



secure act

tax law changes

avoiding regret

JANUARY 2020

THE COMPASS

HOW COULD THE SECURE ACT AFFECT YOU?



By Gary Krasnov, AIF®, CLTC®,
Chief Compliance Officer

Congress recently passed the Setting Every Community Up for Retirement Enhancement Act, otherwise known as the SECURE Act. This new legislation marks the most significant change to retirement law in over a decade.

Although the amendments will not be implemented until 2022, we want to make sure you can prepare now for how this new legislation may affect your financial plan.

SECURE ACT CHANGES

There are several items in the SECURE Act that you need to know about, including:

1. The age to begin taking Required Minimum Distributions (RMDs) will increase from 70 ½ to 72

Currently, RMDs begin the year after you turn 70 ½. Unfortunately, the SECURE Act does not offer reprieve for those that turned 70 ½ in 2018 or 2019. Moving forward, if you turn 70 ½ in 2020 or later, the new age to begin taking RMDs is 72. This change creates a great opportunity for additional ROTH conversions prior to the beginning of RMDs.

2020 SEMINAR SCHEDULE

FEBRUARY 6 - SCOTTSDALE, AZ
FEBRUARY 12 - FORT MYERS, FL
FEBRUARY 18 - FORT LAUDERDALE, FL
FEBRUARY 20 - ORLANDO, FL

MARCH 19 - HENDERSONVILLE, TN
MARCH 24 - PLANO, TX
MARCH 25 - IRVING, TX
MARCH 26 - MONTGOMERY, TX
MARCH 31 - VIENNA, VA

APRIL 7 - KENNESAW, GA
APRIL 8 - PEACHTREE CITY, GA
APRIL 21 - SEATTLE, WA
APRIL 29 - DENVER, CO

MAY 5 - COSTA MESA, CA
MAY 7 - SAN DIEGO, CA
MAY 12 - SAN JOSE, CA
MAY 13 - NOVATO, CA
MAY 19 - INCLINE VILLAGE, NV
MAY 21 - SACRAMENTO, CA

JUNE 3 - PARK CITY, UT
JUNE 10 - SCHAUMBURG, IL
JUNE 16 - DANBURY, CT
JUNE 18 - BEDFORD, NH

This schedule does not include any "open houses."

To RSVP, please go to RAA.com/events or contact your Relationship Manager at 800.321.9123.

2. The elimination of the stretch IRA

Under current legislation, the assets in non-spousal inherited IRAs can be distributed over the lifetime of the beneficiary, which eases the tax burden and allows for continued tax-deferred growth. Under the SECURE Act, however, all inherited assets must be distributed within 10 years.

Deciding when to make these distributions is up to the beneficiary and their unique needs and circumstances. For example, if someone within 10 years of retirement inherits an IRA, they may choose to wait until after retirement to collect. Conversely, if a senior in high school is the beneficiary, they may choose to take distributions early, instead of when they enter the workforce after college and their income tax bracket is much higher.

Please note that this change does not affect spousal beneficiaries, nor does it change the rules for beneficiaries that have already inherited IRAs.

3. The elimination of the current age cap of 70 ½ for contributing to a traditional IRA

Under the SECURE Act, individuals that are still working and earning income after age 70 ½ will now be able to continue contributing to a traditional IRA.

4. The expansion of use for 529 plans

Under the SECURE Act, 529 plans can be used to cover additional educational expenses such as home schooling, apprenticeships, student loan repayment, and costs associated with K-12 schooling.

5. Penalty increases for individuals who fail to file tax returns

As with all things tax-related, the implications of the SECURE Act will be dependent on your individual circumstances.

IMPORTANT

Due to the new 10-year distribution schedule for inherited IRAs, individuals who have named a Trust as a beneficiary will possibly need to revise their Trust planning. If you have named a Trust as your beneficiary, please contact your Relationship Manager to further discuss.



Every financial plan is different.

Contact your Relationship Manager today to discuss how the SECURE Act could affect you.

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Go to RAA.com/preferences to update your delivery method.

TAX LAW CHANGES FOR THE 2020 TAX SEASON



By Kristi Cherry, CPA®, Tax Services Manager

In November of last year, the IRS announced tax inflation adjustments and other tax changes that will go into effect for the 2020 tax season. It's important that you take these changes into consideration as you build out your

financial plan for this year.

INCOME TAX CHANGES

The 2020 tax rate for single filers with income greater than \$163,300 and married couples filing jointly with income greater than \$326,600 will be 32%. If you are not in that income tax bracket, refer to the chart below for your 2020 tax rate.

Single Household Income Greater Than	Married Couple Household Income Greater Than	2020 Tax Rate
\$9,875	\$19,750	12%
\$40,125	\$80,250	22%
\$85,525	\$171,050	24%
\$163,300	\$326,600	32%
\$207,350	\$414,700	35%
\$518,400	\$622,050	37%

STANDARD DEDUCTION AND EXEMPTION CHANGES

The standard deduction for the 2020 tax season will be \$12,400 for single filers and \$24,800 for married couples filing jointly. Married and filing jointly taxpayers who are age 65 or older will receive an

additional standard deduction of \$1,300 each. Single taxpayers who are age 65 or older will receive an additional standard deduction of \$1,650. Personal exemptions will remain at zero.

ITEMIZED DEDUCTION CHANGES

All state and local tax deductions will remain limited to \$10,000 for the 2020 tax season. Itemized deductions can be a mixture from both the state and local levels, including local income taxes, sales tax, and property taxes.

The medical expense deduction has been reduced. The threshold will increase up to 10% of adjusted gross income, regardless of your age.

Miscellaneous deductions will remain at zero. Pilots should take note that miscellaneous deductions include unreimbursed employee business deductions, such as per diem expenses, home office expenses, tax preparation fees, and investment fees. However, a few states still allow these miscellaneous itemized deductions.

RETIREMENT-SPECIFIC CHANGES

The traditional and Roth IRA contribution limits will remain the same at \$6,000 for taxpayers under age 50 and \$7,000 for taxpayers age 50 and older. For taxpayers age 50 and older, there is an additional catch-up limit of \$7,000. However, if you are married and your adjusted gross income exceeds \$196,000, then you will not be able to make a full contribution to a Roth IRA. In this case, a backdoor Roth would offer a workaround to allow you to continue to contribute to your Roth IRA.

The 401(k) employee contribution limits will increase to \$19,500 for taxpayers younger than age 50 with a \$26,000 catch-up for taxpayers age 50 or older. The Defined Contribution Limit (415[c]), which represents

the limit of total tax-deferred dollars allowed in a defined contribution plan, will increase from \$56,000 to \$57,000. Keep in mind this applies to both employee and employer contributions. The Annual Compensation Limit (415[a]), which represents the salary limit that an employer can use when applying their matching formula, will increase to \$285,000. In many plans, the catch-up contribution for clients age 50 and older is a separate election.

OTHER TAX CHANGES

The estate tax threshold for the 2020 tax season will increase to \$11,580,000 per taxpayer. Flexible Spending Account (FSA) contribution limits will increase to \$2,750. Health Savings Account (HSA) contribution limits will increase to \$3,550 for individuals and \$7,100 for families.

RAA CAN FILE YOUR TAX RETURN(S)

Did you know that RAA can prepare your tax return(s) for you?

Our Tax Services Manager, Kristi Cherry, CPA®, has 20 years of tax return preparation experience, including six years of running her own CPA practice where she specialized in preparing airline pilot tax returns.

We understand that keeping up with all of the recent tax law changes can be stressful and time-consuming, so we encourage you to lean on Kristi and her team of tax specialists to guide you through the 2019 tax season. If you would like RAA to prepare your 2019 tax returns, please contact your Relationship Manager or Kristi Cherry at kcherry@raa.com or (800) 321-9123.

RAA COMMUNITIES

As a reminder, we have launched RAA Women and RAA Military to help you, as well as your friends and family, to connect with other individuals and the RAA team. Please visit [RAA.com/communities](https://raa.com/communities) for more information today.



Through RAA Women, women from across the country can connect with one another to share knowledge and support. Interactive educational and social events are hosted throughout the year for community members to learn from one another and create fun memories together.



Through RAA Military, active and retired service members as well as veterans can connect to exchange stories and share military-specific resources and information with one another. This group hosts and participates in events throughout the year to support the needs and goals of the military community.



HSA

ANNOUNCEMENT

We're excited to announce that soon RAA will have the ability to manage your HSA on Fidelity's platform!

If you would like to receive more information about this new service as it becomes available, please contact your Relationship Manager.



AVOIDING REGRET



By Jeremy Merchant, CIMA®, Chief Investment Officer

After the completion of the 2019 high school football season, my son, Mason, spent some time debating whether he wanted to play again next year. As an inside linebacker, Mason had enjoyed this recent season and experienced a lot of action on defense. However, Mason takes all advanced level classes and the homework load combined with football requirements left him exhausted throughout the season.

I love that Mason's focus is first on academics, but I also love the discipline, work ethic, and teamwork that sports can provide. Though I knew that Mason probably wouldn't become a professional football player, I didn't want him to give up on playing football during his remaining years of high school. Nonetheless, I left the decision up to him.

In early December, Mason informed the school that he was going to play again next year. When I asked him why he decided to play, his response was "I don't want to look back later in life and have regret. After all, I can't fix regret."

My wife and I loved that Mason had the emotional intelligence to think about the bigger picture with regard to his decisions. We also used this as a teaching moment to remind him that mistakes happen and to not attempt to go through life perfectly. After all, some of the best life lessons often occur after some form of failure or regret.

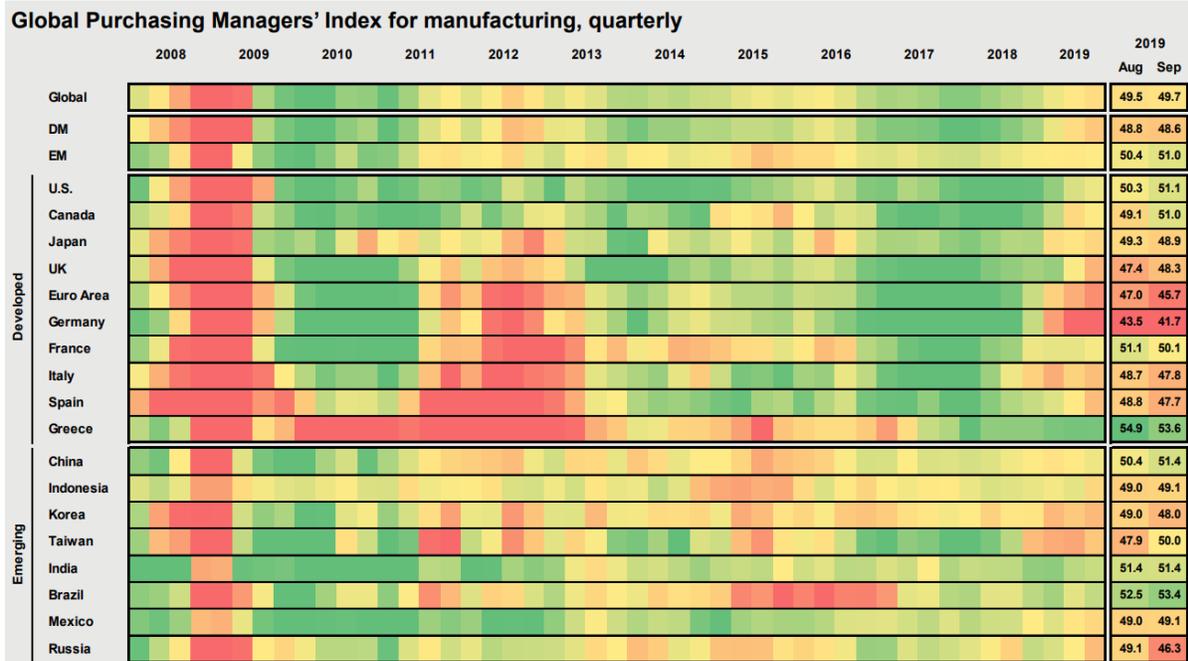
MARKET REGRET

It's common for investors to experience some form of regret at some point or another during their financial journey. However, repeated market regret tends to follow certain types of investors, such as market timers and historical performance chasers. These types of investors often end up buying at higher prices than average and have portfolios with over-concentrated positions. Usually, these types of investors lose more than they win.

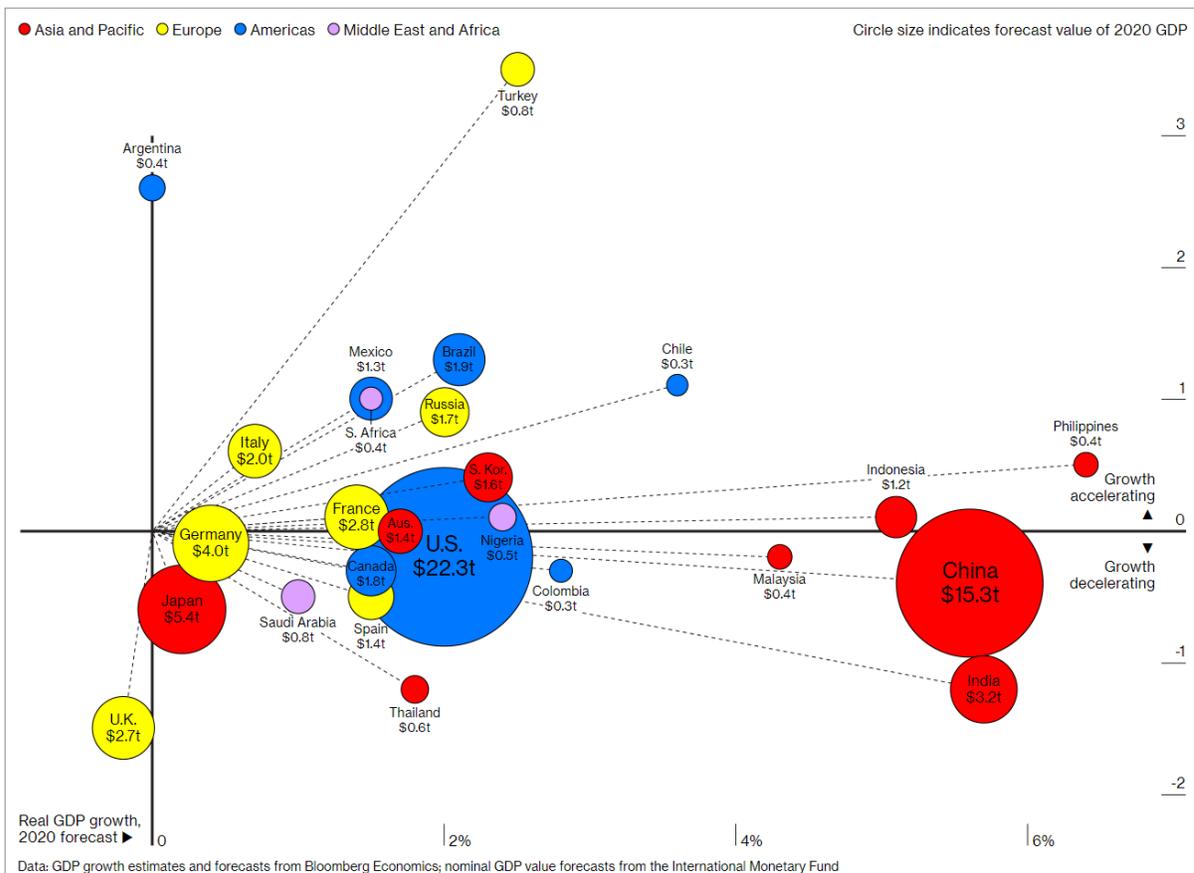
The best way to avoid market regret is to establish a financial plan and to adhere to a recommended asset allocation strategy. Since no one can predict the future with precise accuracy, a diversified portfolio tailored to a risk profile is the best approach to managing the ups and downs of the market.

2020 PREDICTIONS

During 2019, we experienced another great year of strong and relative performance versus the overall market. While U.S. Global Domestic Product (GDP) growth did slow some last year, most experts expect GDP to be around 2% again in 2020. The slowdown that we have experienced is a side effect of the trade drama playing out between the U.S. and China. Within the graphic above, we can see how most countries have migrated from a growth environment,



Source: Markit, J.P. Morgan Asset Management.



represented by green, to a slow growth environment, represented by amber.

Some emerging market economies are expected to grow faster in 2020. However, this does not move the dial much on global growth, as the biggest economies are the U.S. and China. Within the graphic to the left, you can see just how big these economies are versus others. Regarding unemployment, rates will likely continue to

average in the 3.7% range in 2020. Current projections predict unemployment to increase some by 2021. While the unemployment rate is currently extremely low, we do see that most of the job growth is in lower-paying industries. In addition, some people have been out of work for so long that they may never be able to return to the higher-paying jobs of the past. In other words, structural unemployment has increased. This is a unique trait of our current economic recovery.

ACTIVE ALLOCATION VIEWS

From an interest rate perspective, monetary policy should remain accommodative in 2020. This is good news for the markets overall and should continue to support above-average valuations. Currently, the 1-year Forward Price to Earnings (PE) Ratio for the S&P 500 Index is around 17.4. This ratio is slightly above the 5-year average of 16.6 and above the 10-year average of 14.9.

Given the current backdrop of a lukewarm economy, within the portfolios we expect to maintain a neutral stock versus bond posture in early 2020. Within equities, we will continue to focus on overweighting dividend-paying positions of large companies. Within fixed income, we will remain focused on high-quality positions with above-average credit ratings. We remain overweight intermediate bonds within the portfolios. This posture has helped reduce volatility and we expect this theme to continue in 2020.

STRIVE FOR NO REGRETS IN 2020

As we enter 2020, we should all take Mason's words about the inability to fix regret to heart. You can fix many things in life, but the regret that often comes with hindsight is not one of them. Help yourself avoid regret and the emotions of the market by sticking to your financial plan. We'll do our part by remaining committed to our disciplined investment process and diversification structure.

As always, if you have any questions about the markets or our investment strategy, please contact your Relationship Manager.

Themes	Category	Change	Negative	Neutral	Positive
Main Asset Classes	Equities	-	○○○	●	○○○
	Bonds	-	○○○	●	○○○
Domestic Equities	Cash	-	○○○	●	○○○
	Large Value	-	○○○	○	●●○○
	Large Growth	-	○○○	○	●○○○
	Mid Value	-	○○○	○	●○○○
	Mid Growth	-	○○○	○	●○○○
	Small Value	-	○○○	●	○○○
	Small Growth	-	○○○	●	○○○
Foreign Equities	Tactical Equity	-	●●●●	○	○○○
	Developed	-	○○○	●	○○○
Fixed Income	Emerging	-	○○○	●	○○○
	Intermediate	-	○○○	○	●○○○
	Short Term	-	○○○	●	○○○
	High Yield	-	○●●	○	○○○
	Cash	-	○○○	●	○○○

KEY THEMES AND THEIR IMPLICATIONS

Themes	Category	Rationale
Equities	Economic Growth	Global growth and corporate earnings have slowed.
	Business Cycle	Growth is moderating.
	Inflation	Inflationary pressures are not a concern at this point.
Bonds	Bond Yields	The Federal Reserve's policy has become more accommodative.
	Duration	Interest rates should remain low for longer.
	Quality	Lower quality credits should be avoided.



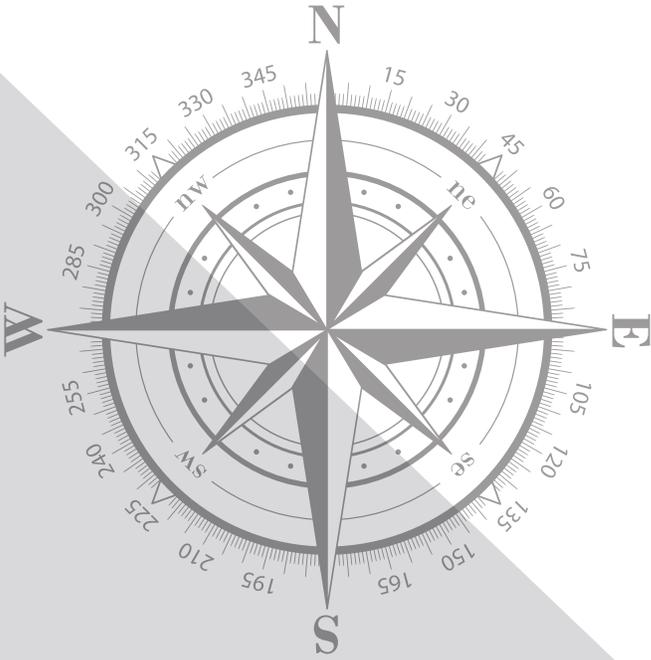
We are so excited to be starting a new year with Allworth Financial as our partner. We want to thank you and your family for continuing to trust our team to help you along your financial journey. We expect only positive changes for our clients and team members as a result of this merger.

Pictured from left to right: Scott Hanson (Allworth Financial Co-CEO), Jeff Baumert (RAA President), John Bentley (RAA CEO), Pat McClain (Allworth Financial Co-CEO).





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THE COMPASS

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