access INSIGHTS

PLAN FOR A LIFE WELL LIVED

Spring 2020

Riding Out the Storm

By Michael Chomiak, AAMS®

For those who have been enthusiastic about the stock market, eagerly awaiting the arrival of their monthly statements to see how much their investments have grown, the past few months have been an epiphany of sorts. Yes, markets can be unpredictable. Yes, what goes up can temporarily come down.

While the effect of the coronavirus pandemic on the market and the economy has been nothing short of dramatic, it is also not a time for investors to panic. Spur-of-the-moment decisions need to be avoided. The biggest mistake an investor can make is an impulsive one, which all too often can lead to regret.

We strongly encourage clients to take time to think about the news before acting on their impulses. Has anything structurally changed to make you believe that, in the long-run, the markets or the economy are no longer expected to behave the way they have in the past?

Another mistake we see is investors trying to revalue assets that only a short while ago were priced differently. If you like an investment when it was priced at $100 per share but it is now (due to an external shock) valued at $75, is it suddenly not as good an investment? It is possible, but most times, it's as good as before. The analogy of buying your favorite item on sale at the department store (or Amazon), might encourage you to invest at the lower price as opposed to selling.

Figuring out when an investment is no longer good is tough to do, however, which is why we do not recommend individual stocks to our clients. We also encourage ongoing communication to discuss what, if anything, has materially changed, before shifting strategies.

So, what should you do at a time like this? It can be instructive to look at some of the frequently asked questions we get from clients and the answers we give them.

"I just read that many economists are predicting a recession. Should I make any changes to my portfolio based on these predictions?"

The simple answer is "No." Most economic predictions that make the news are not relevant to long-term investing. The news media tends to report on specific events at that particular time. Financial news channels, expert pundits, and Wall Street talking heads make projections about the future constantly. However, most news offers little insight into the performance of your actual investments. Many times, their answers are nuanced and may be said for reasons other than your financial situation. The best advice is to speak with your financial advisor and discuss what you read or heard.

"Warren Buffet just said on television that he sold all of his Airline stocks. He is a smart guy. If he said this, then he must know something about what will happen to the market. Correct?"

Not necessarily. When "gurus" like Mr. Buffet speak, they usually are talking about issues impacting their own investments. Your portfolio and asset allocation may be very distinct from the issue being discussed. There is nothing wrong with listening, but ask yourself, "Does this impact me?" If so, contact your financial advisor to discuss further.

(Continued on Page 4)

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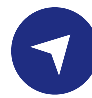

How Family Wealth Planning Meetings Can Safeguard the Success of Future Generations

By Darren Zagarola, CFP®, PFS, CPA

The old axiom goes: People are more reluctant to speak about money and finances than politics or sex. And that remains true even in this political maelstrom.

Family conversations regarding wealth and planning can be uncomfortable for all involved. Families typically do not discuss wealth openly. But they should.

Leaving a legacy speaks to more than just a gift of money. Your financial well-being was made possible by your values and efforts by implementing the lessons you learned from life's vast experiences. Passing on these values and lessons can be as valuable to the success of future generations as leaving them your money.

We witness individuals spending time and resources preparing their money for their family, but they often do not prepare family members for the money. It is a misconception that having an estate plan, even when complete with Wills and Trusts, is enough to ensure all your wishes are carried out. Long-term family goals can derail when a family member is not prepared for wealth transfer. To increase the probability that your legacy is upheld the way you want, direct communication to heirs is very important, such as sharing your goals and desires for how you would like to see family wealth spent or invested.

How a Family Wealth Planning Meeting Can Help with Wealth Transfer

Holding a family meeting provides a forum to discuss how your values and ethics shaped how the wealth was earned and protected. We recommend involving your financial planner throughout the process, as they can often help diffuse tensions and keep conversations moving in a positive direction. Together, you should outline your goals for the first meeting. You should identify your long-term goals for the next generations, such as financial security, education funding, charitable planning, or togetherness at a family home. A decision also needs to be made about who should attend the meeting. Is it just the immediate family at first and then adding in-laws, significant others, or step-relatives in the future?

What to Share at a Family Wealth Planning Meeting

Most people share the same concerns regarding having this family conversation. What and how much do we tell the children? How specific do we get? Are we creating an expectation of wealth or a sense of entitlement for our children? These are normal and expected emotions and questions. And the answers can depend on individual family circumstances. But don't let these concerns prevent you from scheduling the meeting.

During this meeting, you can share the history of your family's wealth, along with the values and philosophies that guided you and the generations before you to this point. You can explain the structure of the estate (with or without specific dollar values) and what makes up the estate, including types of accounts owned, real estate, investments, life insurances, collectibles, and tchotchkes. The meeting should provide a forum to discuss future family plans or goals, such as wealth transfer, business transfer, charitable intent, and overall family values. It is also an opportunity to introduce the key advisors in your life, such as your Financial Planner, CPA, and Estate Planning Attorney. We highly recommend inviting questions from the younger generations. Allowing an open, two-way dialogue is important.

A family wealth conversation is not an "end of life" event. Do not wait for a health scare or a death in the family to initiate a conversation, as it may undermine the wealth transfer process. We recommend starting the conversation early. By not communicating your thoughts with your family, you leave your legacy open to the risk of assumption versus truth, the creation of secrecy, and the potential for the dissemination of misinformation. Not having this conversation can lead to something more uncomfortable than a proactive financial discussion.

Contact us if you would like to learn more about the process of hosting a family wealth planning meeting.

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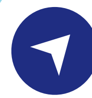

SECURE Act Law Could Be Boon For Charities

By Howard Hook, CFP®, CPA

The SECURE Act, passed in December of 2019, made several changes to retirement plans, some of which could result in an increase in the amount of money being left to charities. So what has changed?

Increase In Required Minimum Distribution Age To 72

The SECURE Act increases the age at which people are required to begin taking distributions from their individual retirement accounts, or IRAs. Before the passage of the SECURE Act, required minimum distributions (RMDs) had to be made once an IRA owner turned 70½. Under the SECURE Act, the age is now 72. How does this affect charitable giving? The SECURE Act left unchanged the age at which people could make qualified charitable distributions, or QCDs, to charities from their IRA accounts. That remains age 70½.

Utilizing QCDs at age 70½ can reduce future required distributions from an IRA account at age 72. It is likely that people who can wait until age 72 to take their RMDs have other income or assets to support their lifestyle and are looking for ways to reduce the required amount at age 72. Making QCDs has an advantage over Roth IRA conversions or withdrawing funds from IRA accounts before age 72, in that a QCD is not taxable and actually is not even included in adjusted gross income calculations, which can help reduce other taxes or Medicare Part B premiums.

Limitation Of Ability To Stretch RMDs From Inherited IRAs And Other Qualified Plans

Retirement accounts, such as an IRA or a 401(k) plan, have never been a great asset to leave to heirs. Now under the SECURE Act, they are even worse. For those charitably inclined, naming a charity as the beneficiary of a portion of your IRA instead of as a direct bequest under your will has always been a more tax-efficient way to leave money to heirs.

That's because retirement assets do not receive a stepped-up basis at death, so most beneficiaries are required to pay income tax when withdrawing funds from these accounts. However, charities are tax-exempt organizations and, thus, are excluded from having to pay income taxes on investment accounts such has an IRA. So leaving non-retirement assets to your kids and naming your favorite charities as beneficiaries of your IRA or retirement account can save your kids income taxes. Note: You would not do this with a Roth IRA or Roth 401(k) account since those accounts would provide tax-free income to your kids. (Still leave other assets to charity if you like.)

The SECURE Act has shortened the time frame for when the entire retirement account balance needs to be fully liquidated. What used to be life expectancy of the beneficiary has been shortened to 10 years for all beneficiaries with five exceptions. Spouses, children under the age of majority, disabled or critically ill beneficiaries, and people less than 10 years younger than the deceased account owner can still use their life expectancy when determining how much they have to distribute each year.

This can be a dramatic tax difference for many beneficiaries. For example, under the old law, a 25-year-old could stretch their distributions over 58.2 years. Under the new law, it now becomes 10 years. The shorter time frame will accelerate the payment of tax and could also result in an increase in the actual tax paid depending on over how many years the beneficiary spreads the withdrawals from the retirement account.

The increase in both timing and amount of tax post SECURE Act should have you even more so consider naming a charity (directly or via a charitable remainder trust, or CRT) as a beneficiary of your retirement accounts (other than Roth IRAs and Roth 401[k]s). Naming a CRT as the beneficiary of your retirement account instead of your children can lengthen the time beyond 10 years, while also helping charities. Set up properly, the term of payments to your kids from the CRT can last beyond 10 years with any balance remaining going to charity.

All the above should be considered positive for charitable giving. However, none of these advantages will take place unless planners (financial and charitable) work together with their clients. Granted, most do not give for the tax deduction, but once a decision to give is made, we can help you figure out how to give most efficiently, which may even include giving more.

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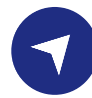

Riding Out (Continued from Page 1)

"I'm nervous about everything that is going on these days with the stock market. What should we do so I can worry less?"

Clients who are experiencing anxiety due to recent events may want to try to identify the context under which their nervousness applies to the current situation. Will current events have a meaningful impact on their long-term investment goals? Does this materially alter their investment time horizon (need for money from their portfolio) or asset allocation? If so, speak with your advisor about your long-term plan.

"You keep telling me to stay the course and not make changes, which I am fine doing. However, is there a point when for me it might make sense to make a change?"

Yes. It happens when you have a life-changing event, such as a job loss or change in salary, a death in the family, or early retirement (planned or not). When those types of events occur, they may alter the original goals you specified when building and implementing your long-term investment portfolio. Should you incur one of these events, or something which you feel is a material change, contact your advisor so they can analyze what changes might be needed. Talking it through with someone else can bring perspective that cannot be obtained through self-reflection.

"My son is just starting to invest for his future. But me, I am about to retire. Shouldn't my portfolio look different than his?"

One of the most important questions we ask clients is to identify their time horizon for needing money from their portfolio. If you are newly retired at 65, we assume that your life expectancy and thus investment time horizon is still 20 plus years. Longevity in today's world is a lot different than it was 25 years ago. A younger investor has an even longer time horizon. Still, many of the same core assumptions used to build and implement a 65-year-old's portfolio is applicable to the younger investor as well. Stocks are needed to beat inflation and bonds are needed to provide diversification and a cushion for when the stock market declines.

"I read that someone my age needs $1 million dollars to retire. My portfolio recently dropped below that amount. Now I'm worried that I can't retire. What do you think?

We recently had a situation where the value of a client's portfolio had dropped below an arbitrary number in the client's head. The client's fear of dropping below that number was beginning to impede their decision-making. To mitigate that, we went back to the client's financial plan. We discussed their cash flow needs and how their plan, even without reaching the mystical number, would still be successful. After reviewing that together, they remained invested and stayed the course, which will ultimately provide them the best path to meeting their and their family's goals.

Understandably, these times are fraught with concern, as the market fell precipitously in March and has slightly recovered. It is impossible to know whether the market will once again test the lows in March or move higher from here.

Yet, even at times like this, rash decisions are often the most hazardous to one's long-term financial health. It is at times like this that the financial advice you get from your advisor (as opposed to the news you read or hear) is more important than ever.

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