

M3 FINANCIAL PULSE OCTOBER 2020

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THE MONTH IN BRIEF

Stocks dropped in September as investors worried about stalled fiscal stimulus talks in Washington, the upcoming election, and new coronavirus cases in Europe.

The Dow Jones Industrial Average, which lagged this year slipped 2.28 percent. The Standard & Poor's 500 Index lost 3.92 percent and the Nasdaq Composite declined 5.16%.¹

1. The Wall Street Journal, September 30, 2020



FACT OF THE MONTH

One survey found that 66% of millennials don't feel on track when it comes to saving for retirement.² In fact, nearly 70% of Americans have less than \$1,000 in savings, and 45% of Americans have no retirement savings at all.³

2. TD Ameritrade, 2019

3. GOBankingRates, Decemeber 16, 2019

S&P 500 Index is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Investors cannot invest directly in an index. The Dow Jones Industrial Average is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. Investors cannot invest directly in an index.

The NASDAQ is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. Past performance is no guarantee of future results.

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SHOULD YOU CONVERT TO A ROTH IRA BEFORE THE END OF THE YEAR?*

Thanks to a couple of factors, some investors are thinking about this move before 2020 ends...

Roth IRAs have attracted retirement savers since their introduction in 1998.

They offer the potential for tax-free retirement income, provided Internal Revenue Service rules are followed. Do Roth IRAs seem even more attractive these days? Perhaps... you can cite two factors: current tax rates and the passing of Setting Every Community Up for Retirement Enhancement (SECURE) Act.

Roth IRAs differ from traditional IRAs. Typically distributions from traditional IRAs must start once you reach age 72, and the money distributed is taxed as ordinary income. When distributions are taken before age 59½, they may be subject to a 10% federal income tax penalty (although, the CARES Act does allow for some exceptions to those penalties for the 2020 tax year.)⁴

On the other hand, if you are the original owner of a Roth IRA, you do not have to start taking distributions at age 72. Additionally, if you are at least 59½ years old and have owned the Roth IRA for at least five years, any distributions you take may be exempt from federal taxes.⁵

Converting a Traditional IRA to a Roth IRA is a taxable event. You pay ordinary income tax on the converted amount. Federal tax rates are now near historic lows, thanks to the Tax Cuts and Jobs Act, and they are scheduled to stay there through 2025.⁶

The SECURE Act ruled that a non-spouse beneficiary of an IRA must completely withdraw that inherited IRA balance within 10 years rather than over the beneficiary's lifetime (the previous guideline). The distribution can be taken as a lump sum or in payments over the 10 years.

The rules are similar for a non-spousal beneficiary of a Roth IRA. The new owner must deplete the inherited IRA in 10 years. However, there may not be any federal income taxes on the withdrawn amounts, assuming I.R.S. rules have been respected.⁶

A Roth conversion may be appealing purely from an income tax perspective.

Taxable incomes have declined for many households due to recent economic slowdown, resulting from the COVID-19 pandemic in 2020, and it might put some traditional IRA owners in lower tax brackets this year. Add in the fact that federal income tax rates are low to begin with, and 2020 could be a good time to go Roth.⁶

Contact us to schedule an appointment to review your options and to find out if an IRA conversion is the right fit.

4. TheStreet, May 13, 2020

5. NerdWallet July 31, 2020

6. BankRate May 21, 2020