YOUR Money AND Family Today
AMERICA'S TAX SOLUTIONS℠ NEWSLETTER
DECEMBER 2019

MONEY AND INVESTING

The world of investing has gotten more complex as the years have gone on. The flood of new products and investing strategies continues to evolve with time. Whether age-based target funds, long/short mutual funds, market-weighted ETFs, structured products, or equity indexed annuities, there's been no shortage of creativity around the financial industry.

One of the investments that continues to garner a lot of attention is the tax-deferred annuity. In looking at recent sales statistics as they coincide with market volatility and recession fears, it's no wonder annuity sales are hitting all-time highs.

Total annuity sales in 2018 increased 14% to $232.1 billion, with Q4 2018 having the highest total annuity sales in a quarter since Q1 2009. In addition, total fixed annuities were up 47% from Q4 2018 at $37.4 billion. Fixed annuity sales rose 25% from 2018 to $132 billion, which is an all-time high. Also, indexed annuity sales set an all-time quarterly record at $19.5 billion – a 40% increase from Q4 2018.

So why is there negative press around annuities, even as sales are hitting record highs? Let's look at 10 reasons why annuities are popular and could be a PARTIAL solution to retirement planning.

Other advisors may put these in different order, but the numbers above don't lie – millions of investors are motivated by some, if not all, of the reasons mentioned below.

1. **Political uncertainty in the U.S. and the world.** It feels like there's never been such division in Washington, D.C., and across our nation. The political rhetoric is downright scary. Impeachment hearings, record-level national debt, and the specter of socialism is frightening many investors. It isn't much better in Europe with anxiety over Brexit and negative interest rates. Many European banks continue to be in the danger zone.
2. **Guarantees found in no other investment vehicle.** Just for fun, ask your current financial advisor if they can provide a written guaranteed rate of return on the investments they manage for you. If they're willing to do so and you're not buying an annuity, your next phone call should be to the SEC or FINRA. Annuities are the only investments associated with the word "guarantee." In an uncertain world, you can see why this is appealing to so many investors.
3. **Tax-deferral.** A basic function of annuities is they can turn taxable money into tax-deferred savings with virtually no contribution limits. That means no pesky 1099s at the end of the year. With a variable annuity, any dividends, interest, or annual capital gains are not taxed and continue to grow within the account. Why pay taxes on your investment income when you don't have to, especially if you're in a high tax bracket?
4. **Index-linked growth with optional fees.** The annuity industry has worked to solve the gripe that annuities are too expensive by creating a wide variety of equity-indexed annuities that offer optional riders at an additional cost. In addition, equity indexed annuities often include surrender charges and, in exchange for some form of downside protection, returns may be limited by caps, participation rates, and spreads.
5. **Income you can't outlive.** As a financial planner, one of the most serious questions I receive from a new client is, "Based on my savings and spending habits, when do you think I'll run out of money?" Without an annuity, it could be sooner than you think, especially if the market is unproductive for an extended period. With many annuities, you'll always have a stream of income, even if you live to be 120. In fact, the longer

CONTINUED ON PAGE 2 ▸

CONTINUED FROM PAGE 1

you live, the more valuable the annuity can become. You could end up receiving years of annuity payments the insurance company didn't anticipate you collecting – all in your favor. On a large contract, that could amount to significant additional income.

6. **College planning for families with college-bound students.** This is for families who are hoping for financial aid and are looking for ways to reduce the Expected Family Contribution on FAFSA forms. Moving funds from a taxable, non-qualified account into an annuity can have a positive impact on the amount available for financial aid.
7. **Stacking and ratcheting.** These are two significant features that are available in many variable annuity contracts. Ratcheting allows the account holder to lock in contract values at different times. Some contracts allow for annual ratcheting, and the most desirable contracts offer quarterly ratcheting. Stacking allows the investor in some variable annuities to lock in appreciated gains and continue to grow the income benefit base at annual rates of about 5%-7%, depending on the contract.
8. **Cost of hedging.** When considering a traditional stock and bond portfolio, how do you hedge your long positions? The average investor typically reduces their equity exposure and increases the fixed income allocation. The more sophisticated investor may consider using put options or inverse ETFs. But there's a time and energy cost associated with purchasing put option contracts or dragging down the performance with inverse ETFs. My experience suggests the annual cost is somewhere between 1% and 4%, depending on the level of insulation, which could be more than the cost of a typical variable annuity.
9. **Stay long and strong.** One of the challenges facing older investors is the need to become more conservative as they get older. Many retirees are not as confident in the market once their time horizon shortens and they're no longer receiving a paycheck. Many annuities, especially variable annuities, allow the investor to stay in equities much longer than normal and let the guaranteed downside protection reduce their risk.
10. **Added peace of mind.** Wouldn't it be nice to know the outcome of your investments 10 or 12 years from now? Uncertainty often leads to anxiety. Anxiety can lead to health problems. For retirees, being confident they won't have to go back to work is essential.

Annuities aren't for everyone. Some feel they're too complex. For others, the features and benefits mentioned above are more compelling than traditional investing. The annuity concept is intended to represent the "safe" portion of your retirement nest egg. It has specific guarantees associated with it that no other traditional investment can offer. In an uncertain world, annuities can offer the added peace of mind many investors are looking for.

With the clock ticking down on 2019, Congress is expected to enact a $1.4 trillion year-end spending bill to keep the government running. Tucked away inside this mammoth piece of legislation is the Setting Every Community Up for Retirement Enhancement (SECURE) Act. The SECURE Act is set to become effective January 1, 2020.

This new law includes significant changes to retirement accounts, including:

RMD Age Raised to 72

The SECURE Act also raises the age for beginning RMDs to 72 for all retirement accounts subject to RMDs. IRA owners reaching age 70 ½ in 2020 catch a break and will not have to take their first RMD next year now that the RMD deadline has been extended to age 72.

New Exception to the 10% Penalty for Birth or Adoption

The SECURE Act adds a new 10% penalty exception for birth or adoption, but the distribution is still subject to tax. It is limited to $5,000 over a lifetime. The birth or adoption distribution amount can be repaid at any future time (re-contributed back to any retirement account).

IRA Contributions with Fellowship and Stipend Payments

Additionally, the new law allows taxable non-tuition fellowship and stipend payments to be treated as compensation to qualify for an IRA (or Roth IRA) contribution.

Employer Liability Protection for Annuities in Plans

The SECURE Act provides a safe harbor for employer liability protection for offering annuities in an employer plan. This is expected to open the door for more annuity products to be available as investment choices in employer plans.

Dickens Saves Christmas

Have you ever wondered where we get our Christmas traditions? Why do we put up a tree? Why do we sing Christmas carols? Why do we give gifts? Most of these answers lay in one of the most popular books of all time, A Christmas Carol, by Charles Dickens.

Most people aren't aware that Christmas, as we know it, was once almost extinct. For a period of about 15 years, from 1645 to 1660, the Puritans successfully passed laws that literally banned Christmas in England. Mince pies, mistletoe, holly, and other Christmas staples were outlawed, along with Christmas caroling and public celebrations. This sentiment extended across the Atlantic, as well. Many of our country's first settlements frowned upon excessive celebration at any time of year, and especially at Christmas. Celebrations returned in England after the ban was lifted, but the excitement surrounding the holiday had declined.

For the next century the holiday's popularity steadily decreased. By the 1800s, only the wealthiest still celebrated Christmas. Most people were simply not able to celebrate. The world was in the beginning of the industrial revolution, workers worked long hours for low pay and, since most employers wouldn't sacrifice a day of work, people just didn't have time. Additionally, the overall cost of hosting a celebration full of feasting and gift giving was just too expensive. More and more frequently, the only jobs to be found were in the cities. Many people left their traditional country lifestyles and flocked to the cities, leaving many of their traditions behind.

It's not hard to see where Dickens got the inspiration for Ebenezer Scrooge and Bob Cratchit.

In October 1843, Charles Dickens was visiting his sister in Manchester. Dickens was touched by the spirit and enthusiasm of his sickly nephew, who is presumed to be the inspiration for Tiny Tim. Dickens was struck with the idea for the story and almost immediately went to work. He wrote at a feverish pace and finished the entire story in six weeks. Three weeks later, on December 19, the book was published. The book was an instant success. All 6,000 copies of the original printing were sold in four days. Within six weeks, the story had been adapted for the stage and shows were already in progress. The show ran consecutively for over forty nights before transferring to New York's Park Theater. By May, 1844, the seventh edition of the book had already sold out.

The story was both a literary and a social success. It's credited with playing a major role in reviving (and reinventing) the Christmas holiday. Without A Christmas Carol, we wouldn't have the phrases "Bah! Humbug!" or even "Scrooge." Dickens took outdated Christmas traditions and infused them into his tale, making them feel as if they had always been a part of our Christmas traditions. For example, caroling was not common at the time, but Dickens added this activity to the story as if it were common to meet a traveling choir during the holiday season. It wasn't.

While less obvious, but perhaps more significant, Dickens' portrayal of a Christmas celebration was vastly different from the norm of his time. Typical celebrations during the era were normally community celebrations in churches, taverns, and town halls. Dickens' representation was much different. He shows the Cratchits gathered together, celebrating as a family. This is perhaps the single biggest change that Dickens had on Christmas traditions, turning the holiday into a small, intimate, and private family affair. This change allowed for every family to celebrate according to their means. If they were wealthy, they could hold a feast. If they were poor, they could gather together, sing songs, and share stories, while enjoying the holiday in accordance with their means.

It's probably incomprehensible for most of us to think that the holiday we know and love almost became a footnote in the history books. Were it not for the influence of Charles Dickens, our celebrations might be vastly different, if they existed at all. For me, and I expect many of you, Christmas is my favorite time of year, and I can't imagine my life without it.

God bless us, everyone.

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Goodbye, Stretch IRA

For deaths after December 31, 2019, the stretch IRA will be replaced with a ten year rule for the vast majority of beneficiaries. The rule will require accounts to be emptied by the end of the tenth year following the year of death. There will be no annual RMDs. Instead, the only RMD on an inherited IRA would be the balance at the end of the ten years after death. For deaths in 2019 or prior years, the old rules would remain in place.

There are five classes of “eligible designated beneficiaries” who are exempt from the ten year post-death payout rule and can still stretch RMDs over life expectancy. These include surviving spouses, minor children, disabled individuals, the chronically ill, and beneficiaries not more than ten years younger than the IRA owner.

The new rules will mean a new landscape when it comes to retirement and estate planning. How will they affect you? You may have some new opportunities to make IRA contributions or be able to access your retirement funds without penalty. You may be able to delay taking RMDs a little bit longer. You will also want to give some serious consideration to how the elimination of the stretch will impact you. Reviewing your beneficiary designation form is a good place to start.

About America’s Tax Solutions™

Gary Kueker

As Founder and President of S.C. Care & Associates since 1986, Gary Kueker specializes in critical financial and tax planning strategies including retirement distribution planning.

As a retired stockbroker, Mr. Kueker's expertise is geared toward helping his clients figure out what they really want out of life and then working with them to build a financial plan to make it happen. Backed by years of experience in the insurance and financial services industry, he holds several professional licenses and brings specialized investment strategy knowledge to his practice.

Mr. Kueker understands the needs, concerns and problems troubling today's Baby Boomers and retirees and he is available to help you create “a great rest of my life.”

America’s Tax Solutions™

America’s Tax Solutions was created to effectively meet the complex needs of clients in the areas of asset management, retirement distribution planning and wealth protection. We can help you understand what you need to know to secure your future and the future of your loved ones. Key benefits offered by America’s Tax Solutions include: retirement distribution planning, tax planning, estate tax analysis, wealth distribution analysis, qualified plan distribution analysis, annuity strategies and a comprehensive retirement roadmap. Let us help you create and grow wealth, protect and preserve your life savings and plan for a life legacy.

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