BCS Wealth Management

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The SECURE Act – What You Need to Know

The SECURE Act went into effect January 1, 2020. This new federal legislation modifies key aspects of certain retirement accounts and other accounts. Nick Clay outlines some important changes.

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2019 in Review

Markets Rebound and Finish Strong

By Nathan Goodwin

What a rebound we had in 2019! One year ago we witnessed the worst December for the Dow and S&P 500 since 1931, bringing the losses for 2018 to 5.6% and 6.2%, respectively. Much uncertainty surrounded how the markets would react in 2019. Twelve months later, we see not only positive returns for the fourth quarter, but double-digit returns for all of the major indices on the year. Furthermore, markets closed the year at or near all-time highs.

The S&P 500 hit a new record high 35 times in 2019; the DJIA did 22 times; and 31 for the Nasdaq. Those are astonishing numbers that are historically rare.

What sparked these great returns? Let's take a look at some of the highlights:

-The Federal Reserve reversed course from their rate increases in 2018 with three quarter-point rate cuts to the short-term interest rate. This was largely viewed as a positive for the markets and economy. It provided upward pressure on stock prices.

-Earnings beat estimates for the most part. The start of the year saw lower earnings numbers carry over from 2018. But while estimates were lowered, 75% of S&P 500 companies still beat earnings estimates in the third quarter.

-Trade tensions between the U.S. and China eased, with a phase one deal reached late 2019. President Trump says he will sign the agreement on January 15th. Both countries viewed this as a positive, and markets reacted accordingly.

-The economy fought through recession fears and continued to have positive GDP numbers through the first three quarters. (Fourth quarter figures are not in yet.)

Looking ahead at 2020, many of the economic concerns we were hearing at this time last year have dissipated. Low interest rates, low unemployment, and solid earnings could be a recipe for continued growth. However, on the flip side of that coin are Middle East tensions, global economic worries, and – last but not least – the presidential election on November 3rd. All of these have the possibility to affect markets this year. As we know, uncertainty usually leads to volatility.

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Major Stock Indexes	4th Quarter 2019	2019
DJIA	6.0%	22.3%
Nasdaq Composite	12.2%	35.2%
S&P 500	8.5%	28.9%
Russell 2000	9.5%	23.7%
Global Dow	7.6%	18.7%
Japan: Nikkei 225	8.7%	18.2%
Stoxx Europe 600	5.8%	23.2%
UK: FTSE 100	1.8%	12.1%
Major Bond Index	**4th Quarter 2019**	**2019**
Bloomberg Barclays US Aggregate (Total Return)	0.2%	8.7%

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While we make no predictions about market returns in 2020, having a solid financial plan means we don't have to. If you have a thorough plan and diversification, market corrections and volatility have not only been considered, but are accounted for in your calculations. If fear caused you to sell as markets were dropping in late 2018, look what you would have missed in 2019.

As I've pointed out before, history shows that investors lose far more in the long run by trying to avoid the market drops, compared to staying invested. This is why studies have shown that the average investor does not earn near the returns of the market in general.

Our firm has a lot on the horizon in 2020. We continue to focus on new technology. We will be implementing additional features this year. We continue to grow and expect to welcome new team members to better serve you. Additionally, team members are working on various advanced certifications to further specialize and differentiate our firm in an effort to continue to serve you holistically. We're also planning new client events (in addition to old favorites!). We look forward to enjoying these events with you.

2019 was a great year for our clients, the markets, and our firm. We look forward with hope and anticipation for a great 2020.

Nathan is a partner at BCS Wealth.

Latest News from Around BCS Wealth Management

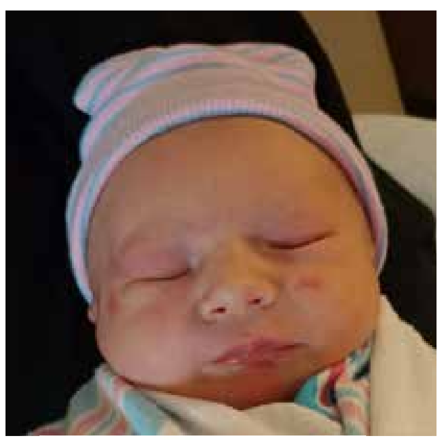
It's a Wonderful Life

BCS Wealth hosted a private movie showing for clients and friends on December 3 to gear up the Christmas spirit! The event took place at Real to Reel Theatre in Johnson City. We watched the 1946 Christmas classic, *It's a Wonderful Life*.

Events like these private movie showings, social events, and our annual Blackthorn event are examples of the casual, engaging opportunities to see our clients and friends that we enjoy organizing. We look forward to another year of fun events. Stay tuned for announcements as the year goes on!

Congrats Bridget Millsap

Bridget and David welcomed their son, Andrew Wade, on January 18th. Mom and baby are doing great! Bridget has decided to be a stay-at-home mom. We will miss her!



Welcome Yvonne Cockrell

Please welcome Yvonne Cockrell as a new Administrative Assistant to BCS Wealth Team. Yvonne has over 30 years of Administrative experience. She currently holds a License for Notary Services, FINRA Investment Series 6 and Life, Accident and Health Insurance for TN.

Yvonne enjoys reading, sewing and watching old movies. She and her husband, Steve, attend Indian Springs Baptist where they co-teach the College & Career Sunday School Class and she is involved with the Women's Ministry. They have 2 daughters, Taylor who teaches Pre-K in the Kingsport City Schools and Morgan who is currently living in Montreal, Canada as a missionary.

The SECURE Act – What You Need to Know

By Nick Clay

A major bill called the SECURE Act passed by Congress and approved by President Trump changes key aspects of retirement accounts. "SECURE" stands for "Setting Every Community Up for Retirement Enhancement." Effective January 1, 2020, this piece of legislation is substantial and vast in its scope. The bill will impact many people immediately. In an effort to educate and to stay ahead of the new legislation, I have compiled five important points that are likely to impact many of our clients. These are only five of the many provisions contained in the SECURE Act. You can expect continued information and education from our team in the coming weeks and year.

Required Minimum Distributions (RMDs)

Under previous rules, the IRS would require you to start taking distributions from your IRA once you reached age 70 ½. The SECURE Act has changed this to age 72, so it provides some relief to people who don't enjoy taking the RMD and paying the associated taxes. Simply by taking the "half" age out of the mix, it makes this rule easier to understand and follow. But this favorable development only applies to folks who reach 70 ½ after 2019. So, if you turned 70 ½ in 2019 or earlier, you must continue under the former rules. As with the previous law, you can still delay your first RMD until April 1 of the following year, but you will also have to take the following year's RMD in that same year.

Qualified Charitable Distributions (QCDs)

For people that are having to take RMDs, but do not need the income and/or would rather not pay the associated tax, QCDs have become a popular charitable giving strategy. (We see this with a lot of our clients.) QCDs allow you to withdraw from your IRA, satisfy your RMD, give directly to charity, and have the withdrawal be non-taxable. The SECURE Act does not change anything with regards to QCDs, and you are still allowed to start doing this at age 70 ½ even though you're technically not required to do a RMD.

IRA Contributions No Longer Have to Stop at Age 70 ½

Under previous law, you were not allowed to contribute to your IRA once you reached the year you would turn age 70 ½. Starting in 2020, you will be able to contribute to your IRA at any age as long as you have earned income, or if your spouse has earned income. This change comes in an era where individuals and/or spouses are working later into life, so this might help in certain situations.

New Rules if you Inherit a Traditional IRA or Retirement Account

This is a fairly significant law change for a small percentage of people who will inherit a retirement account. In the past, non-spouses who inherited an IRA or retirement account could stretch the required distributions over life expectancy. Starting in 2020 if you inherit as a non-spouse there is a new 10-year rule, which means the entire inherited retirement of the 10th year following the year you inherit. The timing of the withdrawals are at the discretion of the person who inherits, and there are no requirements each year as long as the account is empty at the end of 10 years. Thus, there is some flexibility when it comes to timing withdrawals. Certain individuals are exempt from the new 10-year rule; these are spouses, chronically ill beneficiaries, disabled beneficiaries, and individuals who are not more than 10 years younger than the individual who passed away.

529 College Savings Plans

There are a couple updates to 529 plans that are worth mentioning. One is that you can now withdraw up to $10,000 (lifetime amount) for qualified education loan repayments. These payments can be used to pay principal and/or interest of qualified education loans. Another 529 plan update allows expenses for qualified apprenticeship programs to be paid from 529 funds. These programs must be registered and certified with the Department of Labor.

"This piece of legislation is substantial and vast in its scope, and many will be impacted by it immediately." -Nick Clay

Considerations When Shopping for Health Insurance

By Paul Hoilman

The Affordable Care Act, signed into law by President Obama, mandated that individuals carry qualifying health insurance coverage or pay penalties. These ACA-compliant, qualified health insurance plans meet the Minimum Essential Coverage requirements as laid out in the Affordable Care Act. These plans removed coverage limitations such as pre-existing condition exclusions and waiting periods, and they mandated certain preventive coverages be included.

In 2019, the penalty for not carrying these ACA-compliant plans became non-existent due to the Tax Cuts and Jobs Act, which remains true in 2020. This gives U.S. taxpayers free reign to choose whatever plans they want, or to choose no health insurance at all, without fear of paying additional penalties when they file their tax returns.

For many Americans, this begs the question, “Should we carry health insurance at all?” After all, premiums have gone up steadily over the past decade, and benefits like office visit copays have become more and more scarce.

The answer of course is... YES. Health insurance provides many benefits, with one of the most important being the ability to limit our annual financial exposure to possible healthcare expenses. Medical debts were responsible for half of all bankruptcy filings in 2016, and 52% of all debt collection actions contained medical debt, according to a Kaiser Family Foundation study.

By carrying health insurance with a true out-of-pocket maximum for the insured, we have the ability to limit how much healthcare expenses might cost us over the course of a year. With hospital stays potentially costing tens of thousands of dollars, common surgeries like knee and hip replacement costing approximately thirty to forty thousand dollars, heart bypasses, spinal fusion, and cancer treatments costing over one hundred thousand dollars, having a maximum annual out-of-pocket cost of four or five thousand dollars brings peace of mind and financial security.

With the individual mandate penalty removed, traditional (non-ACA compliant) health plans, as well as ACA-compliant plans, are readily available to choose from. For many people, their best option will be the coverage offered through their employer. Companies offering health insurance benefits typically offer ACA-compliant plans and pay a portion of the premiums, which lowers the cost and makes quality healthcare plans easily accessible to employees. As you consider your health insurance options in the coming years, here are some things to consider:

- Does my plan cover pre-existing conditions?
- Are there waiting periods for pregnancy/maternity coverage?
- Is there a limit on how much my plan will pay (i.e. $250,000, $1,000,000, etc.)?
- Are my prescriptions covered? If so, how much will they cost me each month?
- Does the deductible count towards my out-of-pocket maximum?
- For those enrolled in Medicare, is your current Advantage plan or Medicare Supplement the best choice for you in the upcoming year? Have your prescriptions changed or is there better prescription coverage available to you this year?

Have questions? Give us a call or email us at insurance@bcswealth.com. We’d be happy to review your current insurance.

Retirement Account Contribution Limits for 2020

By Philip Bachman

Retirement accounts like IRAs and 401(k)s are powerful tools in financial planning. Tax-deferred or tax-free growth of investments can be a key driver towards long-term financial success. However, the IRS does not let money flow into these types of tax-advantaged retirement accounts unlimitedly. The IRS sets contribution limits, which change periodically. Here is an update about the contribution limits for 2020.

401(k), 403(b), 457, and TSP Plans:

Employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan can save $19,500 per year in 2020, which is $500 higher than in 2019. The catch-up contribution limit for employees age 50 and over who participate in these types of retirement plans increased by $500 to $6,500 in 2020.

SIMPLE Plans:

The contribution limit for SIMPLE IRA and SIMPLE 401(k) plans is higher by $500, moving from $13,000 in 2019 to $13,500 in 2020. For those age 50 or over, the catch-up contribution limit is the same at $3,000. Employer contributions are not included in these limits.

SEP IRA Plans:

The SEP IRA contribution limit increased by $1,000 in 2020, from $56,000 to $57,000. With SEP IRAs, the employer makes the contribution, which cannot exceed the lesser of 25% of compensation or $57,000 for 2020.

Traditional and Roth IRAs:

The annual contribution limit on traditional IRAs and Roth IRAs is unchanged at $6,000. The additional $1,000 catch-up contribution limit for individuals age 50 and older also remains unchanged. Therefore, those age 50 and older may contribute as much as $7,000 into an IRA.

Traditional IRA Deductibility:

Taxpayers can deduct contributions to a traditional IRA if they meet certain conditions. If during the year either the taxpayer or his or her spouse was covered by a retirement plan at work, the deduction may be reduced, or phased out, until it is eliminated, depending on filing status and income. (If neither the taxpayer nor his or her spouse is covered by a retirement plan at work, the phase-outs of the deduction do not apply.) Here are the phase-out ranges for 2020:

- For single taxpayers covered by a workplace retirement plan, the phase-out range is $65,000 to $75,000, up from $64,000 to $74,000.
- For married couples filing jointly, where the spouse making the IRA contribution is covered by a workplace retirement plan, the phase-out range is $104,000 to $124,000, up from $103,000 to $123,000.
- For an IRA contributor who is not covered by a workplace retirement plan and is married to someone who is covered, the deduction is phased out if the couple's income is between $196,000 and $206,000, up from $193,000 and $203,000.
- For a married individual filing a separate return who is covered by a workplace retirement plan, the phase-out range is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

Roth IRA Income Limitations:

The income phase-out range for taxpayers making contributions to a Roth IRA is $124,000 to $139,000 for singles and heads of household, up from $122,000 to $137,000. For married couples filing jointly, the income phase-out range is $196,000 to $206,000, up from $193,000 to $203,000. The phase-out range for a married individual filing a separate return who makes contributions to a Roth IRA is not subject to an annual cost-of-living adjustment and remains $0 to $10,000.

For more information on these updates by the IRS, please see https://www.irs.gov/newsroom/401k-contribution-limit-increases-to-19500-for-2020-catch-up-limit-rises-to-6500. We encourage you to speak with your CPA or tax adviser with questions specific to your situation.

Although traditional IRAs and Roth IRAs do not have higher contribution limits, our team is nevertheless excited about the slightly higher contribution limits for 401(k)s and related plans. We believe in the power of saving and long-term investing. Higher contribution limits, even if modest, are one small step that could help many retirement savers towards their goals.

Qualified Charitable Distributions

By Myra O'Dell

A qualified charitable distribution (QCD) generally is a nontaxable distribution made directly from your IRA to an organization eligible to receive tax-deductible contributions. You must be at least age 70½ when the distribution was made. Also, you must have the same type of acknowledgment of your contribution that you would need to claim a deduction for a charitable contribution.

The maximum annual exclusion for QCDs is $100,000. Any QCD in excess of the $100,000 exclusion limit is included in income as any other distribution. If you file a joint return, your spouse also can have a QCD and exclude up to $100,000. The amount of the QCD is limited to the amount of the distribution that would otherwise be included in income. If your IRA includes nondeductible contributions, the distribution is first considered to be paid out of otherwise taxable income.

While you can take advantage of QCDs from an Inherited IRA (assuming you meet all of the requirements), you cannot do a QCD from an active SEP or SIMPLE IRA.

Other than the obvious benefit of a nontaxable distribution, here are some other reasons you should consider a QCD:

- QCDs can be counted toward satisfying your required minimum distributions (RMDs) for the year.
- Keeping your taxable income lower may reduce the impact to certain tax credits and deductions, including Social Security and Medicare.
- Also, QCDs don't require that you itemize, which due to the recent tax law changes, means you may decide to take advantage of the higher standard deduction, but still use a QCD for charitable giving.

If you have an IRA, are over 70 ½, and are charitably inclined, talk to your advisor to see if a QCD is ideal for you.

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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.

Update on Tennessee Hall Tax

By Nick Clay

In May 2016, Gov. Bill Haslam signed legislation to phase-out the Tennessee Hall Income Tax. The legislation reduced the Hall Tax rate from 6% to 5% for 2016, and it slated the tax rate to be dropped by 1 percentage point annually thereafter until it is eliminated on January 1, 2021. The Hall Tax is a Tennessee state tax on interest and dividend income from investments. It is the only state tax that is levied on personal income.

Unless the taxpayer qualifies for an exception, the Hall Tax is applied to all taxable interest and dividend income in excess of $1,250/person ($2,500 for married filing jointly). The revenues from the tax are shared with the government of the municipality or county where the taxpayer lives.

Here is the schedule of the Hall Tax phase-out:

- 5% for tax years beginning January 1, 2016, and prior to January 1, 2017
- 4% for tax years beginning January 1, 2017, and prior to January 1, 2018
- 3% for tax years beginning January 1, 2018, and prior to January 1, 2019
- 2% for tax years beginning January 1, 2019, and prior to January 1, 2020
- 1% for tax years beginning January 1, 2020, and prior to January 1, 2021
- Full repeal for tax years beginning January 1, 2021

The reduction this year to 1% – and the repeal to happen next year – has been a welcome development for many investors in the Volunteer State. Considering how quickly time passes, the New Year to ring in 2021 will be here before we know it.