Loose Change®

a penny saved is a penny earned

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The SECURE Act and You

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, which went into effect this year, created significant changes to retirement savings rules. From later required minimum distributions (RMDs) from IRAs and 401(k)s to accelerated distributions of inherited IRAs, the SECURE Act affects nearly everyone.

More for Retirement

One significant change is that retirees get an extra year and a half to grow their IRA and 401(k) accounts before RMDs must begin. RMDs from an IRA or 401(k) plan must begin by age 72, up from age 70½. This doesn't apply if you turned age 70½ before 2020.*

One exception is you don't have to take RMDs from an employer's retirement plan until you stop working, unless you own at least 5% of the company. You can also contribute to an IRA past your RMD date as long as you have work income to offset the contribution. Previously, you had to stop contributing by age 70½, even if you continued to work.

More workers can contribute to 401(k) plans, too, starting in 2021. Part-time employees who worked at least 500 hours in each of three straight years (and reached age 21 by the end of the period) are eligible to contribute. And 401(k) plan participants should expect new disclosures estimating their lifetime income from their plans, while they may possibly see annuities as new plan options.

Other Changes

The so-called "stretch" provision of inherited, non-spousal IRAs was eliminated. Previously, non-spouse beneficiaries could stretch an inherited IRA over their lifetimes. Now, they must distribute all inherited benefits within 10 years of the original owner's death.** There are exceptions to the new rule, including the IRA owner's spouse and minor children, beneficiaries who are disabled, chronically ill or less than 10 years younger than the deceased.

The SECURE Act added some other wrinkles, allowing up to $5,000 in penalty-free distributions from IRAs and certain other plans, if amended, within a year of a qualified birth or adoption and up to $10,000 from a 529 plan to pay for student loans.

**The CARES Act suspends the RMD requirement for 2020. Employer sponsored retirement plans may permit through plan amendment.*

***Distributions from traditional IRAs and employer sponsored retirement plans are taxed as ordinary income and, if taken prior to reaching age 59½, may be subject to an additional 10% IRS tax penalty.*

Lower Car Rental Costs

Renting a car can involve a labyrinth of extra fees and charges, which can raise rental costs dramatically. You may, though, refuse some of these safely to lower what you pay.

Limit the Extras

Car rental companies charge a fortune for extras, from GPS devices to child safety seats. Learn how much tolls are and compare them to what car rental agencies charge to include an electronic toll pass or transponder.

Explore Alternatives

Some rental companies might offer a deal on a week that costs less than renting for four days. If there are no offsetting early return fees or penalties, take the deal and return early. Also check out rental fees for picking up and dropping off outside of airports. The difference can be substantial if you opt for a little less convenience.

Use Your Own

The daily insurance fees rental companies charge are steep, and they might duplicate what you already have. Check with your auto insurer to see what's covered.

FR2020-0501-0165/E

Understand Your Credit Report

Your credit report affects everything from getting a charge card to getting a job, so it pays to know how to request and understand it.

Your Rights - Normally, you have a right to see a free credit report once every 12 months—more often if you are refused credit during this time. But, due to the pandemic, the three credit reporting bureaus — Experian, Equifax, and TransUnion— are allowing Americans to access their credit reports for free once per week until April 21, 2021. Get it online at *https://www.annualcreditreport.com.*

What's There - Once you receive the report, you'll want to check for the accuracy of your personal information, credit accounts (including mortgages, loans and card balances), status (either negative or positive) and inquiries. It may also include any bankruptcies and liens. Make sure every account belongs to you and that the information for every account on each report is accurate.

If you find an error, the credit bureau and creditor that reported the error must correct it. Each credit reporting agency posts the steps you need to take to correct any mistake, but they usually start with putting your complaint and the specifics in writing.

How to Choose a Trustee

Compared to setting up a trust, choosing a trustee can be relatively simple--but not always easy. Money can drive a wedge between even the closest families, so choosing between a loved one, a professional advisor or a financial institution as trustee isn't easy.

Getting Started

Families who want to pass on wealth efficiently or ensure specific instructions are followed for the benefit of special-needs children may use a trust to facilitate their wishes. Every trust must have a trustee, who has the legal and personal responsibility to carry out the terms of the trust.

A trustee may need expertise in multiple areas, depending on the trust's complexity. For example, the trustee must serve as a business administrator to record financial activities, such as scheduled disbursements to beneficiaries, investment results and more. That person may also be responsible for managing investments, which even professionals have difficulty doing during volatile economic times. The trustee must also file local, state and federal tax returns, even if the beneficiaries are receiving tax-free disbursements, and may need to understand arbitration should a disagreement between the trust's beneficiaries arise.

Making the Choice

Finding a loved one who can serve proficiently in all these capacities can prove difficult, although this person could hire professional help like a CPA or arbitrator. However, emotions and even money could get in the way and cloud the trustee's judgments. For example, it's easy to see a conflict if a trustee who is also a beneficiary has to decide whether to grant emergency funds to a beneficiary, which could reduce the trust's principal and the trustee's share.

A financial institution serving as trustee might have the multi-disciplinary skills needed and would take the emotions out of decision-making. So, research your options before making a final decision.

How to Repair Poor Credit

Poor credit can raise your borrowing costs or eliminate your ability to borrow altogether, and it can even disqualify you from employment opportunities. If you have poor credit, take heart in knowing you can improve your credit score. Here's how to start the process:

Understand Your Problem

Why is your credit score low? Do you make late payments or carry too much debt compared to your overall credit limit? These are two of the more common reasons consumers are denied credit, but you can increase your score now.

Start by making it your mission to pay every bill on time. A recent history of on-time payments will help improve your score. If you carry too much debt, stop spending and start paying some of it down. Creditors want to see responsible customers.

Change Your History

Creditors also want to see a history of good credit habits, so your mission to improve your credit score will take some time. If you have little or no previous credit, you'll also need to demonstrate at least a small history of good financial habits. You might start with a secured credit card.

Limit Inquiries

Credit card companies and other lenders may look at your credit without your intent to borrow. Don't worry about these affecting your scores, but don't add to your debt, either. Applying frequently for new cards or loans can also hurt your score.

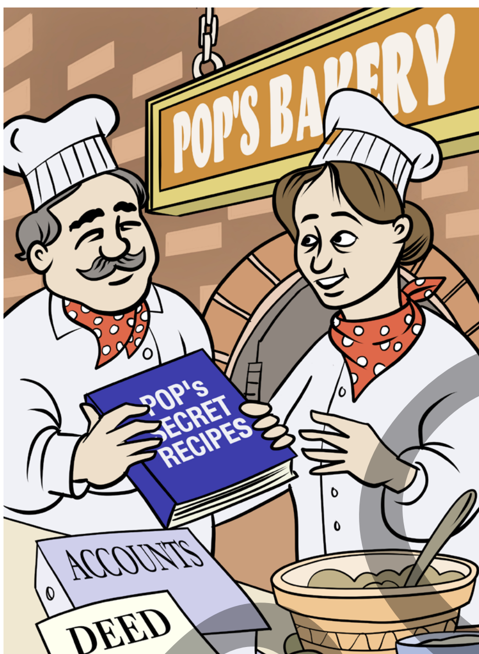
Succeeding with Succession

Running a small business is not for everyone, but younger family members often want the challenge of taking over when founding generations retire. Here's how you can work toward continuing the family business from one generation to the next, even in times of uncertainty like these.

Start with a Plan

A succession plan lists what events—death, disability or retirement—will trigger the next generation of leaders. It should also determine a valuation method—usually from a qualified valuation expert or certified public accountant—to determine the company's fair value.

Next, communicate frequently with your successors. You may have differences over how to run the business, and you'll need to resolve them—you can't run the business forever. You will want to create a development plan that allows family successors to gain the crucial experience necessary to run your concern. And you may want to begin making shared business decisions that allow your loved ones to get hands-on experience running the company.



Money Matters

While family members are learning all the tricks of your trade, create a buy-sell arrangement that works for everyone. Using the valuation established earlier, detail how the next generation will buy into the business. Also figure appropriate compensation to leave a loved one who doesn't participate in the business to equalize your estate.

Your sale price and schedule of payments may be included in your buy-sell arrangement, and you'll also address tax responsibilities, the value of business assets and total liabilities. You also may want to address potential liquidity issues to avoid future problems for both the seller and buyers. Pre-paying the transfer, whether through gradual ownership shares while working together, contributing to a sinking fund or purchasing a life insurance policy, might help address any potential liquidity issues.

Begin working toward an agreement as soon as you and your loved ones decide family succession is in everyone's interests and review your succession plan regularly, because change happens.

Most important, work with qualified legal, tax and financial professionals to come up with a plan that benefits you, your family and your business.

Find Extra Cash for Retirement

If you're younger than 40, you can probably name a half-dozen reasons why you don't have to worry now about saving for retirement. Yet, blink and you will find yourself 20 years older and staring retirement in the face.

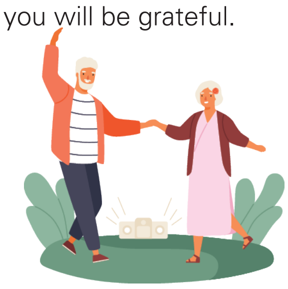
No More Excuses

The earlier you begin saving regularly—think "today"—the better your chances are that you will retire comfortably. Start by figuring out how and where you spend your money. Are you a willing victim of self-induced lifestyle inflation?

Next, talk to your spouse to determine how much money you need to put away for retirement. Pick a big number—say, 20% of income. This amounts to paying yourself.

Lifestyle Deflation

Now sit down with your family and talk about how you will bring your lifestyle back to Earth to find more money. Do you need to upgrade your home constantly or can you save $50,000 in kitchen renovation costs and make do? The kids don't need the most expensive sneakers and you don't need to eat at high-end restaurants regularly. Then, when your paycheck increases, keep your lifestyle at bay and pay yourself more. Stay the course and the retired you will be grateful.



Debt on the Rise

The New York Federal Reserve found that total household debt balances grew to $14.15 trillion in 2019, the largest annual gain since 2007. Here's how most of it breaks down:

www.newyorkfed.org/newsevents/news/research/2020/2020021

Lower Auto Insurance Costs

Most states will require that you carry liability coverage. This can prove costly, especially if you are in a higher risk group or have a poor driving record. And if you have a newer car, you may want to carry additional collision and comprehensive insurance to cover your car. There are ways, however, to lower your total insurance costs.

Common Sense

Teens can't become older drivers overnight to qualify for lower rates, but they can become safer drivers. If you're young, good grades may get you a better rate. If you're older, a defensive driving course could lower premiums. Consider dropping collision insurance on older vehicles, since they will drop in value with age. Collision coverage won't pay more than fair value for a total loss. Bundle other insurance policies with the same insurer for a discount and, in some states, get an additional discount for good credit or improving it. If you're in the market to buy a car, understand that some models will cost more to insure than others.

Other Ways to Save

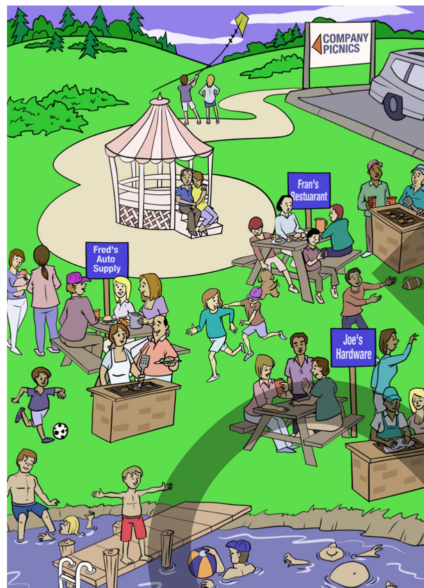
Anti-theft devices, low driving mileage and increased deductibles also lower premiums. Ultimately, do your homework when looking for auto insurance and shop around to lower your total expenses.

SECURE Act for Small Business

When 2020 began, business owners found significant changes in the way they may run their qualified retirement plans, thanks to the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Whether or not you sponsor a plan, here is some of what you may want to know about the new law:

MEPs Expanded

Small employers who previously were ineligible to join multi-employer plans (MEPs) may now do so if they meet some relaxed requirements. Previously, participation in these multi-employer pools meant your company needed to share some common traits with others in the pool. This is no longer required, opening access to pools that might cost less for small businesses than stand-alone plans. Compliance was also relaxed for MEP providers.



New Income Options

The SECURE Act improves the safe harbor provision of plan providers who offer annuities in their qualified plans. The safe harbor makes it easier to satisfy fiduciary requirements when choosing the life insurance company selling the annuity.

Employers, however, are now required to file an annual disclosure notifying employees of their projected retirement income, calculated as if the plan balance were invested in an annuity. Additionally, part-time employees who worked at least 500 hours each year for three straight years are newly eligible to contribute.

Tax Credits

If your company doesn't sponsor a qualified plan yet, the new law offers a bigger startup tax credit of up to $5,000 for establishing one, subject to rules and restrictions. You also have until your tax filing deadline, plus extensions, to start a plan. That's moved from December 31.

And if you already sponsor a 401(k), SIMPLE IRA or other qualified plan, you may be eligible to take a $500 credit a year for three years of auto-enrolling new employees. Another new safe harbor involves the automatic enrollment escalation cap, which rises from 10% to 15% of pay—a boon for late savers.

Finally, the SECURE Act reduces some of the red tape and compliance issues that prevented small businesses from adopting qualified retirement plans in the past. So, if you don't yet offer a retirement plan, you might want to examine one in light of these changes.

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Financial Industry Regulatory Authority

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May 28, 2020

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The communication submitted appears consistent with applicable standards.

Reviewed by,

David Y. Kim
Associate Principal Analyst

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