

# the BENCHMARK

Newsletter



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## Analysis of the First Quarter of 2020

Managing Partner Nick Clay takes a look at the twists and turns of the first quarter of 2020. The unusual quarter was one of extremes. The three months

delivered a historic high in stock prices, followed by a historically rapid decline for many investments and the global economy.



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## Key Points of the Coronavirus Relief Bill



By Philip Bachman

On March 27, 2020, Congress approved and President Trump signed into law the CARES Act, a \$2 trillion stimulus package in response to the COVID-19 (coronavirus) pandemic. This bill is the largest relief package in American history. It comes at a time when the national and global economies are suffering a screeching slowdown. The coronavirus is restraining peoples' confidence and normal consumption patterns, especially for services. Sadly, businesses are reducing staff or shutting down at a rate not seen for many generations.

Nearly 3.3 million Americans filed a claim for jobless aid in the week ending March 21, 2020. This was a nearly five-fold increase over the previous weekly record back in 1982. By way of comparison, in the worst single week after the financial crash of 2008, jobless claims stood at 665,000.

The stimulus package, called the CARES Act, aims to help Americans, especially those who are negatively affected by losing a job or having their income slashed. It also aims to support businesses who are struggling amidst the economic slowdown. The bill provides direct payments to most Ameri-

cans, expands unemployment benefits, and includes hundreds of billions of dollars in loans and grants to corporations, hospitals, state and local governments, and more.

The whole 883-page bill will be impossible to cover in this article (or many articles!), but here are the highlights. We list first and discuss at more length the provisions that pertain to personal financial planning.

### Direct Payments to Many Americans

The direct cash stimulus will be distributed as \$1,200 to individuals making up to \$75,000/year or as \$2,400 to couples making up to \$150,000/year. Additionally, \$500 will be distributed per each dependent child in the household. Taxpayers filing as head of household would get the full payment if they earned \$112,500 or less. Above those income figures, the payment decreases until it stops altogether for single people earning \$99,000; married people who have no children and earn \$198,000; or head of household who earn \$136,500.

The government will go by taxpayers' 2018 or 2019 (if 2019 was already filed) tax returns when determining the payment amounts. The government suggests that payments could begin around

the third week of April but might take months to arrive, depending on how the payments are sent. This will be determined by whether a taxpayer had used direct deposit to file their 2018 or 2019 income tax return. Paper checks will be mailed to those for whom the IRS does not have current bank account info. Payments by check likely will take longer to receive than direct deposit payments.

### Required Minimum Distribution (RMD) Requirements Waived for 2020

Generally, individuals over age 70 1/2 or 72 must withdraw a certain amount from their tax-deferred IRAs, 401(k)s, and the like. However, the bill waives RMD requirements for 2020. This relief is broad and applies to IRAs (including SEP and SIMPLE IRAs) and 401(k), 403(b), and 457(b) plans.

Individuals who already took their 2020 RMD earlier this year will not be able to "undo" it unless certain conditions are met. According to Financial Planning magazine, those conditions are likely to be the following: (1.) If the IRS confirms that RMDs taken already this year are not actually "RMDs" per this bill; (2.) the 60-day rule; and (3.) the once per year rollover rule. The IRS will likely issue guidance on this topic.

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### Other Temporary Changes to IRA Rules

The Treasury recently extended the 2019 tax return filing date to July 15, 2020, from April 15, 2020. As a result, the date for making 2019 IRA and Roth IRA contributions is also extended to July 15, 2020. Normally, IRA contributions for a prior year must be made by April 15th of the following year. There have never been extensions to the IRA contribution deadline, even if the taxpayer filed for a tax filing extension. The extended deadline also applies to 2019 Health Savings Account, Archer Medical Savings Account, and Coverdell Education Savings Account contributions.

The CARES Act waives the 10% early distribution penalty on up to \$100,000 of 2020 distributions from IRAs and company plans for individuals affected by the coronavirus. These distributions would avoid the 10% early withdrawal penalty regardless of whether a person is under age 59 1/2 or not. Tax would still be due. But it could be optionally spread evenly over three years, and the funds could be repaid over the three-year period. "Affected individuals" are people diagnosed with COVID-19 or have a spouse or dependent similarly diagnosed; or experience adverse financial consequences as a result of being quarantined, furloughed, laid off, reduced hours, unable to work because of childcare needs, and other similar reasons.

### Up to \$300 Tax Deduction for Charitable Donations

The bill includes a new tax deduction up to \$300 for certain taxpayers who make qualified charitable contributions. This provision will positively impact (albeit modestly due to the low dollar amount) taxpayers who use the standard deduction instead of itemizing on their federal return. The Tax Cuts & Jobs Act of 2017 roughly doubled the standard deduction, leading most taxpayers not to itemize. There is no tax benefit for making charitable gifts unless itemizing. Now, taxpayers who take the

standard deduction will be able to deduct up to \$300 as an above-the-line deduction, effective for 2020.

### Unemployment Benefits Expanded

The new bill wraps in far more workers than are usually eligible for unemployment benefits, including self-employed people and part-time workers. Those who are unemployed, are partly unemployed, or cannot work for a wide variety of coronavirus-related reasons would be more likely to receive benefits. Under the CARES Act, eligible workers would get an extra \$600 per week on top of their state benefit (max of \$275 per week in TN) for up to four months. It provides an extra 13 weeks of benefits.

### Payroll Taxes

The measure allows for employers and self-employed individuals to defer payroll tax, requiring half to be paid by the end of 2021 and the other half by 2022. This portion of the package applies specifically to Social Security taxes, representing 6.2% of payroll for eligible employers.

### Small Business Loans

\$350 billion in loans for small businesses impacted by the virus. Companies with 500 or fewer employees could tap up to \$10 million each in forgivable small business loans to keep paychecks flowing.

### Federally Guaranteed Loans

This provision will provide eight weeks of assistance for qualifying employers who maintain payroll. Those who meet requirements would have costs such as utilities, mortgage interest, and rent forgiven.

### Hospitals and Health Care Funding

\$240 billion would be set aside in additional emergency appropriations to fight the virus and shore up safety net programs.

### Industry

There is a \$500 billion proposal to provide loans to distressed companies, with \$50 billion in loans for passenger air carriers. Limitations on executive pay and

retirement have been placed on businesses who accept the loans and loan guarantees.

### State and Local Funding

The CARES Act includes \$150 billion to address spending shortages related to the coronavirus outbreak.

Looking at the CARES Act from a macroeconomic perspective, the \$2 trillion stimulus bill is roughly 10% of U.S. GDP. We reiterate how historically large and unprecedented this recovery package is. It should be a decent offset to many of the dismal forecasts for second quarter U.S. GDP. Together, the new lending facilities recently announced by the Fed and the stimulus from this Congressional package could channel up to \$6 trillion in temporary financing to consumers and firms over the coming months. This should help to support an eventual recovery once the coronavirus outbreak has been brought under control.

We are hopeful the spread of the virus subsides so that life and business everywhere may return to a normal pattern sooner rather than later. Meanwhile, we hope you and your families are keeping well. Your team at BCS Wealth Management is here to help however we can.

*Philip visited Laguna Beach, CA in December. Laguna Beach is a bird sanctuary and a fully protected marine life refuge which means nothing can be fished for, touched, or removed from this area.*



# Analysis of the First Quarter of 2020

By Nick Clay

Talk about a whipsaw of market movements! We look back at the large decline in December 2018, to the strong year in 2019, and now the worst quarter since 1987 (also the worst first quarter ever). Nearly all the stock indices gave back their gains from 2019 and then some, and it seemingly happened overnight. All 11 sectors in the S&P 500 were down more than double-digits with energy leading the way down.

I believe that investors have been searching for a reason for the market to sell off. After all, we were in the midst of the longest bull market in history. Earlier in the year it was talk of impeachment, and then it was Bernie Sanders having polling success. Neither topic really gripped the markets with total fear like... the coronavirus (COVID-19). Sure enough, a global health scare did the trick – and justifiably so considering the projected economic fallout.

As I write this, we aren't in the middle of a structural crisis like the great financial crisis of 2008 where the banking system failed. Instead, we're in an event-driven crisis (COVID-19). While this could turn into a structural crisis, the hope is that "Shelter in Place" and "Safer at Home" measures will limit the severity of the virus spread

and, in turn, limit the length of economic fallout.

Historically with event-driven crises and specifically health scares, the downturns in the markets are relatively short-natured with markets recovering within six to 12 months. The difference this time around is America is literally quarantining itself and effectively shutting down normal business cycles. To combat that, we've never seen a stimulus bill quite like the recently passed CARES Act, which was designed to help weather the economic shift.

The volatility is mostly due to constantly shifting news headlines. Investors continue to digest daily reports about the coronavirus as they attempt to measure the impact on Main Street and Wall Street. The Federal Reserve and President Trump have been working to assure investors that the dire health crisis will not derail the economy long term and that Americans will eventually be returning to work.

There is so much at play right now with many unknowns, so let's focus on what we do know:

The stock market does not move in a straight line. Stocks are volatile in the short term, but long-term returns are efficient. We don't invest on what we think will happen day-to-day; in fact, we invest



knowing there will be volatility. We know that some of the best market days come on the heels of the worst. We know there is a broad array of both fiscal and monetary stimulus flooding main street right now. I could go on, and I would encourage you to subscribe to our blog for more details on week-to-week insight from us.

Diversification, rebalancing, reviewing risk tolerance and time horizon, having available cash, etc. are strategies that help weather the short-term volatility storms. That is how we invest at BCS Wealth Management. A long-term approach coupled with these strategies gives us confidence in the face of uncertainty. Since I've not found anyone with a crystal ball, I won't attempt to make predictions about market returns in 2020, but having a solid financial plan means we don't have to. If you have a thorough plan and are diversified, market corrections and volatility have not only been considered, but are accounted for in your calculations.

In closing, I would like to thank you for your continued trust in our BCS Wealth Management team. We are hard at work on your behalf. We consider ourselves truly blessed for the opportunity to walk alongside you and play a part in the success of your financial life.

*“We hope you and your family are in good health during this unusual time. Please reach out to us if there’s anything we can do for you.” - Nick Clay, the Managing Partner of BCS Wealth Management.*



Major Stock Indexes	1st Quarter 2020	Year End 2019
DJIA	-23.2%	22.3%
Nasdaq Composite	-14.2%	35.2%
S&P 500	-20.0%	28.9%
Russell 2000	-30.9%	23.7%
Global Dow	-24.2%	18.7%
Japan: Nikkei 225	-20.0%	18.2%
Stoxx Europe 600	-23.0%	23.2%
UK: FTSE 100	-24.8%	12.1%
Major Bond Index	1st Quarter 2020	Year End 2019
Bloomberg Barclays US Aggregate (Total Return)	3.2%	8.7%



## BCS Wealth Sponsors New Website and Podcast Focused on Johnson City Life

Johnson City Living is created and hosted by Leighton Hart, who moved to Johnson City in 1999 to marry his college sweetheart and JC native, Mary Craig. He describes Johnson City Living as “part feature magazine, part community calendar, and part love letter to the city we call home”. Their goal is to tell stories about the people, places, events, and flavors that make Johnson City a great place to live. BCS Wealth Management is happy to partner with JC Living to promote what we believe is one of the best places to work and live in the country.

Visit [www.johnsoncityliving.com](http://www.johnsoncityliving.com) to learn more and subscribe to the podcast.





## SECURE Act Part 2

By Myra O'Dell

In our previous Benchmark Newsletter, Nick Clay outlined five important aspects of the new SECURE Act that may affect many of our clients. Probably the most notable change resulting from the SECURE Act is the elimination of the “stretch” provision for most non-spouse beneficiaries of inherited IRAs and other retirement accounts. Prior to 2020, non-spouse designated beneficiaries could take distributions over their life expectancy, but for many retirement account owners who pass away in 2020 or later, beneficiaries will have 10 years to empty the account. Funds can be withdrawn in any amount, at any time over the course of the 10-year period as long as the entire amount is withdrawn by the end of the 10th year following the year of the original account holder’s date of death.

Before the SECURE Act, beneficiaries of IRAs and other retirement accounts were split into two groups: Designated Beneficiaries (living persons and certain See-Through Trusts) and Non-Designated Beneficiaries (charities, estates, and trusts that fail to qualify as a See-Through Trust). The SECURE Act takes the division one step further and divides the designated beneficiary group into two more categories: Eligible Designated Beneficiaries and Non-Eligible Beneficiaries.

In order to qualify as an Eligible Designated Beneficiary, the beneficiary must be one of the following:

- Surviving spouse;
- Disabled person;
- Chronically ill person;
- Individuals within 10 years of the deceased retirement account owner’s age;
- A minor child of the decedent until they reach the age of majority

The good news is that Eligible Designated Beneficiaries can still take advantage of the stretch IRA rules. However, any Designated Beneficiary who doesn’t fall into one of the categories listed above is subject to the new 10-year distribution rules.

Prior to the SECURE Act, non-designated beneficiaries had to distribute the proceeds of an inherited IRA or other retirement account by the end of the fifth year after the owner’s death if the death occurred before the decedents required beginning date (April 1st of the year following the year in which the retirement account owner reaches age 70.5). No changes were made to the distribution rules for these beneficiaries except that the new required beginning date has been changed to April 1st of the year following the year in which the retirement account

owner reaches age 72).

So, if the beneficiary of your IRA or other retirement account falls into the Non-Eligible Beneficiary group, what should you do? A lot of times nothing. However, if you have a sizeable IRA that, by depleting it within 10 years, will cause your beneficiary to pay tax in a high tax bracket, you may consider doing Roth IRA conversions during your lifetime. There are many factors that go into making that decision, so I encourage you to speak to your financial advisor or tax advisor if you are thinking about implementing Roth conversions.

*Myra visited Joshua Tree National Park in CA. The park lies at an ecological crossroads, where the high Mojave Desert meets the low Colorado Desert.*



## 2019 IRA Contribution Deadline Pushed Back to July 15, 2020

In a historic move due to the COVID-19 (coronavirus) pandemic, the Internal Revenue Service has extended the tax-filing and payment deadlines this year to July 15 from April 15. In addition to other questions many taxpayers had regarding the tax-filing delay, the agency recently issued guidance to clarify details regarding IRA contribution deadlines.

Contributions can be made to your

IRA, for a particular year, at any time during the year or by the due date for filing your return for that year. Because the due date for filing Federal income tax returns has been postponed to July 15, the deadline for making contributions to your IRA (or Roth IRA) for 2019 is also extended to July 15, 2020. For more details on IRA contributions, see the Internal Revenue Service's Publication 590-A, Contributions to Individual Retirement Arrangements (IRAs).

Although this update will not affect people who have already made the maximum 2019 IRA contribution, it could benefit people who have not yet contributed up to the IRA contribution limit. As advisors, we will be working with our clients to ensure contributions that are made up to the July 15, 2020 deadline get coded for the correct tax year. Please contact us if you have any questions.

## Philip Bachman Receives CIMA® Designation

Philip earned the Certified Investment Management Analyst® (CIMA) certification in March. The CIMA designation is one of the peak international, technical portfolio construction programs for investment consultants, analysts, financial advisors, and wealth management professionals. Philip completed the CIMA certification education requirement through Yale School of Management. A rigorous certification exam followed the Yale curriculum. The program spanned four months and

covered five topic domains with over 500 subtopics.

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## Thanks to All Who Attended Our Valentine's Day Breakfast at Maple Street Biscuit Company!



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