January 8, 2020

BLUME CAPITAL MANAGEMENT
Secure Act Changes for 2020

As we welcome 2020, we are met with a new law, the Secure Act (Setting Every Community Up for Retirement Enhancement Act), which includes important updates.

1. **Punitive tax change for inherited retirement accounts** – First, the bad news, for certain beneficiaries, inheriting a large traditional IRA (or other tax-advantaged retirement account) could come with an accelerated tax liability. Prior to the change, most beneficiaries were allowed to withdraw a required minimum distribution (RMD) amount from the account every year, based on their own life expectancy, to defer the tax impact. (Reminder: distributions are taxed at one's, typically higher, ordinary income tax rate.) Now, most non-spouse beneficiaries will be required to deplete the account within ten years based on the new post-death payout rule.

   If you or your heirs may be impacted, this change warrants an estate planning review.

   - **Beneficiaries who are exempt from the change:**
     i. Current beneficiaries of inherited IRAs and 401(k) are exempt. In other words, beneficiaries of an account owner who died by December 31, 2019, will not be affected.
     ii. Exempt beneficiaries include surviving spouses, individuals not more than ten years younger than the account owner, the chronically ill, and disabled individuals who inherit a retirement account starting January 1, 2020.
     iii. Beneficiaries of government plans, such as 403(b) and 457 plans are not impacted until January 1, 2022.
   - **Minor children of the account owner are exempt only until they reach the age of majority** (age 18 in most states). The changes introduced by the Secure Act make an already difficult topic even more complex. Many account owners with minor children have created "see-through" trusts to serve as the beneficiary to protect the assets, but unfortunately the changes to RMD rules could have unintended consequences for trust beneficiaries and the Secure Act does not specify if it will allow trusts to actually see through to minor child beneficiaries.
   - **Tax impact for non-exempt beneficiaries** – All beneficiaries who do not fall into one of the above categories now must empty an inherited IRA by the end of the tenth year following the year of death. Additionally, there will be no annual RMDs for non-exempt beneficiaries.
     i. If you anticipate receiving or passing along a sizable tax-deferred retirement account, it is worth examining when the tax rate on the income will likely be the lowest. It may be beneficial for account owners to rollover a portion of the money to a Roth IRA during their lifetime. ***In some limited circumstances, paying taxes sooner, as part of a Roth conversion, may result in a lower overall tax bill.***
     ii. The benefit of inheriting a Roth IRA also is diminished. A beneficiary can now keep Roth assets growing tax-free for ten years following the year of death, but then must empty the account. All

qualified distributions from Roth IRAs remain tax exempt (e.g., if the five-year waiting period has been met when the account holder dies).

2. **"Kiddie" tax law changes** – The Secure Act repeals changes to the tax on a child's unearned income from two years ago when Congress passed the Tax Cuts and Jobs Act. In 2017, a child's unearned income was taxed at the parents' marginal tax rate. In 2018, a child's unearned income was taxed at the, typically higher, trust tax rates. Effective for 2020, a child's unearned income will be taxed at the parents' marginal tax rate, AND taxpayers can elect to apply this change to 2019 and 2018. ***For children with substantial unearned income, you can elect the more advantageous tax rate for 2019 and file an amended return for 2018***.

3. **Update to required minimum distributions from retirement accounts** – If you are not already 70½ or older, you now can wait until age 72 to begin taking required minimum distributions (RMDs) from your tax-deferred retirement accounts. If you turned 70½ prior to January 1, 2020, you must continue with your RMDs as before.

   Notably, the Secure Act makes no change to the date at which individuals may begin to make qualified charitable distributions (QCDs). Starting at age 70½, you can make charitable contributions from a pre-tax IRA regardless of whether you are subject to RMDs.

4. **Extension on contributions to traditional IRA accounts** – Beginning in 2020, contributions to traditional IRAs are no longer prohibited at (and beyond) age 70½. There are still deduction limits (see attached, updated 2020 Contribution Guidelines for Tax-Advantaged Accounts) and earning requirements, so the impact of this change is limited. The Secure Act also contains rules that coordinate post 70½ traditional IRA contributions with QCDs, so be sure to examine the specifics with your tax accountant and, if you are self-employed, consider contributing to an individual 401(k) as an alternative.

5. **Other retirement plan changes** – The Secure Act included a range of annuity-related retirement plan provisions, that are beyond the scope of this overview, but the changes for small businesses warrant a mention. Starting in 2020, business with 100 or fewer employees can receive a larger credit for establishing retirement plans and a newly available credit for adopting auto-enrollment. Starting in 2021, employers must start counting employees who have worked at least 500 hours for three consecutive years toward future retirement plan eligibility, this is down from the prior 1000-hour per year requirement.

We recognize that there are complexities in the information described above, so please contact us if you would like to discuss the specifics that impact you. We look forward to meeting with you throughout the year.

Sincerely,

Amy

Amy S. Thacher, CFP®

Enclosure

*Please Note: Blume Capital Management is neither a law firm nor a certified public accounting firm and no portion of its services should be construed as legal or accounting advice. Moreover, you should not assume that any discussion or information contained above serves as the receipt of, or as a substitute for, personalized investment advice from Blume Capital Management. Please remember that it remains your responsibility to advise Blume Capital Management, **in writing**, if there are any changes in your personal/financial situation or investment objectives for the purpose of reviewing/evaluating/revising our previous recommendations and/or services, or if you would like to impose, add, or to modify any reasonable restrictions to our investment advisory services. A copy of our current written disclosure statement discussing our advisory services and fees is available upon request.*

Blume | Capital Management

2020 Contribution Guidelines for Tax-Advantaged Accounts

2020 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 $65,000 but less than $75,000, 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**,	$65,000 or less,	a full deduction up to the amount of your contribution limit. **
	more than $65,000 but less than $75,000,	a partial deduction. *
	$75,000 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,**	$104,000 or less,	a full deduction up to the amount of your contribution limit. **
	more than $104,000 but less than $124,000,	a partial deduction. *
	$124,000 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**,	$196,000 or less,	a full deduction up to the amount of your contribution limit. **
	more than $196,000 but less than $206,000,	a partial deduction. *
	$206,000 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 2020, 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.

1708 Shattuck Avenue ● Berkeley, CA 94709 ● T: 510.549.3534 ● F: 510.644.3410 ● www.BlumeCapital.com

Amount of Roth IRA Contributions that You Can Make for 2020

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 $124,000,	up to the limit. **
	$124,000 or more, but less than $139,000,	a reduced amount. *
	$139,000 or more,	zero.
married filing jointly or **qualifying widow(er)**,	less than $196,000,	up to the limit. *
	$196,000 or more, but less than $206,000,	a reduced amount. **
	$206,000 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.

2020 Contribution Limit for 401(k), 403(b), and Most 457 Plans

- The maximum employee contribution for 2020 is $19,500.
- For employees age 50 or older, the catch-up contribution limit is $6,500, for a total of $26,000.
- Total annual contributions are limited to $57,000 (or $63,500 including catch-up contributions) in 2020.

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 2020, 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.