



Planning Considerations for the Current Environment

March 27, 2020

We have been having a lot of conversations with our clients lately. In addition to talking about the markets, we are finding the conversations drift into other, more practical areas. We thought you might like a break from our market commentary with some financial planning topics.

**Your Financial Plan...an important tool to manage your risk**

We all have experienced some fairly significant changes in our lives over the past few weeks. Part of the angst we are feeling is that we have no idea when life will return to normal. Now is a good time to think about any additional cash you might need over the next 6-8 months. One component of any financial plan is having access to enough cash to handle emergencies. As you think about upcoming cash needs and choose to replenish your reserves, let us know as far ahead of time as possible. This gives us the opportunity to raise cash for you on the days when the market is doing better.

We know that the market volatility in the news can be unsettling. However, having a personal financial plan can help you to understand the true impact of the volatility on you and your finances – which will likely provide some comfort.

Having a financial plan in place can help you manage your risk and help you feel more secure during these challenging times.

Maybe you are worried about your children or grandchildren being laid off from their jobs. Are you wondering about the best way to help them? Often, some independent advice is useful. If you think that your family may need your help, please let us know. Sometimes stepping up to pay a couple of necessary bills like the rent or the car payment is a better way to help than just writing a check.

**Have You Taken Your Required Minimum IRA Distribution?**

If not, and you do not need the cash, you might consider taking your distribution in shares. While share prices are depressed, why not distribute shares from your retirement account and deposit them in your taxable account or trust. One advantage of doing this in a volatile market is that by distributing shares, you stay invested. Another advantage is that you shift the appreciation on the shares from ordinary income to capital gains tax treatment; or with a Roth conversion, you eliminate future tax altogether.

Generally, the shares are valued much in the same way charitable contributions are valued – mean market value on the date of transfer. Of course, you will need to take enough in shares or cash to satisfy your required distribution and you will have to pay tax on the distribution out of pocket, so it is a good idea to make sure you have cash on hand to cover the tax liability.

There is a bill recently introduced in the House of Representatives that would postpone the need for you to take a Required Minimum Distribution in 2020. What that bill looks like when and if it passes is likely to remain unknown for some time. Stay tuned . .

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### **Do Roth Conversions During a Market Downturn Make Sense?**

The decision to perform Roth conversions is a financial planning decision based on several factors, including your tax situation now and in retirement, and the size of required minimum distributions (RMDs) during retirement, and anticipated living expenses in retirement. A conversion analysis will provide you with a dollar value that could be efficiently converted to maximize the tax benefits over the course of your retirement. While the current market performance is not part of this analysis, it can influence the timing of the conversions.

When you convert savings from a traditional IRA or qualified retirement plan to a Roth IRA, the value on the date of conversion will be reported on your taxes as income and will be subject to federal and state taxes. Keep in mind that the tax liability of the Roth conversion will need to be paid out of pocket, because usually there is no tax withholding on the conversion. So, it is a good idea to make sure you have cash on hand to pay this tax liability.

By taking advantage of a market downturn, you can convert a larger percentage of your IRA or qualified retirement plan for the same amount of reportable income.

For example, if you convert \$50,000 of a \$500,000 IRA account, you are converting 10% of the account to your Roth IRA and reporting \$50,000 on your tax filings as taxable income. If following a 35% market decline, you convert the same \$50,000 of an IRA now worth \$325,000, you are now converting 15.4% of the account to your Roth IRA for the same \$50,000 of reportable income.

While the decision to make a Roth conversion should not be based on the markets, once you have decided to make a Roth conversion, a market downturn provides an opportunity to maximize the conversion's benefits. As discussed above, you can consider converting securities rather than moving cash.

### **Adult Children Home from School?**

Like many others, some of our staff members have their adult children home from college. While many colleges have transitioned to online classes, others have cancelled school altogether. Perhaps there are tuition refunds. Did you know that if you paid tuition with 529 plan funds and receive a refund, the funds can be rolled back into the 529 plan? If you DO NOT roll the funds back into the 529 plan, a portion of them could be taxable income to you. Worse yet, the IRS has not released a formula for the calculation for the taxable part of the refund. It gets even more complicated if part of the tuition came from other sources like scholarships or personal contributions. Basically, the funds can be re-deposited as a "roll-over" if you do this within 60 days of receipt of the funds. Avoid the headache with the IRS and simply re-deposit the funds.

Now that your children are legally adults, they are free to make their own medical decisions. Do your adult children have health care powers of attorney? You do not need to rush out or call your attorney, but while you are enjoying family time you might make room for a discussion about health care decisions.

Fortunately, there are some good resources available online. Be sure that you follow the requirements of your state for witnesses.

*As always, we advise clients to keep in touch with your F.L.Putnam adviser and/or tax professional to ensure you are doing the most to optimize your situation while planning for today and tomorrow.*

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