Estate Planning Update: How the SECURE Act Affects IRA Beneficiaries

In December 2019, Congress passed the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which is changing retirement and estate planning for many. One major provision of the law affects those who inherit individual retirement accounts (IRAs). So, whether you might be inheriting an IRA or are planning on leaving one to your heirs, you should understand how the SECURE Act has changed the rules for beneficiaries. The IRA strategies discussed below could help enable a sound financial plan for a rewarding retirement—for both you and your heirs.

What's Different for IRA Beneficiaries?

The SECURE Act changes the time frame allowed for withdrawals from an inherited IRA. As you probably know, owners of a retirement account (other than original owners of a Roth IRA) generally must withdraw a minimum amount of money every year after they reach a certain age. These withdrawals are called required minimum distributions (RMDs).

Prior to the act, individual beneficiaries were entitled to take the RMDs from an inherited retirement account over the course of their life expectancy. By choosing to stretch their RMDs over time, they could benefit from tax deferral on any growth in the account. This situation has changed. Now, per the SECURE Act, many individual beneficiaries must completely withdraw the funds in an inherited retirement account within 10 years of the original owner's death.

Exceptions to this rule include account owners who are:

- A beneficiary who inherited an IRA from someone who died before January 1, 2020
- The surviving spouse of the IRA owner
- A child under the age of majority (Once a child reaches maturity, however, the 10-year rule applies.)
- A disabled or chronically ill individual
- An individual who is not more than 10 years younger than the IRA owner

As you can see, for many beneficiaries, the new 10-year withdrawal rule could result in substantially less tax-deferred growth, as well as more taxes due on withdrawal. Fortunately, there are steps you can take to help mitigate the tax burden on these IRA beneficiaries.

IRA Strategies to Consider

To help avoid any negative consequences of the 10-year withdrawal rule, the following strategies may be useful.

Converting to a Roth IRA. Although inherited Roth IRAs are subject to the new rule, distributions remain tax free. With tax rates at historic lows, you might want to consider a Roth conversion. Converting now would mean your beneficiaries (who may be in a higher tax bracket) could potentially avoid being heavily taxed on distributions.

Refusing to accept the IRA. You can refuse or disclaim inherited assets without tax implications. A qualified disclaimer must be in writing and submitted within nine months of the IRA owner's death. In addition, the beneficiary must not have received or exercised control over the IRA, and the IRA must pass to someone other than the person who refused it.

This strategy may work well for a surviving spouse who doesn't need the funds in the IRA. If the IRA passes to other

beneficiaries (such as children), they would avoid a larger share of assets being distributed over a single 10-year period. In this case, one 10-year period would begin upon the death of the IRA's original owner and a second 10-year period would begin for the remaining balance of the account upon the death of the surviving spouse.

Naming a trust as beneficiary. With this option, the trustee can exercise control over when IRA distributions are made. If you named a trust as beneficiary of an IRA *before* the implementation of the SECURE Act, however, you should review your estate plan with an attorney. In some instances, trusts drafted before passage of the SECURE Act may now be obsolete, resulting in a distribution pattern that works against the original intent of the trust.

Paying premiums on life insurance. Depending on your insurability, you may want to explore taking a withdrawal from the retirement account and use it to pay premiums on a life insurance policy. With this strategy, the beneficiaries of your policy would be set up to eventually receive a tax-free payout. This scenario might be more advantageous than leaving your retirement account to your heirs.

Making a qualified charitable distribution. If you're older than 70½, you're entitled to make a qualified charitable distribution (QCD). This is a tax-free gift of up to $100,000 per year from an IRA, payable directly to a charity. QCDs may become more advantageous under the SECURE Act because IRAs might be considered a less attractive inherited asset due to the elimination of the lifetime withdrawal rule.

Revising the estate plan. Working with your attorney, you might want to revise your estate plan to take an asset-by-asset approach rather than assign assets to your heirs using a

percentage. For example, you might earmark IRA assets to be distributed to minors or individuals in lower tax brackets and designate a larger proportion of nonretirement assets to those with higher incomes.

Helping Secure the Future

The changes adopted as part of the SECURE Act are complex, so it's important to work with a tax attorney to understand them. Given the new rules that affect many individuals who will inherit an IRA, you should consider a review of your estate plan and designated beneficiaries as a priority. Although many of the SECURE Act's changes benefit those saving for retirement, it's wise to be aware of all the options that can help you and your heirs better prepare for the future.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

Managing Risk Through Diversification…Now, More Than Ever

By Sarah Ruef-Lindquist, JD, CTFA

By Sarah Ruef-Lindquist, JD, CTFA

Every client has heard me talk about the keys to managing risk in their portfolios. One of those keys is diversification. This can be hard for people who are convinced they know what industry or sector is going to 'always' do well, so they are willing to overconcentrate there, or have stock they've held for a long time or received as a gift or inheritance and have grown emotionally attached or sentimental about it.

If history is a guide, then diversification is key to managing risk in a portfolio. Looking over the last 10 years, beginning with 2010 and looking at 14 recognized asset classes, like Small-Cap Growth, Real Estate, High-Yield bonds, Large-Cap Value, and their rank each year from highest to lowest return, the numbers tell the story.

For instance, some investors feel that owning large-cap growth stock is the key to their long-term success. It certainly is a strong performer but relative to the 13 other asset classes in this chart, it has been the top performer only 2 out of the past 10 years (2015 @ 5.67% and 2019 36.39%).

Small-Cap Growth has also been the top performer for 2 out of those 10 years with impressive numbers (2010 @ 29.09% and 2013 @43.3%). Ironically, Money Market was the top performer in 2018, in a year when Large-Cap Growth was 5th on the list, and Small Cap Growth was 10th. In 8 of the 10 years studied, Money Market

is in the lower 7 classes out of the 14, sometimes with less than 1% performance, but never negative over those 10 years…with at least one sector performing below Money Market 7 out of 10 of those years.

Diversification can allow an investor to have at least a toe hold in as many asset classes as possible to reduce the risk that comes with investing. Some people achieve diversification by buying stocks and bonds in as many classes as feasible, although an even higher level of diversification can be achieved with mutual funds or exchange-traded funds that hold a diversified portfolio either by sector, capitalization or in the

case

PERIODIC TABLE OF ASSET CLASSES (NO ALTERNATIVE INVESTMENTS)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Highest Return	Small-Cap Growth 29.09%	Muni National Intermediate 10.70%	Mid-Cap Value 18.51%	Small-Cap Growth 43.30%	Real Estate 28.82%	Large-Cap Growth 5.67%	Small-Cap Value 31.74%	Emerging Markets 37.28%	Money Market 1.87%	Large-Cap Growth 36.39%
	Real Estate 26.97%	Core Fixed Income 7.84%	Emerging Markets 18.22%	Mid-Cap Growth 35.74%	Mid-Cap Value 14.75%	Muni National Intermediate 3.30%	Mid-Cap Value 20.00%	Large-Cap Growth 30.21%	Short-Term Bond 1.58%	Mid-Cap Growth 35.47%
	Mid-Cap Growth 26.38%	Real Estate 7.48%	Small-Cap Value 18.05%	Small-Cap Value 34.52%	Large-Cap Value 13.45%	Real Estate 1.28%	High-Yield 17.49%	Mid-Cap Growth 25.27%	Muni National Intermediate 1.28%	Small-Cap Growth 28.48%
	Mid-Cap Value 24.75%	High-Yield 4.38%	Large-Cap Value 17.51%	Large-Cap Growth 33.48%	Large-Cap Growth 13.05%	Core Fixed Income 0.55%	Large-Cap Value 17.34%	International 25.03%	Core Fixed Income 0.01%	Mid-Cap Value 27.06%
	Small-Cap Value 24.50%	Large-Cap Growth 2.64%	International 17.32%	Mid-Cap Value 33.46%	Mid-Cap Growth 11.90%	Short-Term Bond 0.54%	Small-Cap Growth 11.32%	Small-Cap Growth 22.17%	Large-Cap Growth −1.51%	Large-Cap Value 26.54%
	Emerging Markets 18.88%	Short-Term Bond 1.55%	Real Estate 16.47%	Large-Cap Value 32.53%	Muni National Intermediate 9.05%	Money Market 0.02%	Emerging Markets 11.19%	Large-Cap Value 13.66%	High-Yield −2.26%	Real Estate 24.33%
	Large-Cap Growth 16.71%	Large-Cap Value 0.39%	Mid-Cap Growth 15.81%	International 22.78%	Core Fixed Income 5.97%	Mid-Cap Growth −0.20%	Mid-Cap Growth 7.33%	Mid-Cap Value 13.34%	Mid-Cap Growth −4.75%	International 22.66%
	Large-Cap Value 15.51%	Money Market 0.07%	High-Yield 15.58%	High-Yield 7.42%	Small-Cap Growth 5.60%	International −0.81%	Real Estate 7.14%	Small-Cap Value 7.84%	Real Estate −5.83%	Small-Cap Value 22.39%
	High-Yield 15.19%	Mid-Cap Value −1.38%	Large-Cap Growth 15.26%	Real Estate 1.26%	Small-Cap Value 4.22%	Small-Cap Growth −1.38%	Large-Cap Growth 7.08%	High-Yield 7.48%	Large-Cap Value −8.27%	Emerging Markets 18.90%
	International 7.75%	Mid-Cap Growth −1.65%	Small-Cap Growth 14.59%	Short-Term Bond 0.36%	High-Yield 2.50%	Large-Cap Value −3.83%	Core Fixed Income 2.65%	Muni National Intermediate 5.45%	Small-Cap Growth −9.31%	High-Yield 14.41%
	Core Fixed Income 6.54%	Small-Cap Growth −2.91%	Muni National Intermediate 6.78%	Money Market 0.05%	Short-Term Bond 0.62%	High-Yield −4.64%	International 1.00%	Real Estate 3.74%	Mid-Cap Value −12.29%	Intermediate-Term Bond 8.72%
	Muni National Intermediate 2.38%	Small-Cap Value −5.50%	Core Fixed Income 4.21%	Core Fixed Income −2.02%	Money Market 0.03%	Mid-Cap Value −4.78%	Short-Term Bond 0.89%	Core Fixed Income 3.54%	Small-Cap Value −12.86%	Muni National Intermediate 7.54%
	Short-Term Bond 2.35%	International −12.14%	Short-Term Bond 0.43%	Muni National Intermediate −2.55%	Emerging Markets −2.19%	Small-Cap Value −7.47%	Money Market 0.25%	Money Market 0.86%	International −13.79%	Short-Term Bond 3.55%
Lowest Return	Money Market 0.13%	Emerging Markets −18.42	Money Market 0.07%	Emerging Markets −2.60%	International −4.90%	Emerging Markets −14.92%	Muni National Intermediate 0.25%	Short-Term Bond 0.42%	Emerging Markets −14.58%	Money Market 2.28%

Source: Morningstar® Direct

This example is for illustrative purposes only. Performance data quoted represents past performance. Past performance does not guarantee future returns. Investors should note that diversification does not assure against market loss and that there is no guarantee that a diversified portfolio will outperform a nondiversified portfolio. The return and value of investment products will fluctuate with market conditions. Indices are unmanaged and investors cannot invest directly in an index. The above asset classes are represented by the following indices: Large-Cap Growth—Russell 1000 Growth; Large-Cap Value—Russell 1000 Value; Mid-Cap Growth—Russell Midcap Growth; Mid-Cap Value—Russell Midcap Value; Small-Cap Growth—Russell 2000 Growth; Small-Cap Value—Russell 2000 Value; International—MSCI EAFE; Emerging Markets—MSCI Emerging Markets; Intermediate-Term Bond—Bloomberg Barclays U.S. Aggregate Bond Index; Short-Term Bond—Bank of America Merrill Lynch U.S. Treasuries 1–3 Yr TR USD; Muni National Intermediate—Bloomberg Barclays U.S. Municipal Bond; Real Estate—MSCI U.S. REIT; High-Yield—Bank of America U.S. High Yield Master II; Money Market—Bank of America U.S. 3-Month T-Bill.

Securities and advisory services offered through Commonwealth Financial Network,® Member FINRA/SIPC, a Registered Investment Adviser. Fixed Insurance products and services offered by Allen Insurance and Financial or CES Insurance Agency.

AMKTG-2067-31858_01/20

These asset classes for the most part do not take into account another dimension of diversification, which is industry sector,

like industrials, energy, consumer staples. Diversifying among sectors within a portfolio is also a layer of this strategy to reduce the likelihood that one sector's underperformance will disproportionately impact the performance of a portfolio.

In 2020, during the first half of the year, looking at the 11 sectors of the S&P 500, technology stocks outperformed the other sectors at 15%, while energy underperformed the sectors and -35.3% according to Fidelity, https://www.fidelity.com/viewpoints/investing-ideas/quarterly-sector-update. The average performance of all the sectors in the S&P 500 was -3.1%. Contrast 2010, when energy performed at 20.46% and technology at 10.22% according to Invesco, https://www.invesco.com/pdf/U-SPSECTOR-FLY-1.pdf.

In conjunction with your financial advisor, in addition to defining goals and risk tolerance, consider a level of diversification that aligns with both. Having exposure in many asset classes and sectors can help a portfolio weather the volatility that can negatively impact value.

Tom Chester Earns CPFA Designation

Thomas C. Chester, CFP™, AIF®, CPFA

Thomas C. Chester, a financial advisor at Allen Financial in Camden, has earned the designation of Certified Plan Fiduciary Advisor from the National Association of Plan Advisors.

The Certified Plan Fiduciary Advisor (CPFA) credential – developed by some of the nation’s leading advisors and retirement plan experts – demonstrates knowledge, expertise and commitment to working with retirement plans.

Plan advisors who earn their CPFA demonstrate the expertise required to act as a plan fiduciary or help plan fiduciaries manage their roles and responsibilities.

Chester has been with Allen Financial since 2005. He has FINRA Series 6, 7, 63, and 66 registrations and he is a CERTIFIED FINANCIAL PLANNER™ Professional and Accredited Investment Fiduciary®.

Despite Bumps Along the Way,

Road to Economic Recovery Shows Promise

Halfway through 2020, we’ve already had enough news (and then some) to fill up an average year. So far, we’ve seen a pandemic explode—then moderate. The stock market crashed—then recovered rapidly. There were protests around the nation—and we don’t know what will come next there. In addition to these major events, politics has steadily become more confrontational, and we know it will likely get worse as we move toward the November elections.

Given the headlines, the key to figuring out what is likely to happen over the rest of the year is to focus on the most important trends, which for our industry means the coronavirus pandemic, the economic response to it, and the financial markets.

Despite Rising Coronavirus Cases, Positive Economic Signs Emerge
The real question about the coronavirus for the rest of 2020 is not if there will be a second wave, but whether it will be large enough to derail the economic recovery underway. So far, it does not look like it will. As of early July, we are seeing significant second waves in several states, and rising case counts in many others. It is quite possible we will see lockdowns locally, but a national shutdown looks unlikely, which should allow much of the recovery to continue. Although there are risks to that outlook, it remains the most probable case for the rest of the year.

Despite the rising case counts, the economic reopening is making solid progress. Job reports so far have indicated the damage has peaked and many have returned to work, leading to a bottoming out and rebound in consumer confidence. Surprisingly strong

consumer spending data has validated this, as consumers spend only when employed and confident. Business confidence has rebounded as well, bringing it close to or above pre-pandemic levels.

The recovery has benefited from two major factors. First, the virus was brought under control faster than expected. Although that improvement has paused—we are seeing localized outbreaks in several states and rising case counts in others—the spread of the virus remains moderate in much of the country. Second, the Federal Reserve (Fed) provided substantial monetary support at the same time the federal government provided trillions in stimulus payments. The combination acted as life support until the economy could reopen, and that life support appears to have worked.

Financial markets have also responded to the surprisingly positive outcome so far. After an initial drop and what looked like an impending depression, they recovered strongly because of federal support and control of the virus.

Looking forward, while the risks of a national resurgence remain, the more probable outcome is that localized outbreaks will be contained as local authorities take appropriate measures. Even if cases increase nationally, the bulk of the damage will likely be confined to a limited number of states. Local shutdowns are to be expected as states respond, but we are still far away from even considering national measures, which means the economic recovery is likely to continue through the end of the year.

In fact, it may accelerate. So far, many metrics have recovered much faster than expected. Mobility data is already above pre-pandemic levels, while consumer spending has regained a substantial share of its losses. Auto sales and the housing

industry have also shown significant bounces. Overall, for much of the economy, if we trend the recovery over the past several weeks through the end of the year, we could be close to where we were at the start.

Chances are that won't happen, of course, and setbacks are likely. Still, based on the data so far, the chances of continued improvement look to be well supported. If we do suffer setbacks, the government is likely to provide more stimulus to close the gap. All in all, these trends should counteract any damage.

With Recovery Expected, Markets Are Holding Steady

This is exactly what financial markets are expecting—continued progress on controlling the virus and a smooth economic recovery. Markets have returned close to pre-pandemic highs, and, despite some recent volatility, are holding steady even in the face of state outbreaks and fears from the Fed. Markets expect a positive outcome across the board, and that remains very possible.

The expectation that everything will proceed smoothly, however, limits potential appreciation through the end of the year. With all the good news priced in, valuations are quite high—the highest level in the past decade based on expected earnings. For markets to appreciate beyond that, things have to go even better than expected, which will be difficult.

Markets, for example, now expect earnings for S&P 500 companies to rebound to levels we saw in 2019, which would be an amazing recovery. Stocks, however, are well above the levels we saw then—which also suggests limited future appreciation. A great deal of good news is already priced in, which means there are downside risks if things do not go as well as expected.

Looking at the numbers, the economy will still be in recession

in the third quarter but should recover substantially from what looks to be a very weak second quarter. The fourth quarter should see the economy close to breakeven, with the very real prospect of a return to growth at the start of next year.

The stock market, in the form of the S&P 500, will likely finish the year around current levels, maybe a bit higher. Interest rates will remain low, as inflation remains under control and the Fed refrains from any increases.

Positive Momentum Should Continue Through 2020

The story for the rest of 2020 is continued healing—from the pandemic, economic damage, and market turbulence. Although real risks remain and setbacks are inevitable, the outlook is positive. For the coronavirus, we know what to do and are addressing renewed outbreaks. For the economy, the current momentum should keep us improving through the end of the year. And the market’s confidence in a positive outcome is a good sign for the future.

Despite the headlines, despite the risks, and despite everything, we move into the second half of the year in a better place than anyone expected a couple of months ago. That is a very good place to start.

Certain sections of this commentary contain forward-looking statements that are based on our reasonable expectations, estimates, projections, and assumptions. Forward-looking statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. All indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. Diversification does not assure a profit or protect against loss in declining markets. The S&P 500 is based on the average performance of the 500 industrial stocks

monitored by Standard & Poor's. Emerging market investments involve higher risks than investments from developed countries, as well as increased risks due to differences in accounting methods, foreign taxation, political instability, and currency fluctuation.

© 2020 Commonwealth Financial Network®

Test Your Knowledge of the Federal Tax Exclusion for Home Sales

A home residence can become a valuable asset in your net worth. But what happens if you decide to move? If your home has appreciated, capital gains tax may be recognized upon the sale.

True or False?

As long as you purchase another home and roll the sales proceeds into the new home, you can defer recognition of the taxable gain.

Answer: False

Previously, you could roll your capital gains into another home to avoid recognition of taxable gain; however, this option is no longer available. Currently, when you meet the qualifications, the federal tax exclusion is limited up to $250,000 (single) or $500,000 (married) on the taxable gain on the sale of a home. This exclusion is available only once every two years. To

qualify for the exclusion, you must meet the following requirements:

- **Ownership requirement**: You must own the home.
- **Residence requirement**: You must have lived in the home as your primary residence for at least 2 of the past 5 years.

If you are married, only one spouse needs to have owned the home to meet the ownership requirement. To meet the residence requirement, however, both spouses must have lived in the home for at least 2 of the past 5 years.

A partial exclusion may be available under specific circumstances, such as a job change (more than 50 miles away), health issues, or additional unforeseen situations. In addition, certain exceptions applyâ€"for example, if you were separated or divorced, if your spouse passed away, or if you were a service memberâ€"that may make you eligible for the exclusion.

A tax advisor can help you navigate the rules and determine if you qualify for the federal tax exclusion on the sale of your home.

Test Your Knowledge of COVID-19 Mortgage Relief

In response to the pandemic, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. Included in the CARES Act are provisions that allow homeowners to delay mortgage payments through forbearance for federally owned or backed mortgage loans.

True or False?

Under the CARES Act, when a mortgage payment forbearance period ends, a lump-sum balloon payment is immediately required to catch up on missed payments.

Answer: False

Although you can choose to repay all the missed payments at one time in a balloon payment, doing so is not required under the CARES Act. After the suspension ends, a variety of repayment options may be available depending on your lender and mortgage type. Repayment options may include setting up a repayment plan, modifying the payment, or increasing the length of your loan to account for the missed payments.

Once a mortgage is placed in forbearance, the loan payments will be temporarily suspended, but this does not mean the loan is forgiven or removed. The good news is that while the mortgage is in forbearance, late fees will not apply. Interest will continue to accrue on the mortgage during forbearance, however.

The following information can help you determine if you qualify for mortgage payment forbearance:

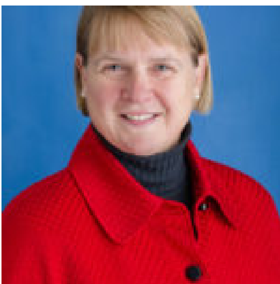
- **Eligibility:** Eligible homeowners include those who have (1) experienced a COVID-19 hardship, such as a loss of a job, reduction of income, or sickness, and (2) have a federally owned or backed mortgage. Federally backed mortgages may include those backed by the U.S. Department of Housing and Urban Development, Federal Housing Administration, U.S. Department of Veterans Affairs, U.S. Department of Agriculture, Fannie Mae, or Freddie Mac.
  - The Consumer Financial Protection Bureau has tools to help you look up which organization owns your mortgage. You can also contact your

mortgage lender to confirm which organization owns your mortgage.

- **Duration of relief:** Payment relief is available for 180 days. In addition, you can apply for an extension for another 180 days.
- **How to access relief:** Reach out to your loan servicer to discuss solutions available.

Some states have provided temporary relief from certain foreclosures or evictions as well. Many companies are also providing a range of mortgage relief options as needed. For mortgages not backed by the federal government, contact your mortgage servicer to see how it can help.

Doing Well by Doing Good – Socially Responsible Investing in 2020



By Sarah Ruef-Lindquist, JD, CTFA

The world of investing is increasingly focusing attention on ways in which capital can be invested to support businesses that are promoting social or environmental welfare, and/or govern themselves in a way that promotes diversity and inclusion of those historically marginalized in corporate leadership, either by virtue of gender, race or other suspect criteria.

For many investors, this approach aligns with their desire to support business that are "doing good" in the world either in terms of what social or environmental issues they are addressing, and perhaps in terms of how they govern themselves and treat the employees within their companies.

What has come to be known as Socially Responsible Investing ("SRI") or Environmental Social Governance investing ("ESG") involves using criteria like environmental, social, governance and employment practices to choose what investments will be held in a portfolio. According to Commonwealth Financial Network's website:

Sometimes referred to as environmental, social, and corporate governance (ESG) investing, Socially Responsible (SRI) is a broad-based strategy in which **corporate responsibility** and **societal concerns** are factored into investment decisions. In short, an SRI strategy seeks to **maximize both financial return and social good.**

Companies that deal in tobacco, gambling, fossil fuels, weapons, or involve child labor, employee discrimination, or lack board diversity are the kinds that get attention in SRI/ESG screening. Mutual funds will screen out companies that don't measure up in those areas.

This has broad appeal for many investors, but for some time there have been concerns that one could sacrifice market performance for social benefit. Over time, the index that

measures the performance of mutual funds that screen for SRI companies has shown that the gap has narrowed significantly between the general mutual and exchange-traded fund world and SRI-screened funds.

Most recently, during the first quarter of 2020, some saw better performance from their ESG exchange traded fund (ETF) than the S&P 500 delivered. A June 2020 article "ESG Funds Shine During Pandemic" in Wealthmanagement.com by Lawrence Carrel noted historically high inflows into mutual and exchange-traded funds while the overall fund universe posted higher outflows.

Favorable performance in the SRI and ESG space is not new. According to a US News and World Reports June 7, 2018 blog post entitled S*ocially Responsible Investing Delivers*:

Research and performance history imply that socially responsible investors receive superior absolute returns and risk-adjusted performance, while also addressing sustainability concerns. Dollars invested in sustainable and socially responsible strategies provide companies with better ESG metrics easier access to capital, which reduces the cost of equity and supports higher stock prices.

https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/articles/2018-06-07/socially-responsible-investing-delivers-for-investors

The author, Kate Stalter, regular contributor to *The Smarter Investor* noted "Since 1990, the socially conscious Morgan Stanley Capital International KLD 400 index (DSI) of U.S. stocks outperformed the S&P 500 in almost every time frame, and had better returns than the market cap-weighted index in both bull and bear markets."

The Covid-19 pandemic may have magnified the appeal of SRI and

ESG investing. The Carrel article quoted a senior product specialist at Swiss-based Pictet Asset Management, Marc-Oliver Buffle: “A lot of people have noticed that not having as many airplanes in the sky and cars on the road leads to cleaner air…leading to a global realization…directly playing into the hand of those businesses that we invest in, ones providing solutions to those issues.”

Perhaps as compelling for some investors, the article also quoted Martin Jarzebowski, director of responsible investing at Federated Hermes, as noting …”a new consistency of quality factors among ESG leaders, such as lower volatility and a higher profitability of their business models…taking structural ESG considerations into a normal investing framework is anew form of risk management.” He concluded, after noting the outperformance of ESG in the 4th quarter of 2018 “…ESG has more semblance of being the new quality factor.”

While the positive social and environmental perspective of SRI/ESG investing may be compelling, the quality dimension of these investments may be equally – if not more -compelling for some.

Consider whether a more socially responsible approach to investing makes sense for you. Would knowing that your investments were supporting companies working to improve the environment, or address social causes, or include women and minorities in executive leadership add value to your experience as an investor? As with all investment choices, you should consult with your financial advisors before making any changes to your portfolio or investment strategy.

Is Now the Time to Buy or Refinance?

June usually marks the height of the spring real estate market—it's National Homeownership Month, after all. But this June hasn't been typical. With job loss numbers in the tens of millions, the economic impact of the coronavirus pandemic has put home ownership at risk, with many struggling to make mortgage or rent payments.

There is one unexpected bright spot, though: Interest rates have dipped to historic lows. And, if you're in a position to take advantage of opportunities to buy a home or refinance a mortgage at an irresistible rate, you may be wondering whether you should.

To Buy or Not to Buy?
It depends. There are pros and cons to buying now, and it really hinges on your specific situation. Here are a few things to consider:

Time, and numbers, are on your side. If you're a first-time buyer or an investor looking to seize the day, you probably don't need to rush. Although most of the job losses seem to be behind us and consumer confidence appears to have bottomed out, rates likely will remain low for some time. And, though home values are showing more resiliency than they did in 2008, prices may decrease a bit more, getting you a little more for your money.

Supply, and available credit, are not. Even if you're willing to brave a fluctuating market, overall inventory is relatively low and there's little to choose from. Not surprisingly, many sellers are reluctant to list properties during the pandemic and

are holding out for more favorable economic conditions. If you're having trouble finding what you want and are unwilling to wait, don't rule out working with a developer. Many need cash flow right now, so it could be your chance to make a deal.

Keep in mind the mortgage market hasn't been immune to the impact of the pandemic, with liquidity dipping along with rates. May saw a tightening of lending standards, according to a recent Mortgage Credit Availability Index report issued by the Mortgage Bankers Association. Cautious lenders are changing underwriting guidelines, so you may expect more stringent credit score and down payment requirements—and your credit will factor into whether you get the best available rate. First-time buyers, in particular, may need to look at various financing options, such as conventional loans with private mortgage insurance or FHA loans, if they have a lower credit score or want to put less down.

Is Refinancing the Right Move?

Historically low interest rates are causing a flurry of activity for existing homeowners, too, and with good reason. Refinancing offers possibilities like reducing your monthly payment, switching from an adjustable to a fixed rate, shortening the life of your loan, or even cashing out a portion of your equity to use toward paying for college, home improvements, or other outstanding debt. Although it may seem like a no-brainer, it's not always the right move—and you could find yourself with less money in the bank instead of more.

Think long term. The traditional rule of thumb was to refinance if you could lower your current mortgage rate by at least 2 percent. Not anymore. If you can lower your rate by 1 percent or more, you may see significant savings. How much, though, may depend on how far along you are in paying your current loan. For example, if you're 3 years in and want to shorten your loan from

30 to 15 years, you can save on interest, even if you end up with the same or slighter higher monthly payment, but over much less time. If you're 10 years into a 30-year loan, however, and want to lower your monthly payment by refinancing for another 30-year term at a lower rate, you may end up paying more in interest over 40 years.

Shop around and do the math. Although refinancing can often save money over the life of your mortgage loan, it can come at a price. In addition to the interest rate, pay attention to things such as closing costs, up-front fees (e.g., appraisal, legal, loan origination, and title search fees), points, and whether the lender will service the full life of your loan. You may find some lenders offer "no points, no closing costs" options at slightly higher interest rates. Finally, consider the costs of the loan against how long you plan to stay in your home. Ideally, you want to break even on your refinancing costs within one year. Be sure to shop lenders and run the numbers with your CERTIFIED FINANCIAL PLANNER™ professional—making meaningful comparisons can help you snag the best possible deal and ensure that savings outweigh costs.

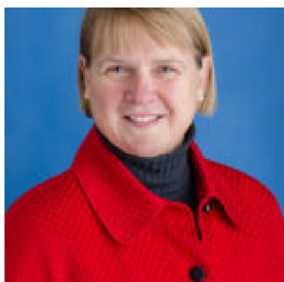
Final Thoughts . . .

Taking advantage of low rates is attractive, but your personal circumstances will dictate whether it's a good time to buy or refinance, especially with lingering uncertainty around the economy. One caveat: If you're an investor looking to become a landlord, plan to have an emergency fund of about three months' salary on reserve (as well as enough funds to cover transactional costs). The economic fallout of the pandemic could affect the ability of residential and commercial tenants to make rental payments.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

The SECURE Act, Part II

By Sarah Ruef-Lindquist, JD, CTFA



Sarah Ruef-Lindquist, JD, CTFA

Earlier this month, we shared how with January 1, 2020 came a host of changes in how retirement planning will be done in light of the new law affecting retirement plans known as the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) signed into law in late 2019.

There are a few more aspects to this law that impact how people save for and draw from their retirement plans.

Good News for charities: 70 ½ is still the age to be eligible to make Qualified Charitable Distributions, even though Required

Minimum Distribution age is now 72.

One of the most significant changes is that the age when someone must begin taking funds out of a 401(k) or IRA has moved from 70 ½ to 72; For many years, people who turned 70 ½ have to begin withdrawing distributions (Required Minimum Distributions, or “RMD’s”0 (and paying related income taxes) by April 1 of the following year or suffer a hefty penalty of 50% of the amount of the distribution; Now, the age is 72.

70 ½ is still the age at which one becomes eligible to make direct charitable gifts to charity (up to $100,000 total charitable gifts each year) and not have the gift amount included in taxable income. That’s great news for charity and for non-itemizers who are able to take advantage of this tax-efficient means of charitable giving.

Saving for retirement is ageless: No age limit on contributing to IRA

Anyone with earned income for the year may now make contributions to an IRA. Previous to the SECURE Act, age 70 ½ was the cut off and anyone older than that could not make contributions. Now even those beyond 70 ½ can continue to contribute to their IRA as long as they have earned income equal to or greater than the amount they want to contribute, up to $7,000 for 2020.

We will be hearing more about this new provision of the law affecting retirement plans as we enter 2020 and the new decade. Be sure to check with your financial advisor about how any of this may affect your particular situation.

The SECURE Act

By Sarah Ruef-Lindquist, JD, CTFA

Sarah Ruef-Lindquist, JD, CTFA

Happy New Year! With January 1, 2020 comes a host of changes in how retirement planning will be done in light of the new law affecting retirement plans known as the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) signed into law in late 2019.

There are many aspects to this law that impact how people save for and draw from their retirement plans. Here are just a few.

70 ½ become 72

One of the most significant changes is that the age when someone must begin taking funds out of a 401(k) or IRA has moved from 70 ½ to 72; For many years, people who turned 70 ½ have to begin withdrawing distributions (Required Minimum Distributions, or "RMDs (and paying related income taxes) by April 1 of the following year or suffer a hefty penalty of 50% of the amount of the distribution; Now, the age is 72.

But be careful: The law doesn't take effect until January 1, 2020, so those who turned 70.5 years in 2019 still need to

withdraw their required minimum distributions as required under the old law. People who are expected to turn 70.5 years old in 2020 will not be required to withdraw RMDs until they are 72.

The end of the non-spousal inherited “Stretch” IRA

Until the SECURE Act, those who inherited IRA accounts from people to whom they were not married were able to “stretch” the payments out of the IRA over their own life expectancy. This allowed the funds to grow tax free longer, and delay the payment of income tax resulting from those distributions.

While spouses who inherit their deceased spouse’s IRA can stretch the distributions over their own life expectancy, the SECURE Act requires most other beneficiaries withdraw all assets of an inherited account within 10 years. There are no annual or other periodic required minimum distributions within those 10 years, but the entire balance must be distributed within 10 years of the death.

Oh, baby!

A new provision of the SECURE Act will allow penalty-free withdrawals of up to $5,000 from 401(k) accounts to defray the costs of having or adopting a child. This provision will assist mostly younger retirement savers who have a longer runway until they actually will be tapping into their 401(k)’s for retirement income.

We will be hearing more about this new provision of the law affecting retirement plans as we enter 2020 and the new decade. Be sure to check with your financial advisor about how any of this may affect your particular situation.