients to determine whether these incentives apply in their situations.

➢ *Now for the Bad News*

The investor-friendly provisions of the SECURE Act are projected to reduce federal tax revenue by $16 billion over the coming decade, so there needed to be a provision in the SECURE Act that ***raised*** taxes in order to make up for this lost revenue. The revenue-raising provision requires most non-spouse retirement plan beneficiaries to distribute inherited retirement accounts within 10 years. Past law allowed beneficiaries to "stretch" these distributions over their lifetimes. Clients who have set up "conduit" or "pass-through" trusts as the beneficiary of retirement accounts will be especially impacted by this provision. PLANNING POINT: We will be coordinating with your estate attorney in 2020 if you are affected by this provision (Source: Joint Committee on Taxation).

➢ *What Are We Doing in There?*

A generation ago in 1980, the medium size of a new single-family home was 1,595 square feet, and on average 2.76 people lived in a home. Today, the average number of human beings in each home has fallen to 2.54 – but the average size of new homes has increased by 50% to 2,386 square feet (source: National Association of Home Builders).

➢ *Longer Life*

In response to increased life expectancy, there are new proposed regulations for calculating required minimum distributions (RMDs) from retirement accounts. This is welcome news as the current longevity tables have been in use for nearly 20 years. Lower required minimum distributions will preserve more assets in tax-deferred accounts. For example, the current mortality tables say that a 70-year has a projected 17 years of life remaining. The proposal bumps up that figure to 18.7 years. For an 80-year-old, the remaining life expectancy would rise from 10.2 years to 11.2 years. If the proposal becomes law, it would not take effect until 2021 (Source: Treasury Department).

➢ *Not Equal*

The various states make unequal contributions to our nation's Gross Domestic Product (GDP). The top 5 states that contribute a combined 40% to GDP are California (14.6%); Texas (9.2%); New York (7.7%) Florida (5.0%) and Illinois (4.1%).

➢ *Slipped It By Us*

Did you notice that Congress passed a $1.4 trillion spending bill just before Christmas? With so much attention on the impeachment process it slipped by a lot of folks. As another government shutdown loomed, a 2,313-page spending package was released and voted into law just 2 ½ days later with little debate. It seems that neither party wanted to be responsible for a shutdown right before the holidays. The bill is a spending extravaganza without many offsets. For example, when the Affordable Care Act was passed a few years ago it included increased taxes to pay for covering millions more Americans with health insurance. Those taxes were wiped away by this bill without any offsets. Poof, just like that most of the cost of the Affordable Care Act was passed on to future generations. Everyone likes to ***say*** that children are our future, but we aren't putting our money where our mouths are.