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BCS Wealth Management's Quarterly Newsletter

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John suggests six financial actions you should take before the end of the year.

By Myra O'Dell

Beneficiary Categories of Inherited IRAs

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) was signed into law by President Donald Trump on December 20, 2019. One of the many changes brought upon by the act is how IRAs are distributed to beneficiaries. Those who inherited an IRA prior to January 1, 2020 should continue following the pre-SECURE Act rules. However, if you inherit an IRA after December 31, 2019, these new rules affect your distribution options as a beneficiary.

The SECURE Act created three categories of beneficiaries. These are Eligible Designated Beneficiaries (EDBs), Non-Eligible Designated Beneficiaries (NEDBs), and Non-Designated Beneficiaries (NDBs). Try to say that as fast as you can 10 times in a row… it's a mouth full! The category of a beneficiary is determined on the date of death of the IRA owner and cannot be changed. Identifying which beneficiary category you belong to is the first step in determining your distributions options.

Eligible Designated Beneficiaries

EDBs include five groups of people: surviving spouses; the IRA owner's minor children up to the age of majority (18 in most states) or up to age 26 if still in school; disabled individuals; chronically ill individuals; and individuals not more than 10 years younger than the IRA owner. These beneficiaries are unaffected by the SECURE Act rules and can "stretch" distributions over their lifetimes and therefore take advantage of tax deferral. However, once a beneficiary no longer qualifies as an EDB, or dies, the rules for an NDB interpose.

An individual is considered to be disabled if he/she is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or to be of long-continued and indefinite duration. An individual is not considered to be disabled unless he/she furnishes proof of the existence of the disability.

To qualify as chronically ill, the person would have to be certified by a licensed health care practitioner to be unable to perform at least two activities of daily living for at least 90 days or require substantial supervision due to severe cognitive impairment. The activities of daily living are eating, toileting, transferring, bathing, dressing, and continence.

Non-Eligible Designated Beneficiaries

Most individuals fall under the category of NEDBs. The definition of an NEDB is all designated beneficiaries who do not qualify as EDBs. A designated beneficiary is any living person and certain qualifying trusts. If you fall into this category, you must withdraw all of the funds from the inherited IRA within 10 years following the death of the IRA owner. This is often called the 10-year payout rule. Unlike required minimum distributions (RMDs) under the "stretch" rules, the new 10-year payout rule offers flexibility around the timing of distributions, as it does not require annual withdrawals. Funds can be withdrawn in any amount, at any time over the course of the 10-year term, as long as the entire amount is withdrawn by the end of the 10th year.

As mentioned above, certain trusts can qualify as an NEDB. In order to qualify, the trust must meet certain criteria. It must be irrevocable or have become irrevocable when the account holder died, be valid under state law, and contain identifiable beneficiaries. Finally, the trust document must be submitted to the IRA custodian by October 31st following the year of death (or in the alternate, a certified list of trust beneficiaries can be provided by the same date).

Non-Designated Beneficiaries

The third category is NDBs. It includes any beneficiary not accounted for in the first two groups. Most often, these are estates, charities, or non-qualifying trusts. If the IRA owner was under RMD age (currently 72) at death, then the beneficiary must follow a 5-year payout rule. This is just like the 10-year payout rule except the beneficiary must distribute all of the funds by the end of five years following the death of the account holder. If the IRA owner was RMD age or older, then the beneficiary must take RMDs based on the deceased IRA owner's life expectancy.

A successor beneficiary is the beneficiary of an inherited IRA. If a successor beneficiary inherits an inherited IRA after 2019, the 10-year payout rule applies.

Following the appropriate set of withdrawal rules is very important when you inherit an IRA. Failing to take out the required amount results in a 50% tax penalty, so Uncle Sam is not joking around when it comes to this topic. If you have inherited an IRA and you're not sure what the requirements are, be sure to talk to an expert. We're here to help!

Myra O'Dell,
CFP®, MBA
Partner & Senior Financial Advisor

Two New Team Members Join BCSWM

We're happy to announce the addition of two new employees.

Michelle Melton joins us as a Client Service Associate / Financial Administrative Assistant. Michelle worked for Citizens Bank for 35 years in Customer Service & Lending. Michelle is involved with the Boys & Girls Club of Elizabethton and enjoys sports and spending time with family and church. She is married to Brian "Rusty" Melton, and they have one daughter, Danielle-23.

Scott Linn, MBA, RMA® joins BCS Wealth Management as a Financial Advisor, with 21 years of industry experience. He has a Bachelor's Degree in Business Administration, Economics Minor and a Masters of Business Administration from Milligan College. He holds a Series 7, Series 66, and Variable Life and Health Insurance license. Scott is a Retirement Management Advisor (RMA®) professional. He is a proficient user of Bloomberg Terminal.

Scott serves on various boards and volunteers at Johnson City Little League, including coaching. He is a coach for Johnson City Parks and Recreation youth basketball.

Scott and his family are members of Boones Creek Christian Church where he is currently a Sunday School Teacher. He is married to Laura Linn, and they have two children (Beckett-12 and Christian-10). Scott enjoys travel and spending time with family and friends, helping coach his children's baseball and basketball teams, and watching and attending sporting events. Having grown up in Indiana, he is an avid fan of the Indianapolis 500 and most Indiana sports teams.

"We're very fortunate to add Michelle and Scott to our team. They bring decades of experience to our team, and they believe in our mission, culture, and client-centered approach. We're thankful to have a growing firm with wonderful clients that trust us with their financial wellbeing."

– Nick Clay, *Managing Partner*

Michelle Melton,
Client Service Associate & Financial Administrative Assistant

Scott Linn, MBA, RMA®
Financial Advisor

Quarter Review

By Nick Clay

The markets finished the quarter on a sour note, accelerating to the downside in the final hours of trading on September 30. The S&P and Dow both finished the day down over 1%. September marked the worst monthly loss for the Dow since October 2020 and the worst monthly loss for the S&P since March 2020. Even with selling pressure, the S&P managed to post a positive number for the quarter (barely), while the Dow and Nasdaq Composite finished the quarter lower.

By and large, this year has been very strong for most global stock markets.

However, the tail end of this quarter signaled some investor anxiety for various reasons. Reasons include the Delta variant continuing to make headlines; "short-term" inflation sticking around longer than expected; supply chain bottlenecks and labor shortages limiting economic growth and causing economic data to fall short of estimates; and potential fallouts from a debt-heavy Chinese property developer. From a policy standpoint in Washington, there is renewed uncertainty around monetary policy, the debt ceiling, infrastructure spending, and new tax law proposals designed to help fund continued spending.

Major Stock Indexes	3rd Quarter 2021	YTD
DJIA	-1.9%	10.6%
Nasdaq Composite	-0.4%	12.1%
S&P 500	0.2%	14.7%
Russell 2000	-4.6%	11.6%
Global Dow	-1.1%	13.5%
Japan: Nikkei 225	2.3%	7.3%
Stoxx Europe 600	0.4%	14.0%
UK: FTSE 100	0.7%	9.7%
Major Bond Index	**3rd Quarter 2021**	**YTD**
Bloomberg Barclays US Aggregate (Total Return)	0.1%	-1.6%

Throw all of this on top of the longest bull market in U.S. stock market history, and it's no wonder investors are getting antsy – if not downright pessimistic. Turn on the news and you aren't greeted with optimism, but rather pessimism across all major news channels. Pessimism is much more common. It sounds smarter, and it grabs your attention.

Now might be a good time to remind you that at BCS Wealth Management, we are long-term investors. We remain optimistic that disciplined, long-term investing produces the greatest chance of reaching your financial goals and building wealth.

Optimism isn't just believing that things will naturally be great; that would be complacency.

Optimism is a belief that odds of a good outcome are in your favor over time, although there will be setbacks and uncertainty along the way. Some have anticipated a market correction for many years now, yet businesses and earnings continue to grow and fuel the market's sustained advance.

Are there reasons for market optimism in the near term? Sure! Earnings continue to be strong and show the resilience of corporate activity. Interest rates remain at record low levels. Many fundamental statistics are also improving. They are, for example, record top-line revenues, strong consumer demand across many sectors, and record cash on the sidelines.

The reality is short-term market movements are debatable and unpredictable, but in the long term it's very clear to see that markets are efficient and grow.

We are dialed into the short-term "noise" but also focused on the long-term task at hand, which is improving the overall financial situation for our clients. When faced with uncertainty, or even fear, about the near term, what can you responsibly do to provide peace of mind? Review your risk tolerance, and stress test your portfolio against potential doomsday scenarios. Review and rebalance your portfolio to take advantage of market movements, and realize some investment wins of the past. Review your financial plan to make sure your current allocation is still the appropriate mix to achieve your goals.

These are just some timeless strategies that can allow you to take advantage of market volatility without actually having to predict things perfectly. Often the best course of action – and sometimes the hardest course of action – is to do nothing at all and trust the plan you've put into place. We invest, build, and monitor financial plans knowing there will be volatility. Our team of advisors are here to help when/if uncertainty creeps into your mind.

Shifting gears and looking ahead, we expect new tax law to be enacted by Congress this year. Democrats on the House Ways and Means Committee released their tax proposals on September 13. The current measures look very different than earlier this year. The new measures aren't as drastic in some areas, likely in an effort to gain more bipartisan support, but they will nonetheless create many planning opportunities in the tax, investment, and estate planning world. Our team will be out on the front end of new legislation once something official happens.

As we head into the last couple months of the year, stay tuned to our blog, newsletter, and social media pages for updates and planning opportunities that may affect you. You will also notice some new faces in this newsletter. We are excited about enhancing our team with additional expertise.

This year has seemingly flown by as we've gotten somewhat back to normal. We wish you a very happy and blessed holiday season that is right around the corner.

Word on the street is the supply chain is tangled up, so start your Christmas shopping early!

Thank you for the continued trust you place in our team. We don't take it lightly. We appreciate the opportunity to walk alongside you in your financial life.

Nick Clay,
CFP®, AIF®, AAMS®
Managing Partner &
Senior Financial Advisor

Connect with us!

Stay up to date on the latest news regarding upcoming legislation, planning opportunities, and BCSWM firm updates by subscribing to our blog and following us on social media.

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Year End To-Dos

By John D. Brandon

1 | Take your Required Minimum Distribution (RMD)

In 2019 the SECURE Act changed the RMD age to 72 from 70 ½. In 2020 RMDs were not required with passage of the CARES Act. So this year if you will be 72 or older by December 31, you may be required to take minimum distributions from your qualified retirement accounts. Failing to do so will cost you 50% in penalty of the RMD that you didn't take. The initial withdrawal can be deferred until April 1 in the year following the year you turned 72 — for example, by April 2022 if you turn 72 in 2021. Subsequent withdrawals must be made annually by December 31. This requirement applies to money in IRAs, 401(k) plans, and most other retirement accounts, but not to Roth IRAs.

2 | Max out contributions to your retirement plans and Health Saving Account (HSA)

If you have a retirement plan sponsored by your employer, such as a 401(k), I recommend that you contribute at least the minimum amount required to receive the maximum employer match. Aim to contribute as much as you can afford, and increase your amount each year. If you don't have access to an employer sponsored plan, you may be able to contribute to an IRA or Roth IRA if you meet the eligibility requirements. Be sure to check with your tax advisor or financial advisor to confirm that you are eligible.

HSAs are available to those with a high deductible health insurance plan. Contributions go in pre-tax, can be invested for tax-deferred growth, and withdrawn tax-free if used for qualified health expenses. The money in an HSA can accumulate year-over-year and is portable if you change employers.

While you are reviewing these accounts update your beneficiaries too!

3 | Spend Flexible Savings Accounts (FSA)

Unlike HSAs, FSAs do not carry over year-to-year. The funds in these accounts must be spent in the year they are deposited. Use it or lose it.

4 | Make a charitable donation

Of all the year-end actions on this list, donating money to charity may be the most satisfying. Research services such as Guidestar.org and CharityNavigator.org list free information that can help you evaluate a non-profit organization, including whether or not it's legitimate. Talk to your tax advisor to find out if a charitable donation might be deductible for tax purposes.

5 | Consider converting to a Roth

With retirement income, it makes sense to have a good mix of traditional and Roth IRAs. (Money you take from traditional accounts is taxable in retirement, while Roth withdrawals are tax-free as long as you meet certain criteria.)

You can manage income in a way that keeps you in the lowest possible tax bracket. One way to boost your tax-free funds is to "convert" some money in traditional accounts (either within your workplace plan or an IRA) to a Roth. Just keep in mind that doing so will trigger income taxes—money you convert to a Roth is treated as a normal distribution, so you'll need funds to cover tax on that amount. So, you'll need to crunch the numbers to see if a Roth conversion makes sense this year. That might be the case if, say, you're in a lower tax bracket, perhaps due to a gap in employment or other life event.

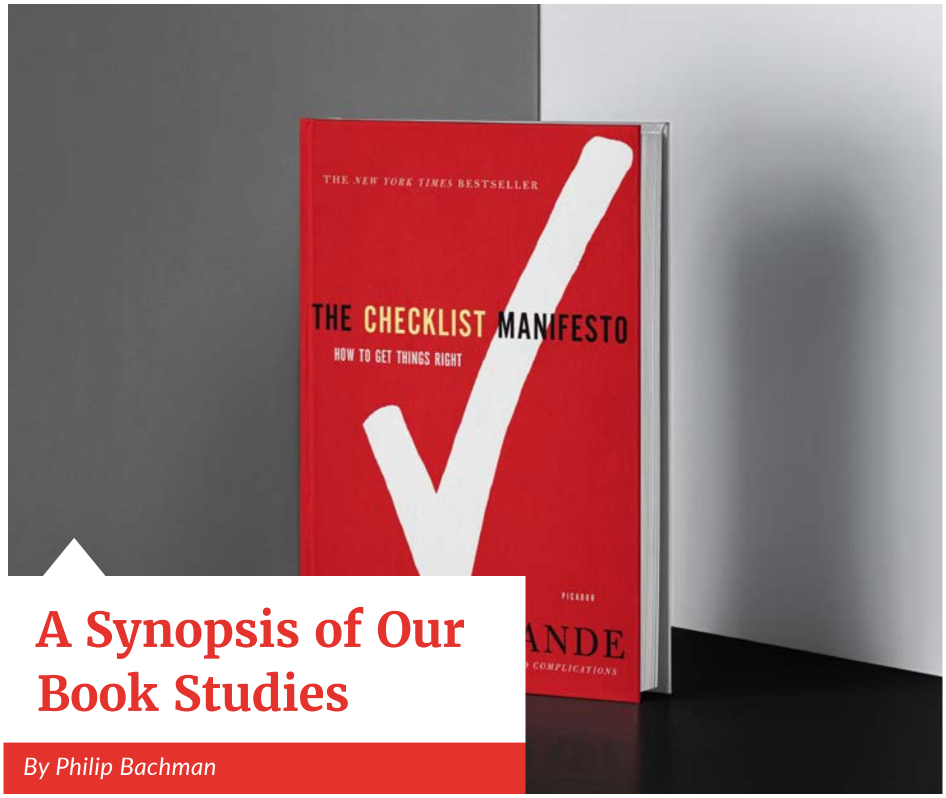
6 | Offset capital gains with capital losses

"Tax-loss harvesting" is a complex name for a simple idea: selling stocks and funds that have lost value to offset taxes on profits from sales of those that have gained value. If you hold investments outside your tax-favored retirement accounts, and you've made money by selling some this year, see if you can lower your tax burden by selling some poor performers.

Even if you haven't "realized" capital gains by selling winners, you can still use realized capital losses to lower your (taxable) ordinary income by up to $3,000.

Bottom line: If you have capital gains this year, talk with your financial advisor or accountant to help you narrow down the best investments to unload to take advantage of tax-loss harvesting.

John Brandon,
AAMS®, CPFA
Financial Advisor



A Synopsis of Our Book Studies

By Philip Bachman

Our team periodically picks a non-fiction book to read and discuss as a group. The books aren't necessarily about finance. Rather, they span an array of topics that may be valuable in pursuit of both personal and professional growth.

Here are the most recent books that we've read:

Factfulness by Hans Rosling

Rosling challenges the common notion that the state of our world is getting worse and worse. He shows that we collectively believe this narrative due to unconscious, predictable biases. Using objective data, the book illustrates many global trends that are improving. The book also teaches us to shed unhelpful biases when we meet new information.

The Checklist Manifesto by Atul Gawande

Gawande explains how the simple, humble checklist is one of society's greatest tools in perfecting skills of all kinds. The book tells riveting stories from aviation, medicine, and other fields to show how checklists improve outcomes – and save lives. It encourages us to embrace checklists if we care about getting tasks done right.

Predictably Irrational by Dan Ariely

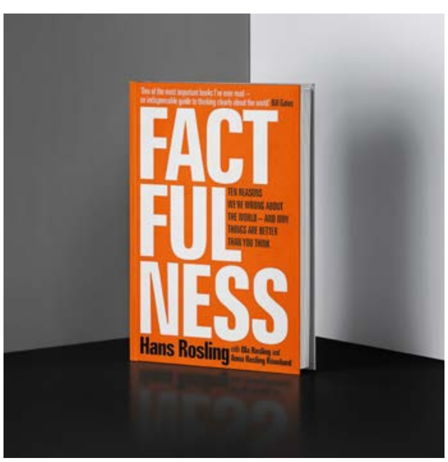
Ariely helps us identify cognitive biases and information-processing errors from which we humans suffer. It shows that our misguided behaviors are neither random nor senseless. They're systematic and predictable – making us predictably irrational. The book's lessons are similar to those found in Daniel Kahneman's groundbreaking (although much more lengthy) 2011 book about behavioral psychology, *Thinking, Fast and Slow.*

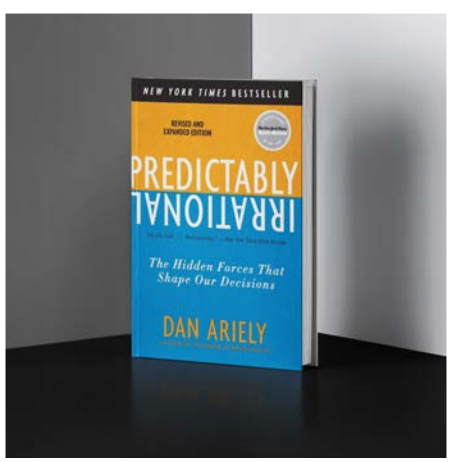
Range by David Epstein

If you consider yourself a jack-of-all-trades, take heart! This book celebrates generalists. It shows how they – not specialists – are prone to excel in our dynamic world. The book's examples draw from a myriad of stories and studies spanning history and discipline. It inspires well-roundedness, curiosity, and adaptability.

We feel these book studies keep our minds active, encourage discussion, and let us apply relevant lessons to our practice.

Philip Bachman, CIMA®
Financial Advisor
Investment Management & Research





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BCS Wealth Management is an independent financial planning firm in Johnson City, TN. We help individuals, families, and businesses reach goals important to their financial wellbeing. We provide investments and financial planning, insurance, and group benefits.

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Client Event at Blackthorn Club

We had a great time hosting our clients and friends at our appreciation event at Blackthorn Club. It was a wonderful day of powerful speakers, good discussions, and laughs at the photobooth.