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Resolute Connections

In this month's newsletter, *The SECURE Act: What it Means* reviews the major, maybe the only major, piece of legislation to come out of DC in 2019. Many financial planners have called the SECURE Act the most comprehensive, sweeping retirement security legislation in recent history as it will impact how retirement plans are passed to heirs.

World Stock Market Growth Compared with the U.S. takes a look at the remarkable growth U.S. stock market investors have enjoyed over the last 30 years, and how those returns compare to a few of our global counterparts.

Who Owns American Treasury Bonds takes on the often-repeated refrain that the Chinese government might somehow strike back at the U.S. by selling off its Treasury bond holdings. But did you know that China is not actually the biggest foreign holder of the government securities?

Strange Drop in College Enrollment touches on a trend that you probably haven't heard - the number of students enrolled in college in 2019 dropped by almost 250,000 over 2018 figures. Has the cost of college, along with some of the dubious areas of study, finally moved families to rethink the value of a college education?

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

The SECURE Act: What It Means

A bill entitled The Setting Every Community Up for Retirement Enhancement (SECURE) Act passed the U.S. House of Representatives last May by an overwhelming majority, and it was called the most comprehensive, sweeping retirement security legislation in recent history. A few days ago, the Senate finally passed the same legislation by attaching it to its December spending bill, meaning this sweeping legislation is now the law of the land.

But how comprehensive and sweeping is it really? Does it address the chronic unpreparedness of millions of Americans for retirement? Does it simplify the process of saving for retirement? Let's lay out the provisions, so you can decide for yourself.

1) The Act will finally allow people who are working beyond age 70 1/2 to make IRA contributions. People older than that could already keep contributing to Roth IRAs and 401(k) plans, so investors might be inclined to shrug their shoulders.

2) The Act would delay the date when people (whether retired or not) would have to start taking distributions out of their IRAs (called required minimum distributions, or RMDs) until age 72. This is not a huge concession, since the previous start date for RMDs was age 70 1/2. We are basically being given an extra year and a half of compounding before we have to take money out (and pay taxes on it) whether we need it or not.

3) Under the Act, small businesses will find it easier to group together and offer a 401(k) or other plans together, rather than individually—potentially reducing the financial barrier to creating a plan for employees. Plus... any business that sets up its first 401k) plan will receive up to a $5,000 tax credit for doing so (up from the previous $500). The Bureau of Labor Statistics says that only about 55% of all civilian workers, full or part time, currently participate in a workplace retirement plan. Will this $5,000 incentive and permission to group plans together make a dent in that figure, or not?

4) The SECURE Act allows employers to auto-escalate their employees' 401(k) contributions up to 15% of their pay, up from 10% currently.

5) People will be able, under the new rules, to withdraw money from their retirement accounts to cover the cost of the birth or adoption of a child.

6) The SECURE Act creates a safe harbor for qualified plan sponsors to offer annuities as an investment vehicle. You probably know that annuities come in many flavors, including those that provide a guaranteed income for life, and those that are mainly used as expensive investment vehicles. There is nothing in the provision that would prevent salespeople from selling high-commission annuities to the 401(k) market (this is where the lobbying push to pass SECURE came from in the first place), so everybody will need to be careful.

In addition, every 12 months, plan sponsors will have to report the monthly income that their participants would receive if they put the balance of their plan assets into an annuity. This, of course, will be a nice sales hook for annuity salespersons, but once again, participants should be careful. If they lock up their money in an annuity, the guaranteed income for life comes at the cost of flexibility. People would not be able to take out, say, $5,000 to repair their roof, or have access to the cash in an emergency.

7) The Act will change the rules for people who inherit an IRA or other retirement vehicle. Previously, these inheritors were prohibited from allowing the assets grow tax-free forever; instead, they had to take RMDs based on their age. Younger people would have lower RMDs than older inheritors, and the percentage that had to be taken out would go up incrementally each year. This was known as the "stretch" IRA, because people could "stretch" out the distributions over their lifetime, and enjoy tax-free compounding of the money they were not required to take out.

Under the SECURE Act, the inherited IRA must be distributed, in full, by the end of the tenth year after it is received—and all ordinary income taxes would be due at the time of the distribution. This provision will require some planning for people who have larger IRAs, because their heirs will often be required to take out the full amount during their peak earning years. And inheritors of IRAs should think twice about waiting to the last minute to take the full distribution. Yes, waiting would increase the time that the assets would be compounding tax-free, but when all the money comes out at once, it could put the recipient in a higher tax bracket. As a result, many tax practitioners are recommending that wealthier individuals look at the possibility of doing partial Roth conversions while they're still alive, moving some of the traditional IRA assets into Roth IRAs and paying taxes at today's low rates. For the person inheriting a Roth IRA, all distributions are tax-free.

The question many people are asking is: are these provisions likely to move the needle on America's retirement crisis? The biggest major retirement legislation in a decade just shows how little retirement legislation we've been getting out of Congress.

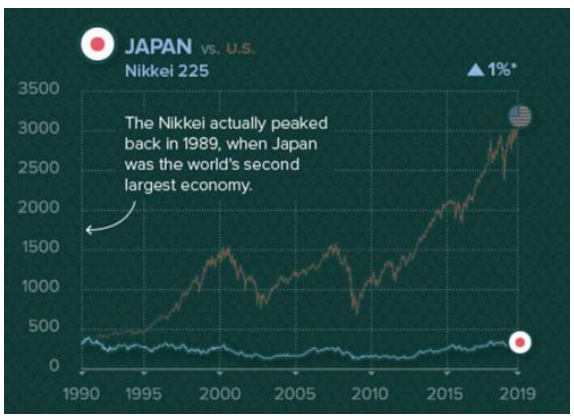
World Stock Market Growth Compared with the U.S.

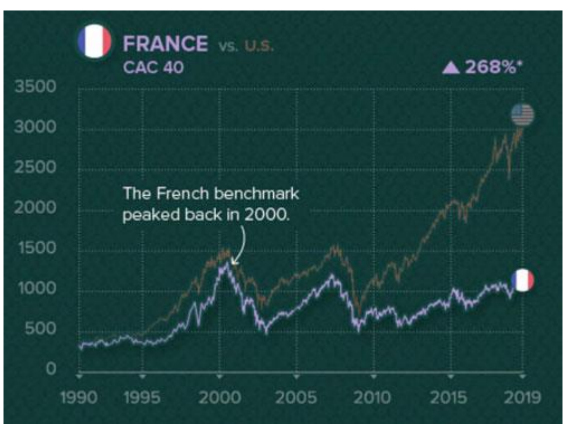
Over the last 30 years, the U.S. stock market has enjoyed remarkable growth—despite two notable downturns in 2000 and again in 2008. In three decades, the S&P 500 has enjoyed tenfold growth in value, from just over 300 on the index in 1990 to more than 3,000 today—and growing.

But the rest of the world has seen comparable growth in corporate value, right? Not even close. A recently-published series of charts shows that the German and Hong Kong indices have been somewhat competitive with the primary U.S. index, with 820% and 824% growth over the last 30 years, respectively. But other countries show a shocking lag. Most shocking of all is Japan, whose Nikkei 225 Index gained just 1% during America's ten-fold rise (see chart). The United Kingdom did somewhat better over the past three decades, with a 238% gain, and France saw a slightly-less-meager 268% increase (see charts).

Even though many market watchers still shudder at the memory of the 2008-2009 meltdown, the charts show that American stocks recovered much more broadly and quickly compared with its foreign rivals, testing new highs at the end of 2019.

What does that mean for the future? Unfortunately, looking backwards doesn't tell us anything about what's ahead. The long rise in American stocks has caused them to be pricier than their counterparts in other countries, and history tells us that buying at a discount is a better investment strategy than buying at a premium. But it's also possible that the American economy will outpace its overseas competition, leading to new highs. For now, the best we can do is celebrate a long, choppy ride to some great long-term returns for investors in American stocks, and offer our condolences to foreign investors who were not quite so lucky.





Who Owns American Treasury Bonds?

You often hear that the Chinese government might somehow strike back at the U.S. by selling off its Treasury bond holdings. But did you know that China is not actually the biggest foreign holder of the government securities?

This past June, Japan overtook China as the largest non-U.S. holder of Treasuries, with $1.17 trillion—above China's $1.10 trillion in holdings. That's 17% and 16% of the total, respectively. It's unlikely that either country will decide to dump their American bond holdings, since the comparable alternatives around the world—now some $13 trillion in global government debt—are paying negative interest rates.

Japan's and China's total of $2.27 trillion ownership in U.S. bonds is, in any case, a small fraction of the $23 trillion U.S. debt. So, who would be the biggest threat if it sold out America's bonds? The Social Security Trust Fund is actually the largest single holder of Treasuries, with around $2.887 trillion. As we approach the year 2026, when inflows are scheduled to fall below outflows, the trust fund will be steadily liquidating Treasuries, but initially at a fairly slow pace.

The other holders of American debt? The U.S. Federal Reserve, after its QE policies, now owns $2.46 trillion in Treasury bonds. American pensions are holding $2.8 trillion, mutual funds another $2.1 trillion, individual investors own $1.8 trillion, and banks and state/local government funds together have invested around $1.4 trillion in U.S. government bonds. Other significant investors include the United Kingdom (5% of total debt, or $323 billion)), Brazil (4.4%; $306 billion), Ireland (4%; $271 billion) and Luxembourg (3.7%; $230 billion).

Strange Drop in College Enrollment

We hear a lot about the rising cost of a college education, and part of that has been driven by unprecedented demand for a college degree. But you probably haven't heard that the number of students enrolled in college in 2019 dropped by almost 250,000 over 2018 figures.

The National Student Clearinghouse Research Center, which tracks these statistics, speculates that a strong job market and historically low unemployment may be the primary cause. People are leaving high school and finding jobs—albeit with limited long-term growth potential. Over their careers, college graduates earn 56% more than those with just a high school education.

Another contributor is the slowing birth rate and rising tuition costs, which are persistent trends likely to continue into the future.

Does this mean getting into college will become less competitive? There will still be intense competition for applicants to the "top" or "name brand" schools. But the less-well-known colleges may find themselves bidding more competitively, with aid packages, for the smaller pool of potential customers.

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.