NEWSLETTER SECOND QUARTER

spectrum
FINANCIAL PARTNERS

2020 IT'S MORE THAN THE MATH. IT'S THE PATH.

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This Second Quarter Newsletter Covers:

- CARES Act
- New FICO score
- Long-term care planning

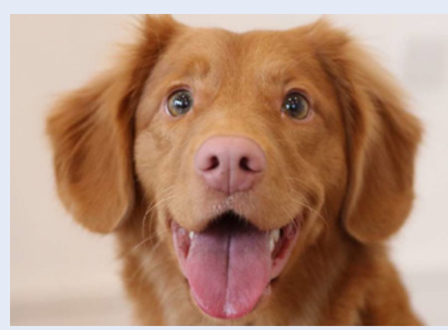
TO THE COMMUNITY:

We are giving 30-minute free consultations to anyone financially impacted by the COVID-19 pandemic. We can help sort through options for managing near-term challenges with an eye toward the long-term effects.

Next Event –

When we can once again gather together, hopefully this summer

Join us for the first annual SFP Pet Photo Shoot! Bring your pet for his/her glam shot with a professional photographer. Don't have a pet (or one that travels) you say? Join us anyways for snacks, drinks and (mostly) canine merriment.



THE CARES ACT 2020

(The Coronavirus Aid, Relief, and Economic Security Act signed into law on March 27, 2020)

Stimulus checks, business assistance and unemployment benefits have captured most of the news. The Act also contains several temporary retirement plan-related items. Here are some notable ones.

RMD Waiver

2020 RMD waived

The Act waived the mandate to take an RMD in 2020 from your IRA, workplace defined contribution plan (e.g., 401(k), 403(b)), or inherited IRA. Individuals who reached age 70½ in 2019 and who had deferred their 2019 RMD until the required beginning date of April 1, 2020, may waive both that RMD and their 2020 RMD. RMDs from defined benefit plans and cash balance plans are not eligible for the waiver, nor are RMDs taken before December 31, 2019.

If you have already taken your 2020 RMD you may roll the distributed assets back into your account within 60 days, without taxes or penalties.

If you don't need the money for expenses, you might consider not taking the RMD in 2020. Not taking an RMD in 2020 may help you avoid a bigger tax bill and potentially benefit more from a market recovery. Call us to discuss the pros and cons in your situation.

Hardship distributions

Eased access to retirement accounts

Individuals are permitted to take a penalty-free distribution of up to $100,000 from their IRA or employer-sponsored retirement plan if they, or a spouse or dependent, are diagnosed with COVID-19 or if they experience negative financial consequences (e.g., job loss) as a result of the pandemic. The taxation of the withdrawn amount may be spread over the next three tax years. Individuals may also recontribute any amounts withdrawn under this provision at any time over the three-year period, tax free, without regard to plan contribution limits.

Increased 401(k) borrowing limit

The borrowing limit from an employer-sponsored retirement plan has been increased from $50,000 to $100,000 for the 180-day period following the bill's enactment.

Above-the-line charitable deduction

Up to $300 charitable deduction without itemization

For the 2020 tax year, taxpayers can take an above-the-line charitable deduction of up to $300 for certain charitable contributions. Typically, charitable contributions are deductible only for individuals and couples who itemize rather than use the standard deduction. Contributions to a donor-advised fund are not eligible for this treatment.

Suspension of certain charitable giving tax deduction limits

For 2020, the deduction available on cash contributions to charitable organizations – with some exceptions - has been increased from 60 percent of a taxpayer's AGI to 100 percent. Notably, donor-advised funds are not eligible.

Employer payment of student loans

Employers may pay up to $5,250 of an employee's student loans prior to January 1, 2021, without it being included in the employee's gross income. The excludable total payment amount is inclusive of any other educational assistance paid by the employer.

Suspension of student loan payments

Borrowers of federal student loans are not required to make student loan payments prior to September 30, 2020, and interest on the loans will not accrue during this time.

NEW FICO SCORING FORMULA

Fair Isaac, the company that creates the FICO credit scores, is introducing the latest update to its methodology this summer.

In the new method, personal loans will be weighted more heavily and 24-months of credit card usage will be included instead of monthly snapshots.

One result of this change is that consolidating debt in a home equity loan and then continuing to add to credit card debt will result in a lower score than it did previously.

The use of trend data on credit cards could result in someone who carries a balance for a couple of months and then pays it off having a better score than someone who consistently carries a balance on their credit cards.

Best practices for maintaining good credit (from Consumer Reports)

1. <u>Keep tabs on your credit report</u>. Be sure to check your credit report periodically at the three major credit reporting agencies—Equifax, Experian, and TransUnion. That data is used by FICO and other companies to create your credit score.

   You're entitled by law to a free credit report once a year from each of the three major credit bureaus. Go to AnnualCreditReport.com to ask for a report from one of the companies. By staggering requests among companies every four months, you can continually monitor the accuracy of your reports.

2. <u>Pay your bills on time</u>. About 35 percent of the FICO score is based on your payment history—that is, how often you pay on time. If you can't pay off the full balance, be sure to pay the minimum amount to avoid a late payment.

3. <u>Limit your credit usage</u>. Your credit score is also determined by utilization—how much of your available credit limit is being used. So avoid maxing out your cards.

PLAN FOR LONG-TERM CARE LIKE YOU'LL NEED IT

Let's be honest. In twenty years of doing this work, no one has ever approached us eager to discuss the possibility that someday they might be too infirm to care for themselves. Retirement conversations about travel, quality time with family and friends, and devoting oneself to a hobby are fun and energizing. Then there's long-term care. Nothing sucks the air out of the room quite like broaching this topic.

As unpleasant as the topic may be, we firmly believe that long-term care is an essential piece of a comprehensive retirement plan because most people are likely to need it in their lifetime.

Longtermcare.gov says that "someone turning age 65 today has almost a 70% chance of needing some type of long-term care services." The chances that at least one partner in a couple needs long-term care is even higher.

Let's compare this to:

- The chance of getting dealt blackjack from a full single deck is a little less than 5.0%. Yet you wouldn't be surprised to get one.
- In 2018 0.29% of homes in the U.S. caught fire requiring a fire department response. Pretty low; But you wouldn't own a house without fire insurance, would you? (363,000 fires out of 127 million households)*

Surely it is prudent to prepare for something that has a 70% probability of happening. The pertinent question is how to prepare.

Preparation is complicated by the wide range in the costs of long-term care. For example, having a home health aide for 20 hours a week costs about $2,800 per month in Seattle. On the other end of the scale is a private nursing home room at $12,745 per month or 24/7 in-home care at $24,000 per month.[‡]

We can be pretty confident that most of us will need care but we don't know the cost.

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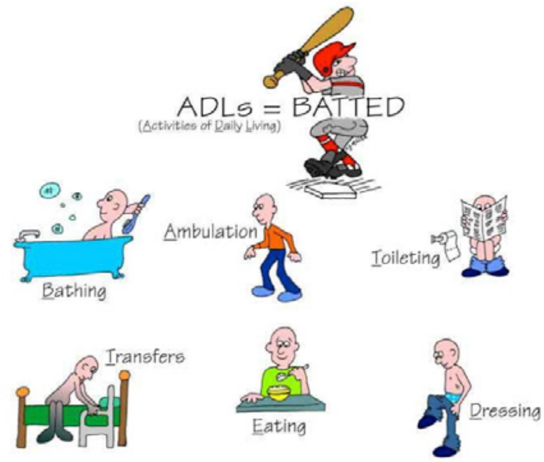
Here are the five most common options for paying for long-term care:

1. Medicaid
2. Veterans Affairs
3. Family and friends
4. Pay with own assets
5. Insurance

Long-term care is usually defined as being unable to do 2 Activities of Daily Living (ADL) unassisted or cognitive impairment.



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Every person and family is going to have their own way of sorting through the options, guided by their circumstances and goals.

Medicaid is the fallback option for those who need. It covers long-term care expenses for people with assets below $2,000 and income below $2,349 per month for 2020. (Medicare does not cover long-term care.) The financial requirements of qualifying for Medicaid can make financial security difficult for a surviving spouse. Considering an alternate option seems preferable for most peoples who have the means.

Veterans Affairs supports many long-term care services including home health and nursing home care, and support for caregivers. This can be a very valuable resource and should be part of planning for veterans.

Family and friends This is a very common option. 83% of care to older adults is provided by friends or family members. 65% of caregivers are female and 25% are sandwich generation. It works best to discuss how this would work before the need arises and to consider scenarios requiring different levels of care. Be realistic about the capacity to provide care and the potential costs incurred by caregivers.†

Pay with own assets For many people, this is the preferred solution. Consideration should be given to what assets are available (e.g., home equity) if long-term care costs are on the higher end, especially what kind of financial situation might be left for the surviving spouse.

Insurance Long-term care insurance provides the benefit of pooled risk. In exchange for paying a premium, you will be able to pay with insurance company money should you need long-term care. For clients who qualify and whose situations are suitable, we favor policies that are paid with a single lump sum instead of paid with a monthly or annual premium over a lifetime. The advantage of this type of policy is that there are no more payments after the first one and you or your heirs can receive some or all of the funds back in case you never need long-term care.

Long-term care planning is included in every comprehensive retirement plan that we do. Our role is to provide information, including testing possible future financial outcomes should you need to pay for long-term care, so you can make an educated choice about how you want to address this retirement risk. Our goal is simply that you decide on a plan that represents your best choice at this time.

*National Fire Protection Association, 2019 "Home Structure Fires" and Statista.com.
‡ Genworth Cost of Care Survey 2019
† "75 Must-Know Statistics About Long-Term Care: 2018 Edition" Christine Benz, Aug 20, 2018, Morningstar.com.

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