S.F. EHRLICH
ASSOCIATES, INC.

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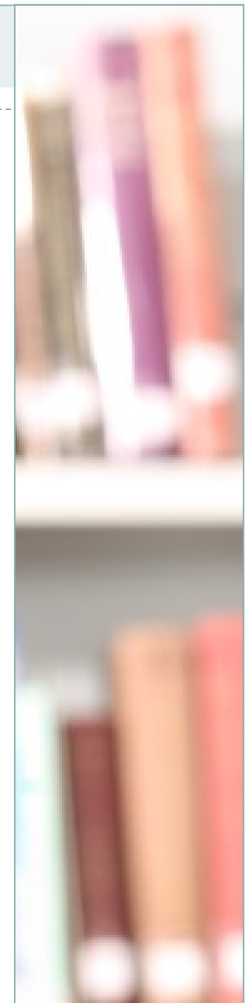


Managing YOUR Money

STAN'S WORLD

While shopping recently, I was asked by a cashier how much she would owe in taxes on an IRA she liquidated. It was an interesting question on many levels.

Aside from the fact that I don't even know her last name (nor does she know mine, though she knows I do something with 'money' for a living), I also don't know anything about her income, financial status, or cash flow needs. When I asked why she withdrew all the funds from the IRA, she replied that it was due to the low return she was getting. While changing investments is an option, it's not if you don't know that you can.

She then told me that she has several IRAs since she has to open a new IRA account every year. (No, she doesn't.) In a different bank. (Not true.) She knew that because, well, she just did.

When I explained that withdrawing funds from an IRA would result in the payment of taxes that weren't necessary if she had no need for those funds, she said it was so little it didn't matter. I suspect the answer was either from embarrassment or because she found the whole situation too confusing. The experience actually left me feeling sad.

Our brief exchange reinforced something I've known for many years: Many Americans know little about investments. For those who have cobbled together enough shekels to open an IRA, my sense is they walk into their local bank and ask for help. Further, I suspect that the help they get often consists of assistance completing the paperwork to open an IRA account, followed by a recommendation to buy a CD because "that's what everyone else does."

With my cashier fresh in my mind, consider this to be my version of a public service message as we start a new year. Pass it on to those friends, relatives, or neighbors, who might have a question, and don't know who to call.

- Do you have a child – of any age – who you would like to help learn more about money? Give them our number. (No charge.)
- Do you have an adult child who just got his/her first job and doesn't know which investment options to select for their 401k plan (or whether or not to invest in the company 401k plan)? Give them our number. (Yup, no charge.)

STAN'S WORLD (CONT'D)

- Do you have an elderly parent who might need some help understanding their monthly bills, Social Security check, or a Medicare benefits form? Give them our number. (Still, no charge.)
- Do you have a co-worker/neighbor/relative who looks bewildered when he/she talks about their retirement plan? Give them our number. (Did I mention, no charge?)

If you know someone who can use our help, don't be shy in passing along our contact information. We're not soliciting business; rather, we feel a moral obligation to help people deal with issues they may find intimidating. What might be a simple question for us to answer may feel overwhelming to someone else, and maybe we can fix that.

THE SECURE ACT—WHAT DOES IT MEAN FOR YOU?

By: John Zeltmann

Congress recently passed one of the most significant pieces of retirement planning legislation in a decade: The Setting Every Community Up for Retirement Enhancement Act ("the SECURE Act"). The new law changes how we plan for our clients' financial lives, so we thought it would be helpful to summarize the key implications.

Some highlights:

- **Extending IRA required minimum distribution age** - The age at which taxpayers are required to take distributions from IRAs and other retirement plans has been pushed from 70 1/2 to 72. This change takes effect on January 1, 2020, so if you turned 70 1/2 in 2019, you're required to continue taking minimum distributions. For anyone who reaches age 70 1/2 after January 1, 2020, you now have a new start date for your distributions.

  Planning implications

  * <u>Roth conversions </u>- For anyone who is retired, earning relatively low levels of income, and younger than 72, you just collected two more years in which you may benefit from a series of small Roth conversions. Given the demise of the Stretch IRA (more on that below), an account that grows tax-free just became a lot more valuable.
- **Elimination of age limit for IRA contributions** - Previously, workers over the age of 70 1/2 weren't allowed to make IRA contributions. The recently passed legislation eliminates this restriction. As more Americans work into their later years, this change makes sense.
- **529s** - Under the new legislation, up to $10,000 of 529 funds can be used to pay down student debt. Unfortunately, the $10,000 is a lifetime limit, not annual. If the plan beneficiary has siblings with student debt, however, an additional $10,000 per sibling can come out of the 529 account to cover those liabilities.

THE SECURE ACT—WHAT DOES IT MEAN FOR YOU? (CONT'D)

- **Death of the Stretch IRA** - One of the most notable changes introduced by this legislation, the "Stretch IRA" is dead. Under the old law, non-spouse beneficiaries of an IRA had the option to draw down the balance of the inherited account over their life expectancy, spreading the tax liability over the recipient's lifetime. This feature of IRAs made them terrific estate planning vehicles. Under the new law, non-spouse beneficiaries of an IRA will be required to draw down the account (paying the associated income taxes) within 10 years. During that 10-year window, withdrawals can be taken either throughout the 10-year window or as a lump sum in year 10; however, they'll have to consider the tax implications (i.e., what makes more sense: spreading the distributions evenly over 10 years or distributing a lump sum in year 10?).

  Planning implications:

  * Check beneficiaries and update estate plans - Since IRAs are no longer eligible to be distributed over a non-spouse beneficiary's lifetime, now is an excellent time to check in with your estate planning attorney to see how the recent legislation impacts your wills and overall estate plan. If you'd like us to coordinate the discussion, we're happy to do so.

  * Roth conversions - With the forced taxation of inherited IRAs being significantly accelerated, any opportunity to convert funds from a pre-tax IRA to Roth should be considered, especially if done when the taxpayer is in a relatively low tax bracket. We frequently coordinate such discussions with accountants, so please let us know if you want to learn more about this opportunity.

- **Annuities in employer-sponsored retirement plans** - Participants in 401(k) and other retirement plans will likely see a new addition to their investment menu over the coming years: annuities. Under the new law, when adding an annuity to a retirement plan, only a base level of due diligence is now required by the plan fiduciary to protect themselves from liability if the annuity provider goes bankrupt. (Before the new law, the plan fiduciary would have been liable.) Whether annuities serve as attractive investment options in a 401(k) plan will likely be a function of the underlying costs associated with the product.

- **Qualified Charitable Distributions** - Even though the IRA required minimum distribution starting age was pushed back from 70 1/2 to 72, the age at which you can begin making Qualified Charitable Distributions (QCDs) remains at the day you turn 70 1/2. Also, specific provisions were put in place to prevent against the abuse of funding IRA contributions and processing QCDs in the same year, so extra care will be required when using this strategy. (There's a limit, but QCDs are not reported as taxable income on your tax return.)

THE SECURE ACT—WHAT DOES IT MEAN FOR YOU? (CONT'D)

Aside from this legislation being a big win for the insurance companies (by making it easier to get annuities into employer-sponsored retirement plans), it's tough to identify clear winners and losers. The heavy lifting - restoring solvency to Social Security/Medicare/Medicaid as well as the federal agency that backs pension plans - is yet to be addressed. In the meantime, the changes listed above give us a chance to determine whether there are any planning opportunities for our clients, which we'll be doing in the coming months.

SCAMS THAT TARGET OLDER ADULTS

Based on the daily news, it seems that there are aren't enough warnings when it comes to financial crimes against the elderly. While some of the scams seem so obvious (Did you ever knowingly enter a lottery in Nigeria?), we react differently when we're in the moment. You're distracted, the phone rings, you hear the word 'police,' and you immediately go into crisis mode. As offered by Kiplinger's Personal Finance[1], here's what to look for:

- **Sweepstakes or lottery**: It may be a phone call, email, or letter that notifies you of a potential jackpot. You just have to pay a fee, or a tax, or customs duties, and the money will be yours. Sometimes, you may even receive a check that you can actually deposit. The caveat is you have to use a portion of that check to pay the fee. The scam is that the check you deposited won't clear, but the check or wire you send will be long gone before you realize the scam. The solution: Don't respond, you didn't win a lottery!
- **Tech support**: Either a tech support representative calls to report a virus in your computer, or a pop-up on your monitor provides a number to get help. Either way, the scam is to get you to either pay a fee or allow hackers into your computer to steal your data and passwords. The solution: Hang up the phone; buy antivirus protection to prevent pop-ups; and turn off your computer should a pop-up involving tech support ever appear.
- **Grandparent**: Your 'grandchild' calls, from a police department showing on your caller ID, crying and pleading for help. Bail money would be useful, or money for an attorney. And send it NOW. The solution: Call your grandchild's cell phone, and/or his/her parents to verify the story because it is a very effective scam.
- **Romance**: These start out innocently. An email from a classmate from high school: "Do you remember me?" The scam builds over weeks or months. Then comes a request: "Can you send me money so I can visit you? Can you send me money to help pay for my medical treatment?" These scams are devastating because of the monetary and emotional loss suffered by the victim. The solution: Seeing is believing. Use FaceTime to check your long lost friend, or independently verify what they tell you.

SCAMS THAT TARGET OLDER ADULTS (CONT'D)

- **Social Security**: The phone rings, and an agent from Social Security is on the line. They need to verify your Social Security number, or you owe money due to an overpayment. Just wire the overpayment, and all will be fine. The solution: Either don't answer the phone or hang up; the Social Security Administration NEVER calls.
- **Natural disasters and contractors**: The hurricane blows through, and the damage to your house is readily apparent. There's a knock on the door, and it's a contractor who happens to be working in the neighborhood. A small deposit will put you on the list for a roof repair. The solution: If your home ever suffers damage from a natural disaster, find your own contractor or work through your insurance company. Reputable firms don't have to go door-to-door to solicit business.

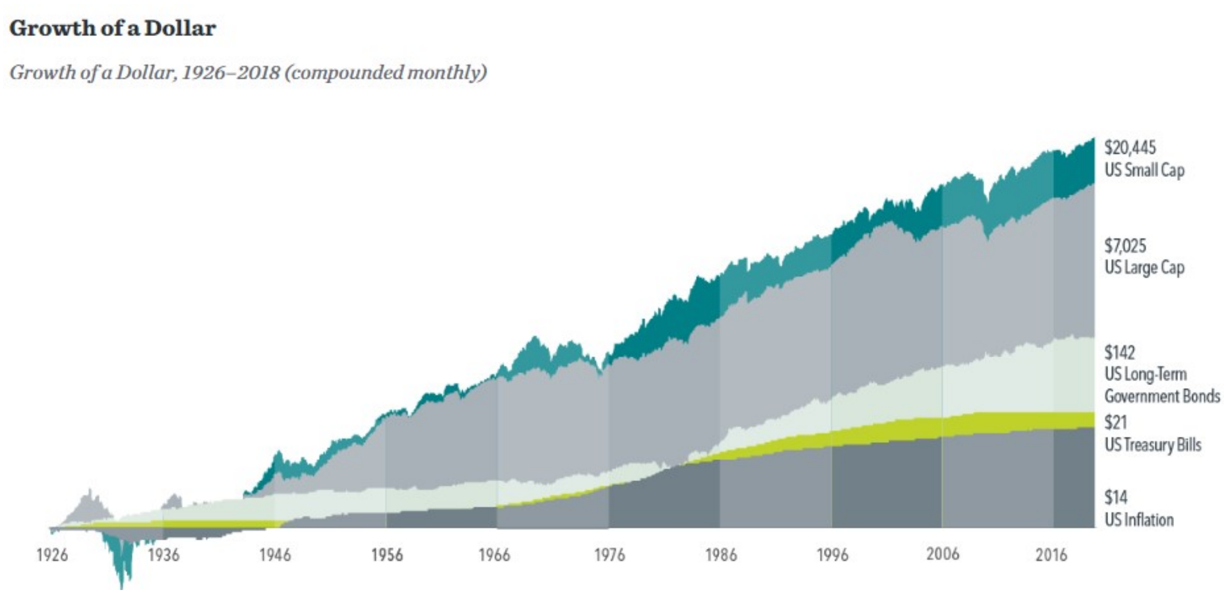
KEY QUESTIONS FOR THE LONG-TERM INVESTOR

As clients know, we use several mutual funds offered by Dimensional Fund Advisors (DFA) when we build investment portfolios. Their passively managed funds are based on extensive research, that claims to identify certain company-specific attributes that lead to better performance over extended periods.

This article[2] by DFA, 'Key Questions for the Long-Term Investor,' seeks to answer a few questions to help investors understand what they can and can't control. A few relevant excerpts along with some helpful charts:

1. Do I have to outsmart the market to be a successful investor?

"Financial markets have rewarded long-term investors. People expect a positive return on the capital they invest, and historically, the equity and bond markets have provided growth of wealth that has more than offset inflation. Instead of fighting markets, let them work for you."



KEY QUESTIONS FOR THE LONG-TERM INVESTOR (CONT'D)

2. Is there a better way to build a portfolio?

"Academic research has identified these equity and fixed income dimensions, which point to differences in expected returns among securities. Instead of attempting to outguess market prices, investors can instead pursue higher expected returns by structuring their portfolios around these dimensions.

3. Is international investing for me?

"Diversification helps reduce risks that have no expected return, but diversifying only within your home market may not be enough. Instead, global diversification can broaden your investment opportunity set. By holding a globally diversified portfolio, investors are well-positioned to seek returns wherever they occur."

KEY QUESTIONS FOR THE LONG-TERM INVESTOR (CONT'D)

4. Will making frequent changes to my portfolio help me achieve investment success?

"It's tough, if not impossible, to know which market segments will outperform from period to period. Accordingly, it's better to avoid market timing calls and other unnecessary changes that can be costly. Allowing emotions or opinions about short-term market conditions to impact long-term investment decisions can lead to disappointing results."

Annual Returns by Market Index

5. Can my emotions affect my investment decisions?

"Many people struggle to separate their emotions from investing. Markets go up and down. Reacting to current market conditions may lead to making poor investment decisions."

Avoid Reactive Investing

KEY QUESTIONS FOR THE LONG-TERM INVESTOR (CONT'D)

6. Should I make changes to my portfolio based on what I'm hearing in the news?

"Daily market news and commentary can challenge your investment discipline. Some messages stir anxiety about the future, while others tempt you to chase the latest investment fad. If headlines are unsettling, consider the source and try to maintain a long-term perspective."

All good advice for both novice and seasoned investors.

S.F. EHRLICH ASSOCIATES, INC.

S.F. Ehrlich Associates, Inc. has been providing financial advice on a fee-only, independent basis for over 20 years.

Managing YOUR Money is compiled entirely by Stanley F Ehrlich and John Zeltmann.

Questions or comments are always welcome (and encouraged!).

Did we mention? *If you have a friend or family member who you think might benefit from a discussion with us about financial planning and asset management, please pass along our phone number and email address. Long-term growth is not only crucial to portfolios, it's also critical to a business.*

If you have a friend, co-worker, or relative who's in need of financial advice due to a pending or actual job loss, please give them our contact information. We're always glad to speak ***pro bono*** *with people who need a hand.*

CLIENTS: *Please remember to contact S.F. Ehrlich (a) if there are any changes in your financial situation or investment objectives, (b) if you wish to impose, add or modify any reasonable restrictions to our investment management services, or (c) if you've changed your permanent residence.*

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[1] Cross, Miriam. "6 Scams that Prey on the Elderly." *Kiplinger*, 26 November 2019.

[2] "Key Questions for the Long-Term Investor." *Dimensional Funds*, July 2019.