Blume | Capital Management

October 30, 2019

BLUME CAPITAL MANAGEMENT
Planning for 2020

Early November is a good time to do some financial housekeeping and planning for 2020. If you find a bit of a lull between Halloween and Thanksgiving festivities, review the five considerations below to see if there are some actions you should take before the end of the year.

1. **Open enrollment for health insurance** – Evaluate any new information about your anticipated medical needs in 2020 and select a plan that best suits your personal circumstance.
   - Most **employees** have an opportunity to adjust their benefit choices this time of year. Of course, you will want to evaluate all open enrollment options, but pay particular attention to health insurance coverage. If you have access to a High Deductible Health Plan (HDHP), consider taking advantage of the retirement saving opportunity these plans present when paired with a Health Savings Account (HSA) – triple tax-free investing. (See attachment for more details.)
   - For those enrolled in **Medicare**, the open enrollment period runs from October 15th - December 7th to make elections for 2020. If you have questions about which plan options are best suited for you, please contact me and I can connect you with our Medicare consultant, Eileen Hamm.

2. **Contributions to (and/or required distributions from) retirement accounts** – Summarizing the wide range of available retirement plan structures is beyond the scope of this overview, but there are some common themes across the various plan types highlighted below and in the attached PDF file.
   - For individuals with **earned income**, and their spouses, it typically makes sense to maximize retirement account contributions whenever feasible. The rules for how much one can contribute varies by the type of plan, one's tax filing status, and amount of earned income.
     i. The maximum contribution to all traditional and Roth **Individual Retirement Accounts (IRAs)** for 2019 is $6,000, or $7,000 if age 50 or older. The tax deductibility of IRA contributions depends on a variety of inputs. See the attached PDF for an overview of the key factors.
     ii. In **401(k), 403(b) or 457 plans**, the maximum salary deferral for 2019 is (typically) $19,000, or $25,000 if age 50 or older. There may be an opportunity for additional contributions with 15-year catch-up contributions in 403(b) plans or employer matching in company sponsored and individual 401(k) plans.
     iii. In Simplified Employee Pension (SEP) plans or **SEP-IRAs**, one can contribute the lesser of 20% of net income or $56,000 for 2019. If you are self-employed, have traditionally put

aside retirement savings in a SEP-IRA, and are looking to maximize your contributions, you may want to **establish an individual 401(k)** before year end. If your net income for 2019 will be less than $280,000 or you will be age 50 or older on December 31, 2019, individual 401(k) plans allow additional savings when compared to a SEP-IRA. (With an individual 401(k), one can contribute the maximum $56,000 at a net income of $185,000, and can add the $6,000 catch-up contribution if over age 50 for a combined contribution of $62,000.)

iv. Finally, many retirement plans **offer after-tax or Roth options**. Roth IRAs have income limits (see attached for specifics), but other plans that allow Roth contributions do not. After-tax contributions to retirement plans can be a strategic tool in tax planning, depending on projected income, cash flow needs, and when you expect to retire.

- Individuals who will be age 70½ or older by the end of 2019 generally have to start taking **Required Minimum Distributions (RMDs)** from all tax-deferred retirement accounts.
    i. For accounts that Blume Capital manages for you, Gigi will be in touch with you to review the specifics for each of your accounts. If you have outside accounts or accounts transferring, be sure to check with the custodian to set up the required withdrawal.
    ii. Certain plans may allow you to wait until you retire to take your first RMD (unless you own 5% or more of the business sponsoring the plan) and you can still contribute to a plan if you are age 70½ and still earning income.

3. **Risk exposure review** – Risk management can be a daunting part of financial planning. We buy insurance hoping that we never need to use it, but it is nonetheless an important aspect of securing your financial well-being. You should review the following:

    - **Homeowners coverage** – With increasing threats from fire and hurricanes, many insurance premiums are increasing, sometimes by more than 50% year over year; others are having coverage dropped and must scramble to find replacement policies. Once you verify that you have sufficient dwelling coverage with replacement cost (not actual cash value) coverage, you can consider lowering your premiums by increasing your deductible.
    - **Personal liability or umbrella coverage** – You want to make sure to have enough coverage so that your insurance company will handle any claims. Typically, it is advantageous to have your automobile, home, and excess personal liability coverage through the same provider. You can take advantage of multi-policy discounts and have the minimum required liability coverage on your auto and homeowners (plus boat, etc.) coverage with a single umbrella policy that protects you from liability exposure whether at home or elsewhere.
    - **Other preventative measures** – Consider earthquake coverage or seismic retrofits to protect your home (if applicable), evaluate home improvements that could make your home safer from fire or water damage (and may qualify for credit on your insurance), and replenish supplies and review your emergency evacuation plan.

4. **Talk to family about money** – The holidays are often a time when extended family gets together. Do you have aging relatives who have not shared their estate plan? Are young adults ready to learn more about future inheritance or money skills that you can share? Perhaps there is simply an opportunity to share your values about money or encourage others to support charitable causes

that are important to you. Talking about money can be challenging, but it also can preempt conflict and strengthen family bonds.

5. **Make tax-efficient charitable gifts** – Many people do a majority of their charitable giving toward the end of the year. From a tax perspective, this makes sense as you can better assess your applicable tax rate and whether you will itemize deductions. As detailed in an email I sent in March 2019, you may want to consider gifting appreciated assets, "bunching" donations in a single tax year, or gifting from your IRA if you are age 70 ½ or older.

Some of the above-mentioned considerations may slip to 2020, but perhaps the lower priority actions can be the start of a new year's resolution list!

Sincerely,

Amy

Amy S. Thacher, CFP®

Enclosure

2019 Contribution Guidelines for Tax-Advantaged Accounts

2019 Traditional IRA Deduction Limits – Effect of Modified Adjusted Gross Income (AGI)*

Read down the first box, then over. For example, *"If your filing status is single or head of household, you ARE covered by a retirement plan at work, and your modified AGI is more than $64,000 but less than $74,000, then you can take a partial deduction."*

If your filing status is...	and your modified AGI is...	then you can take...
single or **head of household**, you **ARE covered by a retirement plan at work**,	$64,000 or less,	a full deduction up to the amount of your contribution limit. **
	more than $64,000 but less than $74,000,	a partial deduction. *
	$74,000 or more,	no deduction.
single, **head of household**, or **qualifying widow(er),** you are **NOT covered by a retirement plan at work**,	any amount,	a full deduction up to the amount of your contribution limit. **
married filing jointly or **qualifying widow(er)**, you **ARE covered by a retirement plan at work,**	$103,000 or less,	a full deduction up to the amount of your contribution limit. **
	more than $103,000 but less than $123,000,	a partial deduction. *
	$123,000 or more,	no deduction.
married filing jointly, you are **NOT covered by a retirement plan at work, BUT your spouse IS covered by a plan at work**,	$193,000 or less,	a full deduction up to the amount of your contribution limit. **
	more than $193,000 but less than $203,000,	a partial deduction. *
	$203,000 or more,	no deduction.
married filing jointly or **separately**, you are **NOT covered by a retirement plan at work, AND spouse is NOT covered by a plan at work**,	any amount,	a full deduction up to the amount of your contribution limit. **
married filing separately, you **ARE covered by a retirement plan at work, OR, your spouse IS covered by a plan at work**,	less than $10,000,	a partial deduction. *
	$10,000 or more,	no deduction.

* Please consult your accountant if you are close to one of these breakpoints. One can find Adjusted Gross Income on IRS Form 1040, line 7. Modified AGI starts with your AGI and adds back certain exclusions like excludable savings bond interest. Calculating partial deductions is beyond the scope of these guidelines.

** For 2019, your total contributions to all your traditional and Roth IRAs cannot be more than:

- $6,000 ($7,000 if you're age 50 or older), or
- your taxable compensation for the year, if your compensation was less than this dollar limit.

SOURCE: Information is summarized from irs.gov webpages that detail the deduction limits for those that ARE covered by a retirement plan at work and those that are NOT covered by a retirement plan at work.

Amount of Roth IRA Contributions that You Can Make for 2019

If your filing status is...	and your modified AGI* is...	then you can contribute...
single, **head of household**, or **married filing separately** and you did not live with your spouse at any time during the year,	less than $122,000,	up to the limit. **
	$122,000 or more, but less than $137,000,	a reduced amount. *
	$137,000 or more,	zero.
married filing jointly or **qualifying widow(er)**,	less than $193,000,	up to the limit. *
	$193,000 or more, but less than $203,000,	a reduced amount. **
	$203,000 or more,	zero.
married filing separately and you lived with your spouse at any time during the year,	less than $10,000,	a reduced amount. **
	$10,000 or more,	zero.

2019 Contribution Limit for 401(k), 403(b), and Most 457 Plans

- The maximum employee contribution for 2019 is $19,000.
- For employees age 50 or older, the catch-up contribution limit is $6,000, for a total of $25,000.
- Total annual contributions are limited to $56,000 (or $62,000 including catch-up contributions) in 2019.

Contribution Limits for Health Savings Accounts (HSAs) and Criteria to be Eligible

	2019	2020
HSA Contribution Limit (employer + employee)	Individual: $3,500 Family: $7,000	Individual: $3,550 Family: $7,100
HSA Catch-up Contribution for Age 55 or Older	$1,000 for each qualifying adult covered	$1,000 for each qualifying adult covered
High Deductible Health Plan (HDHP) Minimum Deductible	Individual: $1,350 Family: $2,700	Individual: $1,400 Family: $2,800
HDHP Maximum Out-of-Pocket (deductibles, co-payments, and other amounts, but not premiums)	Individual: $6,750 Family: $13,500	Individual: $6,900 Family: $13,800

* Please consult your accountant if you are close to one of these breakpoints. One can find Adjusted Gross Income on IRS Form 1040, line 7. Modified AGI starts with your AGI and adds back certain exclusions like excludable savings bond interest. Calculating reduced allowable Roth IRA contributions is beyond the scope of these guidelines.

** For 2019, your total contributions to all your traditional and Roth IRAs cannot be more than:
- $6,000 ($7,000 if you're age 50 or older), or
- your taxable compensation for the year, if your compensation was less than this dollar limit.

SOURCE: Information summarized from irs.gov webpage for the Roth IRA Contribution table.