SilverStar Insights

for your wealth

SILVERSTAR WEALTH MANAGEMENT
Plan • Invest • Guide

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

In This Issue

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After solid economic data for January and February, the markets were blind-sided by a major health crisis which quickly turned into a global pandemic storm causing the stock market to drop to Bear market territory (-20% Loss or more) quicker than ever before. A collapse in oil prices quickly followed, creating a double whammy on the markets and the economy. The job loss from these two major events will be tremendous due to the uncertainty we face while being in unchartered territory.

The Feds were very quick to provide liquidity to the financial markets and provide stimulus to individuals and businesses through the new enacted Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act, *not to be confused with December, 2019 passed Setting Every Community Up for Retirement (SECURE) Act*, will provide numerous tax and retirement planning opportunities. We will discuss some of the benefits as it relates to retirement and wealth planning and refer you to some additional links on our website for additional information, clarifications, and guidance, as provided by the IRS. You can also refer to our January 2020 newsletter under *Resources* on our website to review key features of the SECURE Act as well.

Although these are tough times for many, we need to know that history has shown that we, and the financial markets, are very resilient in recovering. It is important for us to learn from history and plan accordingly. We will discuss some strategies to consider in light of the new recently passed Acts and where we are today. *Additional resources, including a special webinar with a well-respected and nationally-known economist, Fritz Meyer, and links to schedule time with us can be found at www.SilverStarWealth.com.*

Market View

2020 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.	**-19.60%**
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.	**-22.83%**
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.	**3.15%**
10-Year Treasury Yield Rate (as of 03/31/20)	**0.70%**

Sources: Morningstar (Performance from 1/1/20 to 3/31/2020)
Treasury.gov (As of 3/31/2020)

The government-induced economic shutdown has placed the U.S. in uncharted territory due to the coronavirus pandemic. The expected drop in economic activity leads many economists to suggest that we are in a recession now.

It is important to note that not all recessions are as bad as the most recent Great Recession of 2008 that is in our recent memory. A recession is defined as a significant decline in economic activity (usually defined as Gross Domestic Product—GDP) over at least 2 quarters.

Normally, economists do not know we are in a recession until after the recession, due to the definition of a recession. In the case today, it is a foregone conclusion for many that we are in a recession and will see a significant decline in all aspects of economic activity. A group of 45 economist surveyed expect the GDP to contract by 26.5% in the second quarter following an expected 2.4% decline in the economy for the first quarter before turning positive in the second half of the year.[1]

The projected 26.5% shrinkage of the economy in the second quarter will be a major shock. The question lies in how this will play out since we have not been here before. Will there be pent up demand that comes back from being shut down as some suggest? There will certainly be fault lines extending out from this shock including job losses and company bankruptcies.

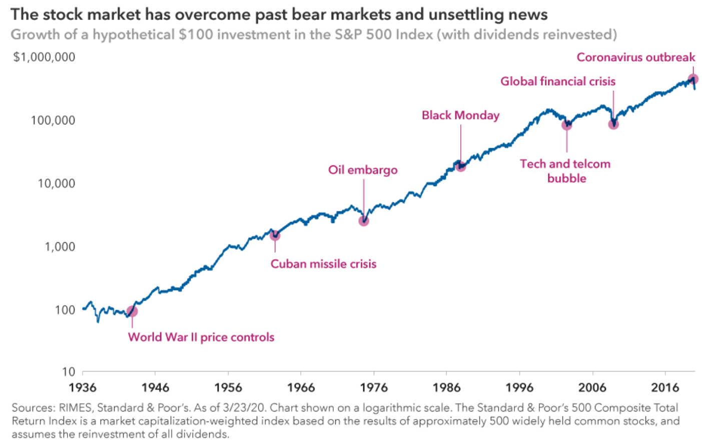
Unemployment claims two weeks ago totaled more than 22 million during the coronavirus shutdown.[2] With the number of unemployed rising, we will likely see loan delinquencies and defaults, tighter lending standards, fewer new home starts and purchases.

The Feds have thrown a large amount of money at this crisis in the hope of minimizing the aftershocks of the forced shut down after reducing interest rates to near 0%. The $2.2 trillion CARES act combined with a commitment for an additional $2.3 trillion emergency lending program to provide liquidity for businesses, states, and local governments is unprecedented.[3]

Long-term, this could lead to inflationary pressures, but it appears that with near 0% interest rates and record low oil prices, the Feds are more concerned with deflationary pressures now than inflationary.[4]

We do know, based on history, that we have recovered from various significant events in the past as illustrated so well in the Big Picture in Figure 1.

Figure 1. The Big Picture



Source: Capital Group.com

The speed and degree of this economic recovery are unknown, but the hope is that with the economy doing well before the shut-down leads some to believe it may recover quickly, while others believe the lasting after-shocks may make it more difficult for the recovery. A lot depends on how long before the economy opens back up.

6 Key Retirement Planning Highlights of the Coronavirus Aid, Relief, and Economic Security (CARES) Act

The CARES Act is a massive, far-reaching $2.2 trillion federal government effort to help support individuals and small businesses impacted by the economic shutdown forced by the Covid-19 pandemic. This Act provides Economic Impact Payments to certain eligible individuals and businesses with the hope of restarting the economy quickly.

There are numerous benefits within the SECURE Act with six key benefits affecting retirement planning.

1 Patti Domm, "Economist Say US in Short Deep Recession, But Consumers Expected to Keep Spending Despite Job Losses," *CNBC.com*, April 10, 2020.
2 Eric Morath and Sarah Chaney, "U.S. Jobless Claims Top 20 Million Since Start of Shutdowns," The Wall Street Journal, April 16, 2020.
3 Patti Domm, "Fed Fires an Even Bigger Bazooka, Expands its Shopping List to Include Junk Bonds, " *CNBC.com*, April 9, 2020.
4 Fritz Meyer, "Quarterly Economic Update," Webinar, April 14, 2020.

1. Required Minimum Distributions (RMDs) waived for 2020

This means that all IRA and employer retirement plan—401(k), 403(b), 457(b) owners who are 70 ½ prior to this year will not be required to take a RMD this year. This also includes owners of Inherited (Beneficiary) IRAs.

Also, keep in mind that with the SECURE Act signed into law late last year, the new RMD age is 72 for those who have not turned 70 ½ before 1/1/2020.

If a RMD was distributed already, it can be rolled back into the IRA within the 60-day rollover period. The RMD rollover is not allowed for Inherited IRAs.

This is total RMD forgiveness for 2020 and a makeup RMD will not be required next year—only the RMD for 2021 will be required next year.

Waiving the 2020 RMD allows IRA and other retirement plan owners to leave the RMD amounts invested and not be forced to take a distribution while the stock markets are down.

2. Roth IRA Conversions Opportunities

Another attractive planning option IRA owners may want to consider is a Roth IRA conversion. This may be a good year for some due to the elimination of RMDs for 2020. ***A great time to consider a Roth IRA conversion is when the markets have pulled back, since you are able to convert (and be taxed as of the value on the date of conversion) on a condensed value.*** Future distributions from the Roth IRA can potentially be tax-free. For Roth IRA distributions to be tax-free, two conditions MUST exist; 1. The Roth account (for contributions) and each conversion must be 5-years old, and 2. The owner must be age 59 ½ at the time of distribution. If both conditions exist, then the distributions are "qualified" and therefore tax-free not only to the owner but also to the beneficiaries.

Paying attention to the owner's taxable income and marginal tax brackets is critical when considering Roth IRA conversions. Converting a Traditional IRA to a Roth IRA is a taxable event and could result in additional impacts to your personal tax situation, including the taxation of current Social Security benefit payments. Be sure to consult with a tax advisor before making any decisions regarding IRAs.

3. Extended Deadline for 2019 IRA Contributions to July 15, 2020.

Because the tax filing deadline has been extended to July 15, 2020, the deadline for making 2019 IRA (Roth or Traditional) contributions is also extended to July 15th. This allows more time for those who otherwise may not have had the funds available to make IRA contributions by the previous deadline.

4. Coronavirus-Related Retirement Distributions.

Retirement plan distributions from IRAs and/or employer plans are allowed for up to $100,000 in 2020 for those affected by the Coronavirus. For those who are under age 59 1/2, the 10% early penalty is waived.

Eligibility of these distributions must meet one of the following as stated by Jeffrey Levine:

- Have been diagnosed with Covid-19.
- Have a spouse/dependent diagnosed with Covid-19.
- Experience adverse financial consequences as a result of being quarantined, furloughed, laid off, or having work hours reduced because of the disease.
- Are unable to work because they lack childcare as a result of the disease.
- Own a business that closed or operated under reduced hours because of the disease.
- Meet some other reason that the IRS decides to say is OK.[5]

The distributions from employer retirement plans are exempt from the mandatory 20% tax-withholding as normally required.

These distributions can be repaid back to the account any time during the three-year period which begins on the day after the distribution was received.[6]

If the funds are not paid back within 3 years, then the amount unpaid will be taxed. As Laurie Stillwell states, "Distributions can be included in income on a pro-rata basis over three years (although taxpayers may elect out of this treatment)."[7] Further clarification on taxation options is expected to be provided by the IRS soon.

It is not a good idea to take distributions from retirement plans to meet short-term needs but if circumstances require it, the option is there to

5 Jeffrey Levine, 'Savvy IRA Planning'. Webinar, Horsesmouth, April 3, 2020.
6 Stillwell, Laurie. 'Economic Stimulus in the Age of Coronavirus - The Cares Act'. Webinar, Thomson Reuters, April 10, 2020.
7 Stillwell, Laurie. 'Economic Stimulus in the Age of Coronavirus - The Cares Act'. Webinar, Thomson Reuters, April 10, 2020.

pay it back to the plan within three years without consequences, other than the lost growth on the amount distributed from the plan.

5. Enhanced Loan Provisions from Employer Retirement Plans.

Many employer plans allow for loans up to the lesser of $50,000 or 50% of the vested amount. Usually, these loans must be paid back over a maximum of five years.

The CARES Act has made some enhancements to these loan provisions. First, the amount has been raised to the lesser of $100,000 or 100% of the vested amount.

Second, for those who may have an existing retirement plan loan, an additional year may be tagged on to the standard 5-year loan repayment deadline.

Check with the employer retirement plan sponsor to learn if the plan allows for loans and for more details.

6. New Above-the-Line Charitable Contribution for up to $300

The new higher standard deduction brought about by the Tax Cuts and Jobs Act (TCJA) of 2017 made in much more difficult for taxpayers to itemized their deductible expenses to exceed the new higher standard deduction. The new CARES Act allows for an above-the-line charitable contribution for up to $300 to a 503(c)(3) charity.

This deduction is only available to those who file a standard deduction (does not itemize deductions).

Wealth Planning Webinars

Webinar - Savvy Tax Planning:
How Tax Planning Changes Through Four Stages of Retirement

Thursday, May 14, 2020, 6:00-7:00pm
Webinar RSVP at www.SilverStarWealth.com under Upcoming Events Invite a friend!

Retirees often don't understand how taxes work in retirement. But they're keenly concerned about the size of their tax bill each year. Learn what's involved in creating a retirement tax strategy.

You need a retirement tax strategy that will:

- Identify the types of taxes you will face at various stages
- Address how taxes impact Social Security and Medicare
- Plan when to tap different accounts so you don't overpay taxes

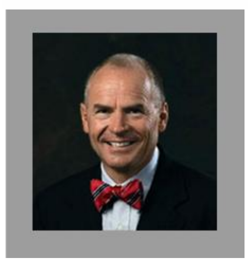
Attend this webinar and learn:

- The critical tax question you must answer BEFORE retirement
- The surprises that often make retirement more expensive
- What the Social Security "tax trap" is and how you can avoid it
- Why tapping assets in the wrong order can trigger higher Medicare premiums
- Why you need to manage taxes even before you retire
- The four stages of retirement and important tax actions in each stage, including tricky IRA challenges
- Mistakes to avoid when it comes to your investment portfolio, health care, and estate

Special Webinar – Fritz Meyer's Economic Update

Thursday, May 21, 2020, 6:00-7:00pm
Webinar RSVP at www.SilverStarWealth.com under Upcoming Events Invite a friend!

"Forecasts are a dime-a-dozen. Talk to 20 Wall Street gurus and you'll get 20 different spins." Join Fritz Meyer's presentation to see clear, concise pictures focused on key data.



Fritz Meyer is an independent economist and market analyst and former Invesco primary economic and markets analyst. He has been a frequent guest on CNBC, Bloomberg TV and Fox Business Network and has often been quoted in business publications. Mr. Meyer most recently spent 15 years with Invesco and his investment career spans the last 35 years. He has managed large-cap equity mutual funds and multi-cap equity and fixed-income client portfolios.
Fritz earned his A.B. degree from Dartmouth College with a distinction in economics and his Master of Business Administration degree from the Amos Tuck School at Dartmouth College.

Webinar - Planning Opportunities with the SECURE & CARES Acts Q & A

Thursday, May 28, 2020, 6:00-7:00pm
Webinar RSVP at www.SilverStarWealth.com under Upcoming Events. Invite a friend!

Attend this webinar and learn more key features and retirement and tax planning strategies and opportunities surrounding the SECURE Act and the CARES Act.

The Path Forward—Back to the Basics

From time to time, it is important to go back to the basics. Even professional athletes such as Tiger Woods have coaches to help them review and master the fundamentals.

It is also good for us to periodically go back to review and master the basics of wealth management, especially while going through a crisis as we are today.

Review Cash Flow

Going back to the basics usually begins with performing the most undesired, yet most important, task—creating a budget or let's call it the more acceptable cash flow plan.

This process involves identifying the money flowing into your household and the money flowing out. The best approach is to sit down and review all of your past expenses for some time and then identify what you expect going forward. You can find budget worksheets on our website under Resources and ***Back to the Basics Tool Kit*** to help with this process.

Very few people have a clear understanding of how much money they spend. It does not make any difference how much a person earns if they are spending and consuming all of it, or even worse, going into debt to cover their expenses.

Going Back to the Basics begins with having a positive cash flow plan that can allow for the emergency fund, savings, and investments needed for future retirement needs.

Manage Risk in All Areas—All the Time

Managing risk involves identifying possible risks that may present itself in the future and taking steps to mitigate the risk before it occurs. Fire insurance cannot be purchased when the house is on fire.

Most people equate risk management to having adequate insurance coverages where needed such as health, life, disability, long-term care, property & casualty, and umbrella liability. These coverage are certainly important, but risk management goes far beyond just insurance coverages.

Risk management also involves having adequate resources on hand in the event of emergencies including money (3-6 months of expenses) and sufficient food and supplies—toilet paper.

In investing, we can help manage risk with asset allocation and diversification by placing our investments in various asset classes and diversifying among numerous names within each asset class.

In retirement income planning, we can strive to have a certain percentage of retirement income provided from guaranteed or stable sources to minimize the impact of market downturns like we are in now. Guaranteed income sources can include Social Security, pensions, and can come from annuity income riders. The larger the percentage of retirement income provided from guaranteed sources, the more secure the retirement income plan.

Having our legal affairs in place is also another form of risk management, and an issue we will all face at some point.

Plan for Tax-efficient Retirement Accumulation and/or Distribution

Planning takes time and effort, but the results can be priceless. Planning involves looking at what is important and specific goals for the future and designing a roadmap to help make it happen efficiently, while measuring progress periodically.

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

The amount of money a person earns over their lifetime can be a tremendous amount of money. A portion of those earnings set aside and invested wisely can create a sizable amount of wealth over time.

Tax planning is a critical element of wealth planning because of the amount of taxes a person pays over their lifetime can also be a sizable amount of money. Many people are very successful in creating a sizable amount of their wealth in pre-taxed retirement plans only to be at the mercy of unknown tax rates in the future. A $1,000,000 IRA owner does not own 100% of the account due to unknown tax rates in the future when distributions are made. Investors get a tax deduction on the contribution (seeds) but will have to pay tax on 100% of all distributions (harvest).

Contributions to Roth accounts are made with after-tax dollars but may be eligible for tax-free distributions if qualified. Roth distributions are qualified and tax-free if two conditions exist; 1) the owner is over age 59 ½ **and** 2) the account has been established for 5 years.

Another very important account is a taxable account where and individual or joint owners open an account. Earnings are not tax-deferred like retirement accounts and are taxed each year as interest, dividends, and capital gains are realized. The benefit of this account is that when distributions are made, the owner will likely not be taxed on 100% of the distributions since some the funds were taxed during accumulation, and therefore, can provide tax-efficient income and distributions when needed to stay under certain marginal income tax brackets to allow for potential Roth IRA Conversions.

Roth IRA conversions are where an amount of a Traditional IRA is converted to a Roth IRA account. This is a taxable transaction in the same way as taking a distribution from the account.

Proper planning can provide the big picture to make informed decisions to be better prepared for times like this.

Understand Behavioral Finance

It is human nature to want the highest performance investment but with the lowest risk. We also want to sell at the highest point and buy and the lowest point. The truth is an investor cannot always get the best performing asset class with the lowest risk. That is why it is important to diversify among various asset classes to help reduce the risk of the portfolio in the event one or more of the asset classes do poorly. It is also important to diversify with each asset class with numerous securities to minimize the risk of one or more of the companies doing poorly.

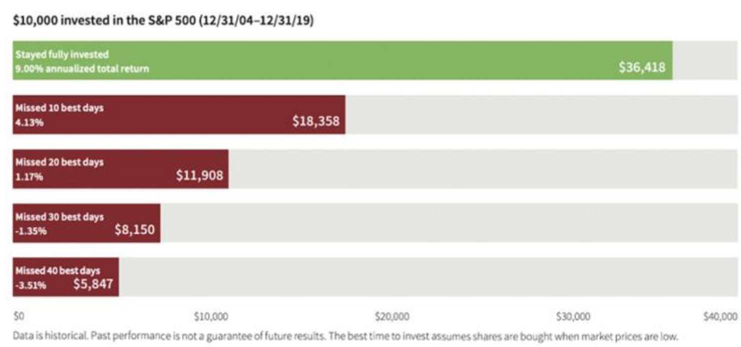
The best example is baking a pie. Numerous ingredients are used in the right combination to produce a fine-tasting pie, but any one of the ingredients by themselves would taste terrible.

It is the right combination of asset classes with diversification within each asset class that can help reduce risk and maximize gains within investment portfolios over time according to an investor's risk tolerance, time horizon, and goals.

It is also important to understand *NO ONE* can predict the financial markets with certainty. Even the well-educated economist can't agree and often get it wrong. It is common for some to look back with regret for not recognizing the high or the low of the markets. This is known as hindsight bias.

It's been said, "It is time in the markets that matter and not market timing." No better illustration of this that Figure 2. And, as we have recently witnessed, some of our best days can come in the midst of extreme market volatility. It is very hard to stick with your plan while listening to the 24-hour bad-news cycle, but we should not be nearsighted.

Figure 2. The Risk of Market Timing



Source: Putnam Investing

My colleague, Jay Mooreland states in his book, The Emotional Investor: How Biases Influence Our Investment Decisions, "Few people have heard of financial myopia, yet it is just as prevalent as nearsightedness, if not more. Financial myopia is less nearsightedness and more shortsightedness. It's not that investors lack the ability to view things as a distance; instead, they choose to focus on short-term outcomes. We are all free to choose, but this choice can be costly."[8]

Consider All Planning Options

We cannot control the financial markets, income tax rates, interest rates, and the likes, but we

8 Mooreland, Jay. 2015. *The Emotional Investor: How Biases Influence Our Investment Decisions*. Saint Paul, MN: Paperback Expert.

can, and should, control how we plan around these issues.

As discussed, having an overall plan is crucial to provide long-term insight into where one needs to be and how to get there efficiently. The plan will need to be updated and modified as situations warrant as needs change.

Maintain a Healthy Body, Mind, and Soul

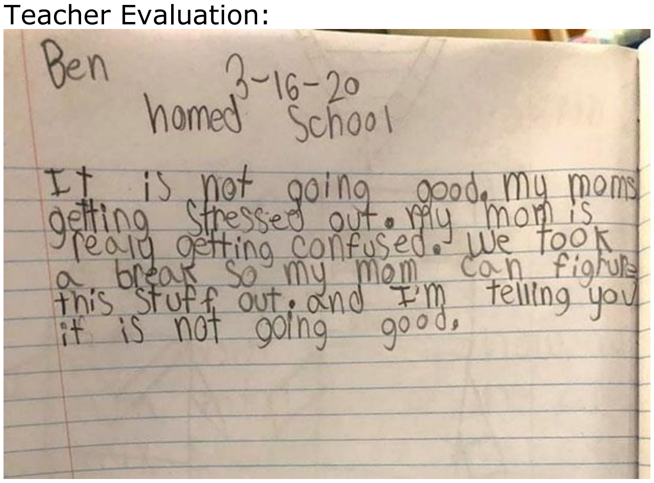
The important thing is to focus on the things we can control and less on the things we cannot. Having a roadmap (plan) in place and managing risk in all areas, all the time, can help provide the peace to survive stressful storms.

It is also important to keeps things in perspective. It is unfortunate that it takes events like today for us to be reminded of what is truly important in life.

We all have reasons to be thankful, and we need to remember to plan, live, love, and laugh. Life on this earth is too short not to.

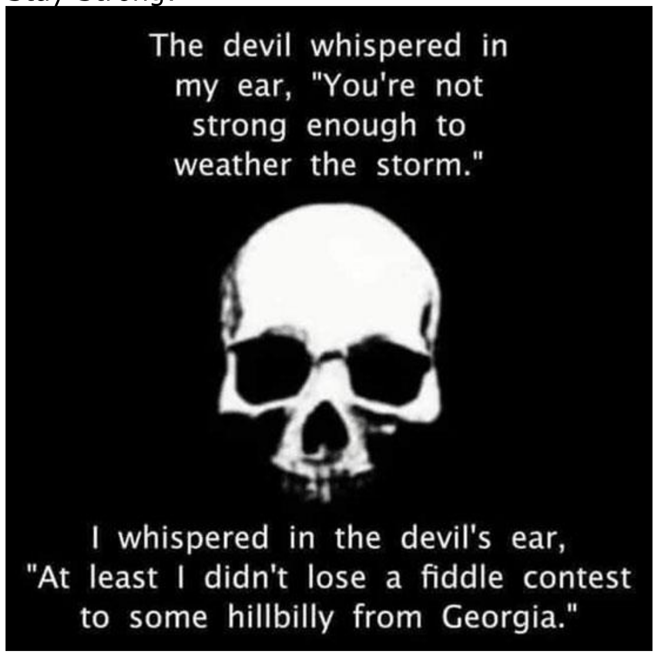
Humor Matters

Teacher Evaluation:



Source: Facebook, Hat tip Miriam Lawrence

Stay Strong:



Source: Facebook, Hat tip Miriam Lawrence

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

"If you're going through hell, keep going."

--Winston Churchill

Please call us if you have any questions or if we can help you in any way.

The SilverStar Team

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Register for a Special Webinar presented by well-known economist, Fritz Meyer and other webinars on page 4-5