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Tax Rules Are Changing Yet Again: **Introducing the SECURE Act**

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While most are aware of the changes contained in 2017 Tax Cut & Jobs Act, in late 2019 another primarily retirement related tax bill, the SECURE Act, was signed into law. Three significant changes, two beneficial and one less so, took effect on January 1, 2020. These changes affect those with tax-deferred retirement accounts and create planning opportunities.

The law repealed the 70½ age limitation on contributions to traditional IRAs. Individuals working past traditional retirement ages, even part-time, can defer taxes on up to $7,000 annually from earnings.

The law raised the starting age at which minimum distributions are required from age 70 ½ to 72 for IRAs/401Ks/403Bs. In addition, the IRS is revising tables for Required Minimum Distributions (RMDs). The new tables, effective in 2021, increase life expectancies by up to two years. These two changes both defer when RMDs must be taken and will slightly lower the RMD requirements based on longer life expectancies. The later RMD starting age of 72 may create opportunities to make ROTH conversions in tax-deferred retirement accounts after retirement and before distributions are required.

Another change is more troublesome for people who planned for their beneficiaries to "stretch" out required withdrawals from inherited retirement accounts to lower taxes on the inherited RMD distributions. The SECURE Act repeals the ability for non-spouse beneficiaries, with a few exceptions, to use their own life expectancy to determine RMDs from an inherited retirement account. Instead, the act requires that the entire account be distributed within 10 years of the previous owner's death. This rule applies to all deaths after December 31, 2019.

Before the SECURE Act, if a child inherited a retirement account, they could take RMDs from those accounts based on their own life expectancy. If an 80-year-old parent passed away and left a $1,000,000 tax-deferred retirement account to her only child, who was 50 years old, that child would have to begin taking RMD distributions from the account but could take as little as 3% annually for the rest of their life. Now, this account must be completely distributed by the end of tenth year after the parent's death and income taxes paid. Unfortunately, this extra income likely will come during the child's "peak earning years." In this example, adding an additional $100,000+ in income each year for ten years is likely to move the child into a significantly higher tax bracket, resulting in far more tax being paid, and far earlier, than under the previous "stretch" IRA provisions.

What can be done? This depends on a specific person's situation and should be discussed in detail with an advisor. However, a few possibilities are explored below.

If a tax-deferred retirement account owner has a limited taxable income but has children with high taxable incomes, the owner may want to consider making ROTH conversions while living. They will pay tax on the IRA to ROTH conversion amounts at their lower tax rate, and their children will inherit both remaining retirement accounts plus the converted ROTH accounts. While inherited ROTH retirement accounts still must be distributed within 10 years of the previous owner's death, those distributions will be tax-free to the higher tax rate children.

There are exceptions to the new 10-year inherited distributions rule. Those excepted from the 10-year rule include the surviving spouse, a child not more than 10 years past the age of majority, a disabled or chronically ill individual, and an individual not more than 10 years younger than the deceased owner. As a result, one could consider allocating their retirement assets to an individual who qualifies for an exception while leaving other assets to those who don't.

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Late-Stage College Planning

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Most of us know the basics when it comes to college financial planning. Save money every year in a low-cost 529 plan and make use of the American Opportunity Tax Credit, which offers $2,500 toward college costs. But what if you don't have enough saved for college for your high school aged child? According to college funding expert Lynn O'Shaughnessy, take these steps keep costs down even if your college savings has fallen short.

Answer the Financial Aid Eligibility Question

The first step is the Expected Family Contribution (EFC) calculator on the College Board website. This calculator considers your assets, income, family size, and other factors and estimates how much you would be expected to pay every year for college. Almost all public universities use the EFC.

If your EFC is higher than a college's annual cost of attendance, it's unlikely that you will qualify for need-based financial aid. On the other hand, with a low EFC you could focus on universities that meet the financial need of its students with minimal loans. The College Board site has a college look-up feature that shows the percent of demonstrated need met by each college.

Use Net Price Calculators

Every college has a net price calculator on their website which provides personal estimates of what one year of college will cost. The good ones use your family's detailed financial information, including assets and income. This is particularly important with private schools that may use customized aid formulas. Not only can the calculator estimate the need-based aid that your student could qualify for, but merit aid can be estimated using your child's grade and test information. You also can play detective with the calculator to see how a higher ACT or SAT score could affect merit aid. They are so helpful I would not recommend applying for a college without first using its net price calculator. Finally, beware of the bad calculators that collect very basic information with rough income ranges rather than the details.

Understand How Investments Affect Financial Aid

Many self-identified college finance experts try to structure your assets to maximize financial aid. Usually they are commissioned salespeople selling expensive products. In most cases avoid moving funds into non-qualified variable annuities or cash value life insurance in order to maximize merit aid. A good rule of thumb is that five to six percent of your assets held in college savings and other non-retirement accounts will be used in determining how much your family can spend on college each year. Don't let this formula prevent you from saving for college.

Know the Main Source of College Money

While there are a few high-profile, lucrative scholarships available, the more common source of money is the institution itself. If you have demonstrated need, look for schools that address the funding gap through grants. If college funding formulas do not show a financial need, look for schools that make merit aid a priority. Private school merit aid has reached a historic high with an average tuition discount at more than 58 percent. Keep in mind that this discounting phenomenon generally does not extend to the most competitive universities.

Avoid the Trophy University Issue

If money is an issue when it comes to paying for college, be actively involved in your child's college selection process from the beginning. Most 17-year-olds are not equipped to make a decision about whether a $300,000 education is better than a less expensive choice. It's hard to fathom the repercussions of saddling themselves and their family with crippling student loan debt. Too often published college rankings, peer influences, and name recognition can hijack the college selection process.

Studies by Stacy Dale and Alan Krueger establish that there is little lifetime earnings advantage for children of middle class and affluent families who attend elite universities. Through using net price calculators, you can formulate a reasonable estimate of how much a college would cost your family. If you want to save a lot of heartbreak, cross schools off your list that you are unwilling or unable to cover before submitting an application.

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Tax Rules (Continued from page 1)

Additionally, the new 10-year rule does not require annual minimum distributions but rather that all the assets be distributed by the end of the tenth year. Therefore, if a child is likely to retire at some point in the 10 years following a parent's death, this rule actually creates the opportunity to put off taking distributions while working and to shift all distributions to their first years of retirement when in a lower tax bracket. This also may allow the retired inheritor to defer taking Social Security to a later age, which has its own benefits.

Overall, the SECURE Act creates significant challenges and opportunities for retirement account owners. A careful review of one's retirement and estate plans is required to ensure that you navigate them effectively.

Four Fool-Proof Ways to Negotiate A Higher Salary

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Negotiating a higher salary is one of the most effective ways to maximize your lifetime earnings potential. Negotiating your salary before accepting a new position increases the amount of income you will earn in your new role as well as future ones. If you are renegotiating your salary at an existing company, the same advice applies.

According to research conducted by the best-selling authors of *Women Don't Ask*, Linda Babcock and Sara Laschever, men who negotiated their initial salaries were able to raise those salaries by an average of 7.4%. Moreover, their research found that women who consistently negotiate their salaries earn at least one million more over their lifetimes on average than those who do not.

So, what are some negotiating strategies you should be prepared to use the next time you're hired for a new job? Here are four fool-proof methods to negotiate your way to higher income.

Know Your Worth

Placing a dollar amount on yourself may or may not be comfortable for you. Put those uneasy feelings aside for a second; it's vital that you conduct thorough research on the exact position you're interviewing for, taking into account the average price range for that job title, required experience, and responsibilities. You'll want to know the national and local average salary so that you can best assign the monetary worth that you would bring to the position.

In order to successfully negotiate for the salary you feel you deserve, coming with a realistic and defendable number will aid you in discussions.

Prepare Your Value Statements

Know your value to the company and be able to articulate it clearly. Don't ask for higher pay just because. In negotiations, share exactly what makes you so valuable to the company and cite instances where your value is easily demonstrated and proven to be effective.
Writing down and practicing your personal value statements is a good idea. The more familiar they are to you and more comfortable you are speaking your value out loud, the easier it will be for you to reinforce your value over and over again during salary negotiations.

Sell Yourself

Salary negotiations are not a time to be shy. You know your worth, you've prepared your value statements—now it's time to sell yourself. Here's where you really need to swing for the fences and convince the person sitting across from you why you are worth the higher salary.

Confidently share your value as well as what you're worth and why. If you are interviewing for a new job, help the hiring manager envision you in the role. If you are asking for a raise, summarize your greatest contributions and all the ways you will continue to excel and perform in the future. It's worth keeping a record of your latest accomplishments. I recommend creating a Google doc and updating it weekly with how you go above and beyond your job description. That way, when it's time for your review, you'll be ready.

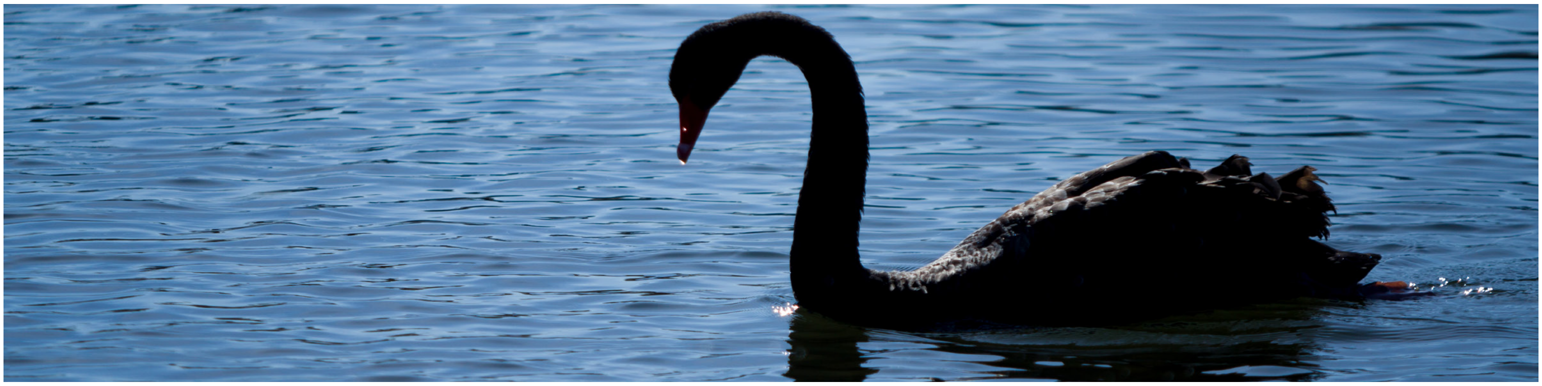
Ask for What You Want

Don't miss the most important part—asking for what you want. It's not enough to know your worth and value; you have to be willing to ask for it. Once you have successfully positioned yourself as someone deserving of a higher salary, clearly and confidently ask for the salary and other perks that brought you into that meeting in the first place.

You can either wait and allow the employer to lead with a number or you can. If you throw out the number first, just be sure to start with a higher number because it is always easier to negotiate down than up.

If you handle your salary negotiation professionally as I've outlined here, the worst that can happen is that the employer says no to the ideal salary amount you wanted. If they say no, ask what you need to accomplish to get to your goal.

If you are interviewing for a new role, know your minimum number beforehand so that you can gracefully decline an offer as positively as possible. Otherwise, chances are you will manage to negotiate a higher salary within a range that you feel good about. Negotiation is a powerful skill. This one conversation has the power to significantly increase your lifetime earning potential. It's absolutely a conversation worth having.



Preparing for Black Swans

By Mike Ryan, CFP®, MBA
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Have you ever seen a black swan? No? Well neither had anyone in Europe or the western world during the 17th century. It was widely believed for centuries prior that there could be no such thing as a "black" swan. Having seen only white ones, Europeans naturally assumed that white was the only color that a swan could be, but they eventually learned otherwise. In the late 17th century, William de Vlamingh, a Dutch explorer, discovered black swans in the wilds of Western Australia. It was a shock to many to learn that black swans, which they had long thought impossible, actually existed.

Fast forward to the early 2000s in America where we meet a gentleman named Nassim Nicholas Taleb. Taleb was a finance professor, Wall Street trader, and is now a writer. He wrote *Fooled by Randomness – The Hidden Role of Chance in Life and in the Markets* in 2001, in which he applied the history of the black swan to various random events from more recent history. Following the mortgage debacle and subsequent market meltdown of 2008 and the early months of 2009, he further refined his black swan theory of events in another book, *The Black Swan: The Impact of the Highly Improbable*. The theory of black swan events has evolved further still and is now used to describe any phenomenon that occurs which had previously been thought impossible and subsequently has a major impact.

Specifically, according to Taleb, a Black Swan event has three defining characteristics:

1. The event had been thought highly unlikely and is a major surprise.
2. The event has a major effect.
3. After the event it is rationalized by hindsight as if it could have been expected. "We should have seen that coming!"

The terrorist attack of 2001 is a perfect example of a Black Swan event, but not all Black Swans are catastrophic and harmful. The development of the internet and widespread use of personal computers can also be viewed as Black Swan events. The Japanese earthquake and the subsequent nuclear reactor problem, the dissolution of the Soviet Union, and the Arab Spring are other Black Swan events. In short, any occurrence previously thought impossible, but which eventually occurs and has a major impact can be seen as a Black Swan.

Currently we are in the midst of a Black Swan event as the coronavirus pandemic spreads across the globe; we are already seeing its profound effect on many facets of life. Although not so long ago this situation was unimaginable, when we look back, we will likely see the signs that pointed toward what was coming.

It is now taken for granted in the financial world that Black Swan events will continue to appear from time to time, so can we prepare for them? Of course, if we could adequately prepare for them, they would not be Black Swans! But we can arrange our affairs as if we expect the unexpected to continue to occur. We can live our lives with the knowledge that Black Swans will visit from time to time and note where we may be vulnerable so we can take measures to lessen their unpleasant effects. For our finances that means having an emergency fund in place and ensuring that our portfolios are well diversified. The tech stock bubble and subsequent crash of 2000 was a Black Swan for those who had piled into all of the speculative tech stocks of that era, and it quite thoroughly highlighted the risk of not being properly diversified. Proper diversification cannot completely protect from market Black Swans, but it has historically helped to lessen their effect when compared to the practice of making big bets on single stocks or on just one asset type (think real estate in 2008.)

Black Swan theory is fascinating, and it is an interesting exercise to contemplate when the next one may appear. I have noticed that more and more commentators on the various financial channels have recently been using the term (and not in the ornithological sense), but they likely have no better idea of when the next one may appear, or what form it may take, than do you or I. I don't plan to lose sleep over Black Swans, but I will try to make sure that I am not caught completely off guard when one shows up. So, be alert for Black Swans as you face your future; you will likely see one sometime, somewhere. And, always bear in mind that though it will never be the most important thing, still, money matters.