GRAGG & GRAGG, LLP

beyond the traditional

September 2021 Newsletter

In late 2019, the president signed the SECURE (Setting Every Community Up for Retirement Enhancement) Act into law.

Required minimum distributions (RMDs) for employer-sponsored plans and IRA accounts were raised from 70 ½ years to 72 years old. It was a welcome change. The act also included smaller changes that aided workers saving for retirement.

But the SECURE Act also changed the rules which govern inherited IRAs, or so-called stretch IRAs. The change in this provision was more controversial because it required faster distributions, at least in most cases.

Although the changes are recent, Congress is already considering what many are calling SECURE Act 2.0. As the bill winds its way through Congress, there is no guarantee of passage. But it enjoys widespread bipartisan support, and both the Senate and the House have drafted similar bills.

The devil is always in the details, but we are monitoring progress and believe now is a good time to provide a high-level overview.

Please feel free to check in with your us or your tax advisor on tax-related matters.

Let's begin.

1. **Easing the RMD bite, again**. As already mentioned, an RMD from a traditional IRA isn't required until 72. SECURE Act 2.0 would raise the RMD to 73 beginning in 2022, 74 in 2029, and 75 in 2032.

Taking your first distribution from a tax-deferred retirement account will depend on many factors, but if the funds are not needed, it is usually a good idea to defer withdrawals until required.

By delaying a withdrawal, the investments maintain their tax-exempt status. Or, if you need cash before RMDs are required, you decide how much to withdraw. You are not bound by an arbitrary rule.

2. **A more favorable catch-up provision**. If Secure Act 2.0 is passed into law, employees 50 and older can make extra catch-up contributions to a 401(k) or similar plan. The limit for 2021 is $6,500, which is indexed to inflation.

As proposed, Secure 2.0 maintains the catch-up limits for those aged 50 but increases the annual catch-up provision to $10,000 for participants ages 62 through 64. The new limit begins in 2023. This new maximum is indexed to inflation.

However, all catch-up contributions must be placed in a Roth IRA, which would disallow a tax deduction. Starting in 2022, all catch-up contributions must be made into a Roth IRA.

Presumably, it's a way for the government to capture revenue. Nonetheless, ROTH IRAs are not subject to RMDs, and withdrawals are exempt from federal income taxes.

3. **Student loan matching**. SECURE Act 2.0 would permit employers to make matching contributions to their 401(k) plans tied to the employee's student loan payments. The goal: encourage younger employees to save for retirement.

It would also help employers pass nondiscrimination tests that prevent plans from favoring higher income employers.

While we recognize this provision will probably complicate the administration of a 401(k) plan, we applaud the proposal simply because we know that the sooner one begins saving for retirement, the sooner one may enjoy the power of compounded returns. As we always counsel, it's never too early to start saving.

The proposed changes discussed are the more important components of the proposed act, in our view. But we also wanted to briefly mention some of the additional provisions. SECURE Act 2.0 would also:

- Allow Roth contributions to SEP and SIMPLE plans
- Accelerate part-time workers' participation in 401(k) plans
- Extend to 403(b) retirement plans some of the features of 401(k) plans
- Require the Treasury secretary to increase awareness of the Retirement Savings Contributions Credit (also known as the saver's credit), which is available to low- and moderate-income workers
- Eliminate some impediments to offering lifetime income annuities as a retirement plan investment option

It would also place limits on employers who attempt to capture excess plan payments from a participant.

SECURE Act 2.0 may pass as proposed, changes could be made, or the bill could run into unforeseen obstacles that prevent it from being enacted into law.

As we have already said, the review is a high-level peek at what is being proposed. Any advice we may provide will be tailored to your individual circumstances.

We suspect changes to the proposed law will probably be made, but odds favor passage. We are happy to entertain any questions.

Sources

[https://www.jdsupra.com/legalnews/secure-act-2-0-look-out-for-new-8698774/ "SECURE Act 2.0–Look Out for New Retirement Plan Incentives"]
[https://www.shrm.org/resourcesandtools/hr-topics/benefits/pages/congress-considers-a-new-round-of-retirement-legislation.aspx "Congress Considers ''SECURE Act 2.0' with a New Round of Retirement Plan Fixes"]
[https://www.planadviser.com/secure-act-2-0-likely-become-reality/ "'Secure Act 2.0' Likely to Become a Reality"]

The 'seemingly' unstoppable bull market

Whether from clients or acquaintances, there has been no shortage of inquiries about the market's astounding rise.

Key Index Returns

	MTD %	YTD%
Dow Jones Industrial Average	1.2	15.5
NASDAQ Composite	4.0	18.4
S&P 500 Index	2.9	20.4
Russell 2000 Index	2.1	15.4
MSCI World ex-USA*	1.4	10.6
MSCI Emerging Markets*	2.4	1.4
Bloomberg Barclays US Aggregate Bond Total Return	-0.2	-0.1

Source: MSCI.com, Bloomberg, MarketWatch
MTD: returns: July 30, 2021— August 31, 2021
YTD returns: Dec 31, 2020—August 31, 2021
**in US dollars*

During August, we saw multiple highs on the broad-based S&P 500 Index, while the tech-heavy NASDAQ Composite topped 15,000 for the first time, according to data provided by Yahoo Finance.

Let's offer a simple perspective. On August 18, 2020, the S&P 500 Index closed at a new high of 3,389.78, erasing all the losses incurred during the lockdowns and the Covid recession, according to S&P data from the St. Louis Federal Reserve. The S&P 500's prior peak of 3,386.15 occurred on February 19, 2020.

Since eclipsing its former high, the S&P 500 Index has racked up a gain of 33.4%, excluding reinvested dividends, through August 31, 2021. Put another way, this is an advance of over 30% in just over one year.

Sure, it's a back-of-the-envelope analysis, but it illustrates one simple idea: the rise in the stock market has been impressive.

That said, let's get back to the question about the market's astounding rise. Most folks don't understand it. We've heard it in casual conversations, and you have probably heard it, too. And many seem to expect (or want) a significant pullback.

We get it. While we are a strong believer that a diversified approach to stocks helps one participate in the long-term upward bias of stocks, we are hesitant to try to time the market or predict where a major index might be in one month, six months, or one year. However, we'd never discount the possibility of a market pullback over the near term.

Yet, the sharp run-up suggests that stocks are priced for perfection. When stocks are priced for perfection, we would subscribe to the idea that the market could be vulnerable to a selloff, since any negative surprises can broadside overly optimistic investors.

We have seen it happen before, but it has not happened over the last year. Declines have been minor and short-lived.

Absorbing unexpected surprises

During August, the rise in Covid cases tied to the Delta variant caused brief volatility, but investors are not on board with the idea that the health crisis will substantially slow the economic recovery and dampen corporate profits.

While some locales are re-implementing mask requirement, we have yet to see the type of restrictions that were in place in 2020 and early 2021. For now, the market is viewing the vaccines as an inoculation against a rapid slowdown in the economy.

We also saw tragic events play out in Afghanistan. While the images have been difficult to see and the geopolitical ramifications are unknown, simply put, investors don't expect the U.S. withdrawal to have an impact on U.S. economic growth over the next six to nine months.

We recognize that's a harsh way of viewing an unsettling situation that is tragic for many. But investors, both large and small (who continually and collectively make buy and sell decisions), have a very narrow lens. That lens is primarily targeted toward future economic growth, profits, Federal Reserve policy and interest rates.

Let's look at it from a more practical angle. Will consumers decide to delay a vacation, a big purchase, or simply decide to eat at home rather than dining in a restaurant because of what's happening in Asia? It's highly unlikely.

Are stocks priced for perfection? In hindsight, all the ingredients for a strong rally have been in place over much of 2021. A strong economic recovery, much better-than-expected corporate profits, plenty of liquidity and extremely low interest rates.

Let's review one of the pillars that has been a significant support for shares: low interest rates.

Low interest rates not only help fuel market gains, they help support higher valuations.

While we will spare you a mind-numbing explanation of discounted cash flows, a quick way to

explain how low rates influence equity prices is with a simple example. Low interest rates provide very little competition to stocks.

Low rates encourage investors to look at stocks and other riskier investments rather than settle for safe but paltry returns.

This is especially true when the economy is expanding, corporate profits are soaring, and analysts are ramping up future earnings estimates. In other words, it is not simply low rates, but low rates combined with strong profit growth.

Today, there are few signs that economic growth is set to sharply slow.

Looking ahead, Fed Chief Jerome Powell said [https://www.federalreserve.gov/newsevents/speech/powell20210827a.htm last month in a late August speech] that the Fed is openly pondering a cutback in its monthly purchases of bonds; however, he did not provide a firm timetable.

Many analysts expect something more concrete will be forthcoming this year. But the Fed hasn't committed, which gives it wiggle room in the event economic growth or job growth unexpectedly slows. But any reduction in bond buys will be well telegraphed.

Furthermore, Powell insisted last month that rate hikes are not on the table right now, and the hurdle to raise interest rates is higher than cutting back on its monthly bond buys.

As we have said before, the pace of economic growth, employment growth, and what happens to inflation will likely have the biggest influence on when and how quickly interest rates might rise.

As we enter September, investors will consider whether lofty valuations can hold up to the unwinding of fiscal stimulus and the potential for a reduction in Federal Reserve bond buys later in the year. Eventually, a market pullback is inevitable. For now, powerful tailwinds have been supportive.

We trust you've found this review to be educational and informative.

Let us emphasize that it is our job to assist you. If you have any questions or would like to discuss any matters, please feel free to give us or any of our team members a call.

As always, we're honored and humbled that you have given us the opportunity to serve as your financial advisor.

Bryon and Jay