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QtrNotes

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Key 2021 Reminders

The long-hoped-for "return to normality" is still some way in the future, but a few things have been or are being restored.

The CARES Act, in March 2020, was an emergency fiscal package, and most of the changes it implemented were temporary, although the COVID Relief bill passed in December reinstated or extended some programs and provisions.

Of key importance:

- The tax deadline for filing your 2020 taxes is April 15, 2021.
- The deadline for making 2020 contributions to IRA and Roth IRA accounts is also April 15, 2021.
- Required Minimum Distributions from IRA and other retirement accounts resume in 2021.
- Penalties for early withdrawals from retirement accounts, which were waived in 2020 for coronavirus-related distributions, resumed as of January 1, 2021.

Please see the second page of this newsletter for additional details on the changes implemented by the 2020 SECURE Act.

Episode 2021: A New Hope

What a year it was.

2020 is finally over. A hundred-year public health crisis led to lockdowns that put the economy into a medically induced coma. The fastest and steepest decline in the history of U.S. equities was followed by a complete market recovery in just under six months. Social and racial strife added to the stress and grief, while a seemingly endless list of natural and unnatural disasters gripped an already shell-shocked globe. Meanwhile, the US endured the most hyper-partisan presidential election cycle in living memory. The December arrival of the first doses of vaccine seemed like a year-end miracle.

We look ahead to 2021, hoping this year will bring some semblance of normality: normal levels of market volatility, normal levels of political division, normal levels of global economic activity. In reality, our guts tell us that 2021 will be a continuation of a challenging and contorted political, social, and economic environment.

Still, we are optimistic that the world will see tremendous improvement before the end of 2021, as vaccine distribution speeds up and as government stimulus continues to prevail across the globe. Pent-up consumer demand is likely to be unleashed later this year as more people begin to feel safe to return to public activities.

The outlook for 2021 may not be normal, but investments are expected to perform well. In recent weeks, the passage of the new $900 billion stimulus bill has caused many economists to raise their predictions for US economic activity in 2021. If these projections come to pass, the US economy will reach new highs this year and support the optimistic Wall Street analysts' prediction that corporate earnings could do the same.

The COVID Relief Bill

Despite delays and setbacks, a massive COVID Relief Bill was passed in late December. The bill comprises a multitude of programs; here are some highlights of provisions most likely to affect individuals immediately.

Index	*12/31/2020*	*YTD*
Dow Industrials	**30,606.48**	**7.2%**
S&P 500	**3,756.07**	**16.3%**
S&P Small-Cap	**1,118.93**	**9.6%**
MSCI EAFE	**2,147.52**	**5.4%**
Bloomberg US Bond	**2,392.02**	**7.5%**
US Treas 10-yr yld	**0.9%**	

The bill provides for a new round of direct payments to individuals. The maximum amount, $600 per person including dependent children, is subject to more stringent income requirements than the first round of stimulus checks: the full amount begins to phase out for individuals with incomes above $75k, with no payment going to those with incomes above $87k for individuals or $174k for married couples. Political shifts resulting from the Georgia election may open a path for increased payment amounts. The stimulus payments are expected to be distributed by mid-January.

Another component with an obvious and direct impact is provision for an additional $300 per week in federal unemployment assistance, to be paid on top of state unemployment benefits through March 14th. As nearly 800,000 people currently file for unemployment benefits each week, this component of the stimulus bill will go farthest in aiding the most needy Americans.

The bill also includes an extension of the Paycheck Protection Program (PPP) for small businesses. To qualify for this second round of PPP funding, a business must show that during 2020 they experienced a quarter where revenues fell more than 25%. If you received a PPP loan earlier this year and would like to apply again, speak with your banker. Other features of the PPP program remain much the same, but one amendment has

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Deadlines and RMDs: Summary of Changes

- If you were born before July 1, 1948, you were already taking Required Minimum Distributions (RMDs) before the SECURE Act and must continue to do so in 2021, or resume taking them if you did not do so in 2020.
- RMDs for individuals who turned 70½ in 2019, before the SECURE Act took effect, are not delayed. If you were born between July 1, 1948 and June 30, 1949, your first RMD would have been due by April 1, 2020; but RMDs were waived for 2020. You must begin RMDs in 2021, or resume them if you had already started in 2019.
- If you were born on or after July 1, 1949, your first RMD is due by April 1 of the year after you turn 72.
- If you inherit a retirement account from anyone other than a spouse, you must withdraw the full balance of the account within 10 years of inheritance. The deadline is December 31 of the tenth year after the original account owner's decease.
- The new regulations only apply to IRA accounts inherited in 2020 or later.
- Unlike the previous regulations governing inherited IRAs, there is no set schedule for distributions, as long as the 10-year deadline is met.

COVID Relief Bill

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a dramatic impact on any business that received a PPP loan earlier this year: taxation rules on loan forgiveness have been amended. Forgiveness of PPP loans is now deemed a tax-free event, and the deductibility of expenses for which PPP funds were used has been preserved.

A New Federal Reserve Strategy

For more than 30 years, the Federal Reserve has used its control over domestic interest rates to influence the severity and duration of inflation and business cycles, impacting markets all over the world. In 2008, the Federal Reserve introduced a new method for exerting control over interest rates, Quantitative Easing, a process in which the Fed directly buys government bonds in order to spur demand and drive interest rates as low as possible. This strategy proved effective, and the first Quantitative Easing program was followed by QE2, QE3, QE4, and finally "QE4ever", coined this year when Federal Reserve Chairman Powell stated that the support would continue indefinitely.

This announcement came at the time when the US was projected to see a record wave of corporate bankruptcies, casualties of economic blows from the COVID lockdowns. Financial markets quickly warmed to the assurance that the Fed would continue to assist for the long haul, further spurred when Powell launched a lending platform to invest government money directly into the corporate bond market. With this move, the Fed shifted from being a safety net for the financial markets to being a partner with private business investors.

The first principle of economics is supply and demand: when there is more demand for a product or resource and no change in the supply, the price goes up. The Federal Reserve's massive purchasing in 2020, to the tune of $3.2 trillion, drove up demand for investments and fueled the markets' recovery from the March panic. The Fed is on track to purchase an additional $1.4 trillion in 2021, providing continued support for financial markets in the year ahead.

It should be noted that politicians have since scolded the Fed for being reckless in their direct corporate bond investments. Included in the latest stimulus bill is legislation barring the Fed from using the same private bond program again in the future. Still, a precedent was set, and should the Fed feel the need, it is widely expected that it will offer another lending program to provide similar market support again.

Changes in Required Distributions

Two separate bills in 2020 made changes in retirement accounts and required distributions: the SECURE Act (Setting Every Community Up for Retirement) in January, and the CARES Act (Coronavirus Aid, Relief, and Economic Security) in March. Two sets of changes have left a certain amount of confusion in their wake.

The CARES Act, among many other provisions, waived Required Minimum Distributions (RMDs) from retirement accounts, eliminated early withdrawal penalties, and extended deadlines for IRA and Roth IRA contributions, as well as moving the 2019 tax filing deadline to July 15. But the CARES Act changes were temporary. In 2021, RMDs have already resumed and early withdrawal penalties have been reinstated.

Two important changes from the SECURE Act will affect many individuals: a permanent change in the age when individuals must begin taking RMDs, and the elimination of the "stretch" IRA provision for inherited IRA accounts.

The SECURE Act changed the age at which RMDs were required from 70½ to 72. Due to the suspension of 2020 RMDs under the CARES Act, some IRA holders may be confused over when to start taking distributions. The sidebar to the left gives some clarification; in addition, we will be reaching out to affected clients over the next few months.

The "stretch" IRA allowed beneficiaries of inherited IRA assets to extend their distribution schedule over many years, a particular benefit to younger beneficiaries. Under the SECURE Act, non-spousal beneficiaries must now withdraw the entire balance of the inherited account within 10 years.

IRA distributions are taxed as income, so careful financial planning will be essential to minimize the tax burden, especially when the inherited assets are substantial. As always, we are here to assist and advise you.