SilverStar Insights

for your wealth

SILVERSTAR WEALTH MANAGEMENT
Plan • Invest • Guide

By Tim Hudson, CFP®, CLU, ChFC, CRPS® January 2020

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In this issue, we will review the economic expansion that continued in 2019 that provided excellent growth in bonds and stocks for the year.

The Setting Every Community up for Retirement Enhancement (SECURE) Act of 2019 was signed into law as expected on December 20, 2019, by President Trump. The SECURE Act includes wide-ranging provisions that will impact tax and retirement planning for many people and retirement plans, as discussed in this newsletter. Try to attend one of our workshops to learn more.

Market View

2019 Year-to-Date Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**31.49%**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**22.01%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar-denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**8.72%**
10-Year Treasury Yield Rate (as of 12/31/19)	**1.92%**

Sources: Morningstar (Performance from 1/1/19 to 12/31/19)
Treasury.gov (as of 12/31/19)

Economic Growth Continues with Slowing Manufacturing
As 2018 came to a close, stocks declined nearly 20% off the S&P 500 Stock Index. Since the beginning of 2019, the capital markets rebounded nicely, especially here in the U.S., across stocks and bonds rewarding those who stayed invested. As a wise economist stated, "over the long-term, investors earn the equity risk premium because they embrace market volatility, also known as risk."[1] That was certainly true in 2019.

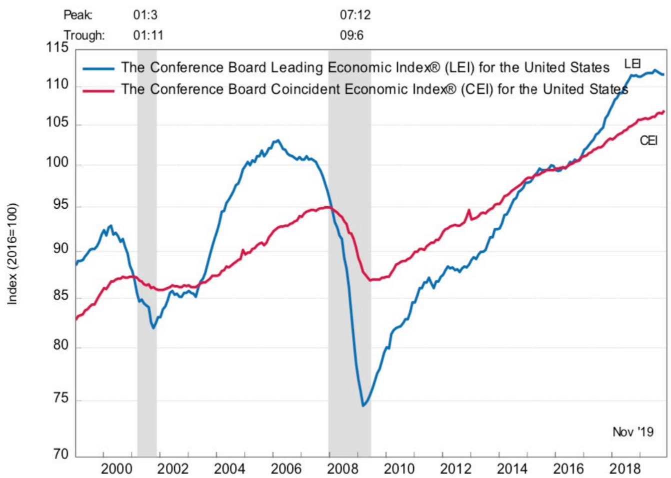
Expectations for 2020 are mixed in the midst of slower global growth and continued trade issues with China. Some in the media are instilling fear that we may be approaching a recession due to this recovery period from 2008 being the longest on record, but many feel this growth will continue. We should remind ourselves that corporate earnings drive stock prices over the long-term, and there are a lot of positives for extended, but modest, growth in corporate earnings for the U.S. markets. Economist David Kelly stated, "the U.S. economy has successfully engineered a soft landing to 2% growth and will likely sustain this pace through 2020 and avoid a recession."[2]

1 Fritz Meyer, "Quarterly Economic Update," Webinar, (January 14, 2020).
2 David Kelly, "Quarterly Perspectives," *JP Morgan Insights,* (December 31, 2019).

But, as indicated in the Leading Economic Indicators (LEI) flattening out as illustrated in by the blue line Figure 1, everything does not appear to be all rosy for the economy.

An extended downturn in the LEI in the past has been an indicator of pending recessions, but there have also been periods in the past where periods of flattening, as we see now, were followed by continued growth.

Figure 1. U.S. index of Leading Economic Indicators (LEI)



The Conference Board Leading Economic Index® (LEI) components: 1) average weekly hours worked, manufacturing; 2) average weekly initial unemployment claims; 3) manufacturers' new orders – consumer goods and materials; 4) ISM index of new orders; 5) manufacturers' new orders, nondefense capital goods; 6) building permits – new private housing units; 7) stock prices, S&P 500; 8) Leading Credit Index™; 9) interest rate spread; 10-year Treasury less fed funds; 10) index of consumer expectations. Fig. 1. (Graph provided by *Quarterly Economic Update*. Fritz Meyer. Webinar Powerpoint, January 14, 2020). Data Source: ©The Conference Board. Data through November 2019, released December 19, 2019.

A deeper dive into today's economics finds a concern of slowing manufacturing as represented by the Purchasing Managers Index (PMI) released by the Institute of Supply Management (ISM), which declined to 47.2% in December as illustrated in Figure 2. The PMI is a monthly survey of supply chain managers across 19 industries.

This survey can be an indicator of U.S. economic activity. A reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally contracting.

Figure 2. ISM manufacturing PMI

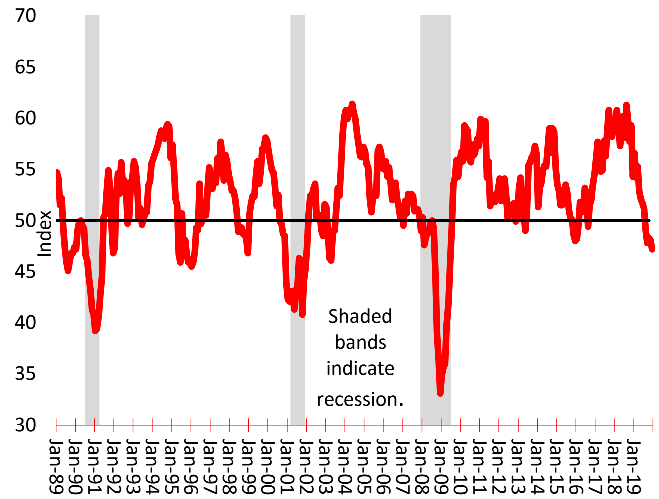


Fig. 2. (Graph provided by *Quarterly Economic Update*. Fritz Meyer. Webinar Powerpoint, January 14, 2020). Data Source: Copyright 2019, Institute for Supply Management. Data through December 2019.

As indicated, the PMI can be somewhat volatile even within good economic periods, so a more stable indicator may lie the Non-Manufacturing Index (NMI), as seen in Figure 3. The NMI remains in expansive territory at 55% for December.

The main reason why the NMI may be a more important indicator is because it represents the service industry, which accounts for about 90% of the economy[3] and covers a broader 60 sectors.

Figure 3. ISM Non-Manufacturing Index (NMI)

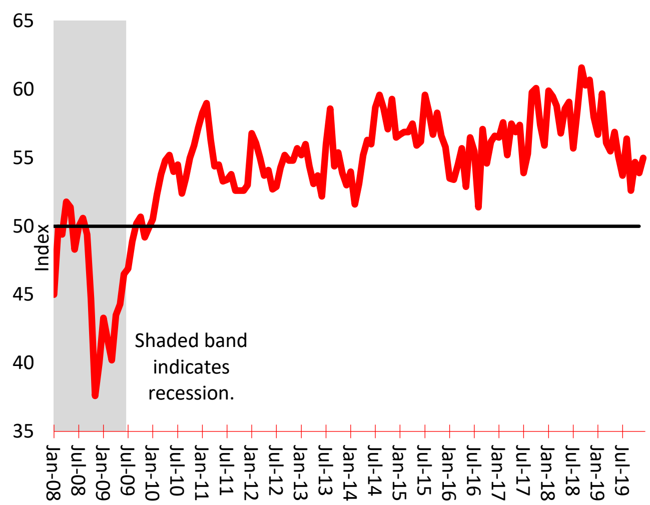


Fig. 3. (Graph provided by *Quarterly Economic Update*. Fritz Meyer. Webinar Powerpoint, January 14, 2020).

3 Katia Dmitrieva, "*U.S. Service-Industry Gauge Tops Forecast on Jobs Boost*," Bloomberg, (June 5, 2019).

Data Source: Copyright 2019, Institute for Supply Management; data through November 2019. This data series was created in 2008.

Another important measure of economic health is the Small-Business Optimism Index which is a composite of 10 seasonally adjusted components published by The National Federations of Independent Business (NFIB) as shown is Figure 4. This index is an important measure of the economy since small businesses represent 49% of private-sector employment.[4]

Figure 4. Small-Business Optimism Index

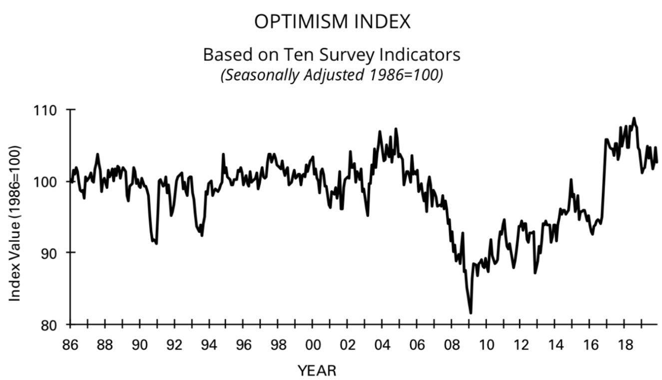


Fig. 4. (Graph provided by *Quarterly Economic Update*. Fritz Meyer. Webinar Powerpoint, January 14, 2020).
Data Source: NFIB. December data released January 14, 2020.

This chart clearly shows small businesses are optimistic for the future, with finding quality employees being a significant challenge for many companies due to record low employment.

Interest rates

With slowing economic growth, the Feds appear committed to doing their part to navigate the slowing economy carefully after their costly mistake of raising interest rates for the fourth time in December 2018, which caused the market correction. In 2019, the Feds cut interest rates three times to compensate for the slowing economy to arrive back to where rates were before the four 2018 rate hikes.

The three rate cuts in 2019 influenced the exceptional bond returns for the year because of the inverse relationship that interest rates have with bond prices.

The recent restart of quantitative easing by the European Central Bank will likely continue keeping interest rates low for the foreseeable future due to the U.S. 10-year Treasury Bond Yield being highly correlated with the German 10-yield Bund Yield.[5]

Inflation

Inflation is running well below the Fed's goal of 2% and has been for quite a while.

Many economists feel that the historical low inflationary pressures and interest rates we are experiencing globally may be here for a while, barring any surprises, due to a several theories, including changing demographics and technology.

It is important to note that Gross Domestic Production (GDP) growth is an important factor for inflation. GDP is defined as the total production of all goods and services in a country. If a country is experiencing substantial GDP growth within its economy, it is likely to begin experiencing inflationary pressures due to supply and demand pressures, and vice versa.

A key factor used to calculate potential GDP is the working-age population of a county, as stated, "Growth in the labor force is one of two key determinants in a country's maximum sustainable, or 'potential,' economic growth. The other is labor productivity growth…"[6]

The extended outlook for the U.S. labor force is very favorable compared to other countries due to our projected working-age population. This positive outlook is in spite of the many retiring Baby Boomers today because of the Echo Boomers (which are 50 million larger than the Baby Boomers) continuing the working-age boom for the U.S. and immigration policy.[7] This growth of the labor force will allow a vital factor of the potential GDP formula to exist for the U.S. for quite some time. Inflation will likely return at some point.

Trade peace?

President Trump recently signed phase one of the trade deal with China. This trade deal is the first important step in solving the trade war with China. Under phase one, China agrees to "halt intellectual property theft, refrain from currency manipulation, cooperate in financial services, and purchase an additional $200 billion of U.S.

4 Sba.gov.
5 Fritz Meyer, "Quarterly Economic Update," Webinar, (January 14, 2020).
6 Satyam Panday and Beth Ann Bovino, "Declining Labor Forced Participation Will Weigh on U.S. GDP Growth—And the Fed Monetary Policy," spglobal.com, (October, 27, 1997).
7 Fritz Meyer, "Quarterly Economic Update," Webinar, (January 14, 2020).

products over the next two years."[8] This new agreement will benefit American farmers, manufacturing, and the energy sector. Global growth would also benefit significantly if the U.S. and China can keep peace and seek new common ground in further phases.

Also, the U.S., Mexico, and Canada just signed an updated NAFTA (North American Free Trade Agreement) that agrees to zero tariffs on automobiles if 75% of their components are manufactured in North America and opens the Canadian markets for U.S. dairy farmers.[9] This agreement should spur additional growth for the U.S. automobile industry and farmers going forward.

Politics and markets

2020 is an election year, and with the political divide in Washington, some investors are concerned about what the future may hold. It is important to note that the markets have shared positive results with both parties. It may be wise to focus on the economy today and avoid trying to predict the future.

Final thoughts

Economic indicators are essential to monitor to help give clarity around investing, but no one can predict the markets. Sound wealth management includes:

- Allocating and diversifying investment portfolios with considerations for risk tolerance, time horizon, investing purpose, and tax objectives.
- Having a roadmap (plan) that is aligned with suitable investments to help better achieve one's goals.
- Removing emotions from the investing process.
- Managing risk in all areas all the time.

Opportunities and Challenges for Retirement and Tax Planning under the new SECURE Act of 2019

The Setting Every Community up for Retirement Enhancement (SECURE) Act[10] is the most major retirement reform since the Pension Protection Act of 2006.

The SECURE Act also contains some significant tax changes, with the most notable being the elimination of "Stretch" or Inherited IRAs for most, but not all, beneficiaries. This new law will require that beneficiaries empty the account by the 10th year instead of using their remaining life expectancies. This new 10-year required period could cause larger taxable distributions within shorter time frames, creating additional income tax burden.

Below are some highlights of the Act.

The Stretch (Inherited) IRA is dead for many.

The most significant, and perhaps most tax-impactful, provision of this new Act for many is the elimination of the "Stretch" or Inherited IRA. The Stretch IRA allows a person to begin lifetime distributions from a deceased owner's IRA, based on the remaining life expectancy of the beneficiary, if the required minimum distributions began before December 31st of the year following the year of death.

Those who inherited IRAs before the end of 2019 will be able to stretch IRA distributions over their remaining life expectancies under the old rules.

Beneficiaries who inherit IRAs beginning in 2020 will be subject to the new rules which require that the IRA be liquidated by the 10th year (there is no required distribution until the 10th year) for most beneficiaries, with some exceptions.

"Eligible Designated Beneficiaries" are not subject to the new 10-year distribution rule. These beneficiaries include:

1. Spousal beneficiaries
2. Disabled beneficiaries, as defined under IRC Section 72(m)(7).
3. Chronically ill beneficiaries, as defined under IRC Section 7702B(c)(2).
4. Individuals who are not more than ten years younger than the decedent.
5. Certain minor children of the original retirement account owner, but only until they reach the legal age of majority, then the new 10-year rule kicks in.

8 Jonathan Garber, "*U.S., China Sign Historic Phase One Trade Deal*," Fox Business News, (January 15, 2020).
9 Jen Kirby, "*USMCA, Trumps New NAFTA Deal Explained in Under 600 Words*," Vox, (January 16, 2020).
10 Waysandmeans.house.gov

This new 10-year rule will undoubtedly require quicker distributions (and taxation) from inherited IRAs for many beneficiaries.

Retirement Asset Trusts

The changes in the Stretch (Inherited) IRA rules will require many who have Retirement Asset Trusts (not Living Trusts) as beneficiaries on their retirement accounts to revisit their trust documents to ensure they are properly established in light of the new rules.

As Stated by Jeffrey Levine, "…trusts created to serve as the beneficiary of a retirement account are drafted in such a manner as to comply with the "See-Through Trust" rules, which allow the trust to stretch distributions over the oldest applicable trust beneficiary. Broadly speaking, there are two types of such trust; Conduit Trust and Discretionary Trust. Both types of trust *could be* unfavorably impacted by the SECURE Act."[11]

Required Minimum Distributions (RMDs) will begin at age 72 now instead of 70 ½ .

With Americans experiencing longer life expectancies, and some working beyond age 70, the new law allows for RMDs to begin at age 72 instead of the current age of 70 ½ .

The question now is, What if I am 70 ½ now?

Those who were 70 ½ before 2020 will fall under the old 70 ½ RMD rules. Those who turn 70 ½ in 2020, or later, will be under the new age 72 RMD rules.

Regardless if someone falls under the age 70 ½ or the age 72 RMD rules, they must begin their RMD no later than April 1st following the year they turn 70 ½ or 72. Those who elect to defer to April 1st of the year following reaching RMD age will have to take two distributions for that year—one for the year they reached RMD age and one for the current year. This double RMD in one single tax year could force someone into a higher marginal tax bracket; therefore, it may be advisable not to defer RMDs to the year following the RMD age.

The new RMD age of 72 will also open a wider window of opportunity to convert Traditional IRAs to Roth IRAs before they are required to take their taxable RMD. A Roth Conversion is making a taxable conversion, for that particular year, from a Traditional IRA to a Roth IRA.

Remember, you can always take distributions out before the RMD age and more than the RMD amount, just not less.

QCDs are still available at age 70 ½.

The age when an IRA owner can make Qualified Charitable Distributions (QCDs) up to $100,000 per year remains at age 70 ½. This allows for a 1 to 2-year window of opportunity to begin QCDs for those with an RMD age of 72. This could lower the IRA balance, thereby reducing the amount of RMDs when they are required. QCDs can only meet the RMD requirements for the particular year they are made.

Traditional IRA contributions after age 70 are now allowed

Under the old law, Traditional IRA contributions were not allowed beyond age 70 ½ . Under the new law, someone with earned income or a spouse of someone with earned income can make a Traditional IRA contribution at any age now.

The Act limits an individual from distributing a QCD, as mentioned above if any deductible Traditional IRA contribution is made in the same year.

Roth IRAs have always been allowed at any age, provided you or a spouse have earned income.

Remember that the maximum contributions to both Traditional and Roth IRAs cannot be made in the same year. It is one or the other, but not both.

Penalty-free withdrawals for individuals in case of birth or adoption

Title I, Section 112 in the legislation allows new parents a withdrawal from retirement plans for any "qualified birth or adoption distributions" up to $5,000 per child, without the 10% early withdrawal penalty. A couple can withdraw $10,000 per child.

The withdrawal must be made during the one-year period following the birth or finalized adoption date of a child.

Kiddie Tax

A notable non-retirement provision added to the SECURE Act is the repeal of the very high trust tax rates applied to income subject to the Kiddie Tax, which was a result of the Tax Cuts and Jobs Act (TCJA). Now, income subject to Kiddie Tax will revert back to being taxable at the parents'

11 Jeffrey Levine, "Savvy IRA Planning," Horsesmouth, (Accessed January 7, 2020).

marginal tax rate as before the TCJA. This is a welcomed changed for many!

Lifetime income (Annuity) options for 401(k)s

The SECURE Act provides for a Fiduciary Safe Harbor for ERISA fiduciaries selecting a "Lifetime Income Provider" (annuity company), as well as the portability of such Lifetime Income option within 401(k) plans.

These provisions will provide more options for 401(k) sponsors to consider offering to their employees in light of diminishing pensions and longer life expectancies.

Expansion of 529 plans

529 College Savings Plans are a great way for parents and grandparents to save and invest for a child's education and offer many benefits. First, the funds within the account accumulate tax-deferred.

Second, the parent or grandparent is listed as the owner of the account, and the child is only listed as the beneficiary, which can be changed later. Unlike 529 Plans, Uniform Transfers to Minors Act (UTMA) accounts have the child as the legal owner of the account, and children can access the funds at age 18 in Texas for any reason and without parental permission. UTMAs are not tax-deferred and do not offer the attractive tax benefits of 529 Plans.

Third, if 529 Plan funds are used for K-12 education (up to $10,000 per year) and post-secondary education expenses, including trade schools and vocational programs, then the distributions for these expenses are tax-free. Under the new SECURE Act, this has been expanded to include apprenticeship programs.

Also, 529 Plan account owners can now access up to $10,000 per year tax-free for the repayment of qualified student loans per child, including siblings. Keep in mind that if distributions are used for the repayment of student loan interest, you cannot double-dip and deduct the interest on the student loan.

These expanded benefits will make 529 College Savings Plans even more attractive to combat the high cost of education in a wise and tax-efficient manner.

Certain taxable non-tuition fellowship and stipend payments as compensation for IRA purposes

In the past, stipends and non-fellowship payments received by graduate and postdoctoral students were not treated as compensation, and therefore could not be used as the basis for IRA contributions. This provision will now consider such payments as income for IRA contribution purposes.

What now?

Many people have invested well for their retirement years into pre-tax 401(k)s and IRAs that may represent a significant amount of their overall net worth. The challenge may lie after the scheduled expiration of the Tax Cuts and Jobs Act (TCJA) in 2025, which could leave IRA owners subject to higher tax rates than today.

This new SECURE Act leaves IRA owners' beneficiaries subject to being forced to withdraw the inherited IRA much quicker, and therefore, possibly pushing the beneficiaries into higher marginal tax brackets. This will likely cause higher taxes for beneficiaries.

Some of the many considerations may include proper beneficiary designations, tax-efficient retirement income, and estate planning, Roth IRA contributions and conversions. Aligning asset allocation and location can also provide additional tax efficiency since some account titles, and some investments are taxed differently.

The SECURE Act demands more attention surrounding retirement and tax planning. Good planning is forward-looking.

Attend a workshop below to learn more.

Wealth Planning Workshops

The SECURE Act Q&A Workshops

Attend one the following workshops and learn more about the new SECURE Act.

Attorney, Jason Brower will also be on hand to answer legal questions surrounding how the new law will affect Retirement Asset Trusts.

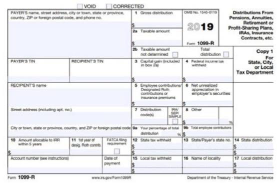
Spring Creek Barbeque
25831 N.W. Freeway, Cypress, TX 77429

Thursday, March 5th at 6:00 pm

Tuesday, March 10th at 6:00 pm

RSVP Today! Seating Limited! Dinner Provided.

2019 Tax Preparation



2019 1099 Mailing Deadlines:

1099 Misc. - **January 31st**

1099 DIV, INT, OID, B - **February 15th – 28th**

2019 IRA (Traditional and Roth) contributions can be made up until your tax filing deadline.

2019 Roth IRA contribution eligibility phase outs:
Single Filer - $120,000 to $135,000
Joint Filer - $189,000 to $199,000

2020 Tax Numbers

2020 Retirement Plan Contribution Limits

Plan Type	Contribution Limit	Catch-Up 50+
Traditional IRA*	$6,000	$1,000
Roth IRA**	$6,000	$1,000
401(k), 403(b), 457	$19,500	$6,500
SIMPLE	$13,500	$3,000

* Traditional IRAS may or may not be deductible depending if the IRA owner or spouse participates in a company sponsored retirement plan, and their Modified Adjusted Gross Income (MAGI).

** 2020 Roth IRA contribution eligibility phase outs:
Single Filer - $124,000 to $139,000
Joint Filer - $196,000 to $206,000

2020 Income Tax Table

Tax Rate	Single	Married Filing Jointly (MFJ)
10%	$0 - $9,875	$0 - $19,750
12%	$9,876 - $40,125	$19,751 - $80,250
22%	$40,126 - $85,525	$80,251 - $171,050
24%	$85,526 - $163,300	$171,051 - $326,600
32%	$163,301 - $207,350	$326,601 - $414,700
35%	$207,351 - $518,400	$414,701 - $622,050
37%	$518,401 or More	$622,051 or more

Please note that taxable income is taxed at each level before arriving to the highest marginal tax bracket.

You can View a Copy of our **2020 Key Financial Data** on our website, www.SilverStarWealth.com under resources.

Humor Matters

"I figured out why Uncle Sam wears such a tall hat. It comes in handy when he passes it around."

–Soupy Sales

Please send us your favorite joke and if we use it, we will send you a gift certificate to your favorite restaurant.

Words of Wisdom

"Planning is bringing future into the present so that you can do something about it now."
--Alan Lakein

Please call us if you have any questions or would like to visit before our next scheduled wealth planning meeting.

The SilverStar Team—Tim, Erica, Sydney, and Angela

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Learn more about the new SECURE ACT.
RSVP for one of our workshops on page 6

