January 2020

Retirement Planning Insights

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Up Front

Here's to a prosperous 2020

Happy New Year! With 2019 behind us, it's time to focus on 2020. It's only the first week of the year, but Tenon Financial already has a few exciting things lined up:

- On January 14th at 2PM I'll be at the Metuchen, NJ library to give a presentation on how to maximize Social Security retirement benefits.
- From March 6th through 8th, I'll be an exhibitor at The Woodworking Shows in Secaucus, NJ. For those of you who don't already know, I'm passionate about woodworking and "Tenon" Financial was named after a type of woodworking joinery. The show is an expo which showcases all things woodworking. I've attended it almost every year for the last 20 years, but I've never gone as an exhibitor. To my knowledge, this will be the first time there will be a retirement planning & investment management firm there. Hopefully it's a success!
- On April 15th at 7PM I'll again be the Metuchen, NJ library. This time will be to give a presentation on the basics of investing.

I will also continue to regularly contribute to national financial news sources. Since my last media update to you on December 19, I've been quoted in a few additional articles:

- **Business News Daily - "The Difference Between Debt and Equity Financing"**
- **Forbes - "7 Good, Bad and Controversial Ways the SECURE Act Changes Your Personal IRA"**
- **HuffPost - "7 Common Tax Mistakes That Can Cost You Big"**

I'm excited to see what the new year holds, and I look forward to having a lot of positive updates to share with you in 2020. Cheers!

-Andy

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Retirement Planning News

New legislation will impact your retirement accounts

As further detailed in my special edition newsletter sent on December 23, there was new legislation recently signed into law. Many provisions of the Setting Every Community Up for Retirement Enhancement Act of 2019 (The “SECURE” Act) went into effect on January 1.

The Act doesn’t make any monumentally positive changes; its provisions provide only marginal benefits to retirement savers. However, all beneficial changes are welcomed.

In my opinion, only four of the SECURE Act’s roughly 30 provisions are likely to impact you and your retirement accounts:

- **Increase to the RMD beginning age**

  Previously, you needed to start taking Required Minimum Distributions (“RMDs”) from your tax-deferred retirement accounts when you turned 70 ½. Now, RMDs don’t need to start until you turn 72.

- **Removal of age limit on eligibility to contribute to a traditional IRA**

  Under prior laws, you were no longer eligible to contribute to a traditional tax-deferred IRA once you turned 70 ½. Now, the age limit is removed; you are eligible to contribute to an IRA at any age.

- **Restricted usage of the inherited account “stretch” provision**

  This provision is one of the more controversial changes of the SECURE Act.

  Previously, upon your passing, your heirs would have been allowed to “stretch” out distributions from your account over their life expectancies; potentially multiple decades. Now, your heirs will need to fully withdraw your account within 10 years of your death.

  These changes accelerate when your heirs will need to take - and pay tax on - distributions from your account.

- **Easier access to annuities within 401(k) plans**

  Most 401(k) plans previously didn’t provide participants access to annuities. Now, due to the relaxing of certain fiduciary responsibilities bestowed upon 401(k) plan administrators, the SECURE Act will make annuities more available within 401(k) plans.

  In my opinion, this is a double-edged sword. Annuities can provide a lot of value. From that perspective, I welcome this change. However, insurance companies are notorious for selling complicated and expensive annuities which aren’t always in their clients’ best interests. Therefore, I also have some concerns about this provision.

The SECURE Act isn’t perfect, but I feel it’s at least a step in the right direction for retirement savers.

Practical Retirement Planning

Plain English summary of annuities

I’m often asked what I think about annuities. That’s a hard question to answer because it’s like asking me what I think about fruit. There are way too many kinds of fruit to generalize and say they’re all good or all bad.

Now that the SECURE Act will make annuities more common within 401(k) plans, it's more important than ever to have at least basic knowledge of how these products work.

I could write a whole book about annuities and still not cover everything there is to know. Nonetheless, I wanted to provide a summary of the major types and features of annuities to explain what they are and how they function.

There are three main annuity types:

- **Fixed** – You give an insurance company a lump sum of money. In return, they give you a guaranteed fixed payment every month.
- **Variable** – You invest a lump sum of money through an insurance company. In return, they give you a payment every month. However, unlike a Fixed annuity, the payment from a Variable annuity is based on the value of the money you invested. If your investments increase in value, your payment goes up. If your investments decrease in value, your payment goes down.
- **Indexed** – You give an insurance company a lump sum of money. In return, they give you a guaranteed minimum payment every month. The payment may be higher than the minimum if a pre-determined financial market index - such as the S&P 500 - is above a certain level.

For each of these three annuity types, you can select how long you want the payments to last. Typically, most people choose to have payments last until they die, or until both they and their spouse die. Alternatively, you can choose to have payments last only for a certain amount of time, such as 10 years.

You can also select when you want payments to start. The two main payment start options are:

- **Immediate** – Payments start no later than 12 months from the date you buy the annuity.
- **Deferred** – Payments start later than 12 months from the date you buy the annuity.

In addition to combining the various payout types, payment lengths and payment start options, there are also various bells and whistles - or "riders" - which can be added. For example, you can add in a feature which guarantees the return of your initial investment if you die before a certain age, or one which guarantees you a minimum amount of payments during your life (in the case of a Variable annuity).

Annuities can become very complex. If you have any questions about annuities and their features, we'd be glad to assist. You can always contact us at **hello@tenonfinancial.com**.