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James V Sadrianna PA - September 2020 Newsletter

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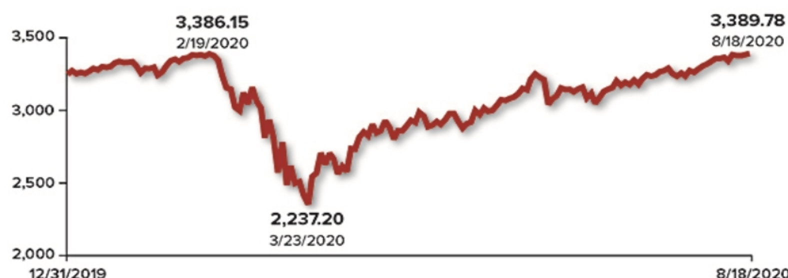
These are extraordinary times, and traditional expectations and measures of value may not tell the whole story.

The Bull Is Back... Will It Keep Charging?

On August 18, 2020, the S&P 500 set a record high for the first time since COVID-19 ushered in a bear market on February 19. The cycle from peak to peak was just 126 trading days, the fastest recovery in the history of the index, erasing losses from an equally historic plunge of almost 34% in February and March.[1]

Based on the traditional definition of market cycles, the new record confirms that a bull market began on March 23 when the index closed at its official low point. This also confirms that the February-March bear market was the shortest on record, lasting just 33 days.[2]

Although the strong comeback is good news for investors, there is a striking disconnect between the buoyant market and an economy still struggling with high unemployment and a public health crisis. The market is not the economy, but the economy certainly affects the market. So it may seem puzzling that the market could reach a record high not long after the largest quarterly decline in gross domestic product (GDP) in U.S. history.[3]



Optimism vs. exuberance

Whereas GDP measures current economic activity, the stock market is forward looking. The rapid bounceback suggests that investors believe the pandemic will be controlled in the not-too-distant future and that business activity will return to normal. Whether this optimism is warranted remains to be seen. The current economic situation remains tenuous, but there are hopeful signs.

A vaccine could be available in early 2021, later than anticipated but offering light at the end of the tunnel.[4] In the meantime, the virus continues to suppress business activity. The 10.2% July unemployment rate represented a big improvement over the previous three months, but it was still higher than at any time during the Great Recession.[5] Recent projections of corporate earnings suggest they will not contract as much as expected, but they will still contract.[6] GDP is projected to make up ground in the third and fourth quarters but remain negative for the year.[7]

The extreme of market optimism is irrational exuberance, and there may be some of that at work in the current situation. The proliferation of low-cost trading apps has encouraged less-experienced investors to trade aggressively, which might be driving some of the market surge.[8]

Economic stimulus

The single, most important factor behind the market recovery is the deep commitment from the Federal Reserve to provide unlimited support through low interest rates and bondbuying programs. For some investors, the fact that the economy is still struggling has a strangely positive effect in guaranteeing that the Fed will keep the money flowing.[9]

Further support from the federal government is more uncertain, but the strong market suggests that investors may be counting on a second stimulus package.[10]

Nowhere else to go

Low interest rates make it easier for businesses and individuals to borrow, but they have reduced bond yields to the point that many investors are willing to take on greater risk in equities in order to generate income. Money that might normally be invested in the bond market has poured into stocks, driving prices

higher. This situation has its own acronym: TINA, There Is No Alternative to Stocks.[11]

Big tech at the wheel

While the S&P 500 is generally considered representative of the U.S. stock market as a whole, the recovery has centered around technology companies, which have helped provide goods and services throughout the pandemic. The Big Six tech stocks — Apple, Facebook, Amazon, Netflix, Microsoft, and Alphabet (Google's parent) — were up collectively by more than 43% for the year through August 18. By contrast, the rest of the companies in the S&P 500 were down collectively by about 4%. The Big Six tech companies now represent more than one-fourth of the total market capitalization of the S&P 500 and thus have an outsized effect on index performance.[12]

One question facing investors is whether to chase the winners or look to stocks and sectors that still lag their previous highs and may have greater growth potential. Chasing performance is seldom a good idea, but there are solid reasons why certain stocks have been so successful in the current environment.

Are stocks overvalued?

The most common measure of stock value is price/earnings (P/E) ratio, which represents the stock price divided by corporate earnings over the previous 12 months or by projected earnings over the next 12 months. The projected P/E ratio for the S&P 500 on August 18 was 22.6, the highest since March 2000 at the peak of the dot-com bubble. Big tech stocks were even higher, trading at 26 times their projected earnings, and the Big Six were higher still at more than 40 times projected earnings.[13-14]

A different measure of stock value compares the total market capitalization of all U.S. stocks with GDP. By this measure, the market was 77.6% overvalued on August 18, by far the highest valuation ever recorded. The previous highs were 49.3% in January 2018 and 49.0% in March 2000. This extreme ratio illustrates the current disconnect between the stock market and GDP, but a significant GDP increase during the third quarter could bring it down.[15]

In considering these valuations, keep in mind that these are extraordinary times, and traditional expectations and measures of value may not tell the whole story. If nothing else, the extreme volatility and rapid market cycles of 2020 have illustrated the importance of maintaining a diversified all-weather portfolio and the danger of overreacting to market movements. While new records are exciting, they are only signposts along the road to achieving your long-term goals.

The return and principal value of stocks and bonds fluctuate with changes in market conditions. Shares, when sold, and bonds redeemed prior to maturity may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss. The performance of an unmanaged index such as the S&P 500 is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

1, 3, 6, 8, 11, 13) *The Wall Street Journal,* August 18, 2020

2) CNBC, August 18, 2020

4, 9) *The New York Times,* August 18, 2020

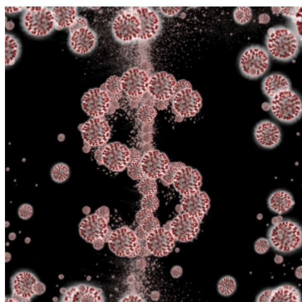
5) U.S. Bureau of Labor Statistics, 2020

7) The Wall Street Journal Economic Forecasting Survey, August 2020

10) CNBC, August 14, 2020

12, 14) *The Washington Post,* August 20, 2020

15) *Forbes,* August 18, 2020



Sponsors have until the last day of the 2022 plan year (2024 for governmental plans) to adopt plan amendments associated with these provisions.

Plan Sponsors: Coronavirus Relief Measures

In March 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which included several provisions designed to help retirement savers cope with the financial fallout from the pandemic. Among these temporary measures were special rules for required minimum distributions, coronavirus-related distributions, and retirement plan loans. In late June, the IRS released Notices 2020-50 and 2020-51, which clarify many of the details for both retirement plan participants and sponsors. Following are some important details for plan sponsors to consider.

Required minimum distributions (RMDs)

One CARES Act provision allows the suspension of 2020 RMDs from defined contribution plans and IRAs. Plan participants who prefer to forgo RMDs from their accounts, or to withdraw a lower amount than required, may do so. The waiver also applies to account holders who turned 70½ in 2019 and would have had to take their first RMD by April 1, 2020 (unless they actually took their first RMD in 2019), as well as beneficiaries of inherited accounts and those whose required beginning date is April 1, 2021.

For participants who may have taken an RMD before the CARES Act took effect, the IRS has clarified that *all* 2020 RMDs — even those received as early as January 1 — may be rolled back into a qualified account by August 31, 2020. Moreover, such a rollover would not be subject to the one-rollover-per-year rule.

This ability to undo a 2020 RMD also applies to beneficiaries who would otherwise be ineligible to carry out a rollover. (However, in their case, the money must be rolled back into the original account.)

This provision does not apply to defined benefit plans.

An appendix to IRS Notice 2020-51 includes a sample plan amendment that offers participants and beneficiaries the choice between receiving and not receiving RMDs.

According to the IRS Notice, the sample amendment follows the design of pre-approved plans that utlilize a "basic plan document" and an "adoption agreement." Employers that don't use an adoption agreement (such as those with individually designed plans) "should modify the format of the amendment to incorporate the desired options in the terms of the amendment."

The sample amendment offers two optional defaults if participants or beneficiaries do not make an election with regard to RMDs. The first default states that, in the absence of an election, the plan would "pay out distributions that include 2020 RMDs." The second option states that the default would "suspend distributions that include 2020 RMDs." A sponsor must select one of these two options and specify the date when the plan will begin operating according to the new terms.

The amendment also offers plan sponsors three different options for direct rollovers associated with RMDs. (If a sponsor does not choose one of the options, the default is that a direct-rollover option applies only to pre-CARES Act eligible rollover distributons.) The direct rollover options are:

1. 2020 RMDs (as defined by the plan)
2. 2020 RMDs and extended 2020 RMDs (both as defined by the plan)
3. 2020 RMDs (as defined by the plan) but only if paid with an additional amount that is an eligible rollover distribution

The CARES Act allows a plan to operate in accordance with an expected amendment, provided that amendment is adopted no later than the last day of the plan year beginning in 2022 (or 2024 for a governmental plan).

Coronavirus-related withdrawals

Another measure in the CARES Act allows "qualified" retirement plan participants to take one or more plan distributions during the 2020 calendar year totaling no more than $100,000 of their vested balance without having to pay the 10% early-withdrawal penalty (25% for certain SIMPLE IRAs). There is no mandatory tax withholding on these distributions, and qualified individuals can take distributions regardless of actual need.

Participants may choose to spread the income from these coronavirus-related distributions, or CRDs, ratably over a period of three years to help manage the associated income tax liability. They may also recontribute any portion of the distribution that would otherwise qualify for a tax-free rollover to an eligible retirement plan over a three-year period, and the amounts repaid would be treated as a trustee-to-trustee transfer, avoiding tax consequences.[1]

Amounts can be recontributed at any point during the three-year period, beginning the day after the day of a CRD. Amounts recontributed will not apply to the one-rollover-per-year rule.

Participants will report a coronavirus-related distribution (or distributions) on their federal income tax returns and on Form 8915-E, Qualified 2020 Disaster Retirement Plan Distributions and Repayments. They can also use this form to report any recontributed amounts.

For the purposes of Section 409A nonqualified deferred compensation (NQDC) plans, IRS Notice 2020-50 clarifies that CRDs will be considered hardship distributions. NQDC plans may therefore be amended to indicate that a CRD would result in the cancellation of deferrals for 2020.

The Notice also states that CRD amounts should be reported on Form 1099-R and provides relevant details.

Coronavirus-related loans

The CARES Act also included two provisions that apply to plan loans. First, between March 27 and September 22, 2020, "qualified" retirement plan participants may also be able to borrow up to 100% of their vested account balance or $100,000, whichever is less. And second, any qualified participant with an outstanding loan who has payments due between March 27, 2020, and December 31, 2020, may be able to delay those payments by one year.

Participants who delay their payments should understand that once the delay period ends, their loan payments will be recalculated to include interest that accrued over the time frame and reamortized over a period up to one year longer than the original term of the loan.

IRS Notice 2020-50 provides a safe harbor for employers implementing the delay of loan repayments.

Who is considered "qualified"?

In the CARES Act, "qualified individuals" were originally defined as account holders who were diagnosed with the coronavirus, those whose spouses or dependents were diagnosed with the illness, and those who experienced certain adverse financial consequences as a result of the pandemic. IRS Notice 2020-50 expanded that definition to include a participant, spouse, or household member (defined as a person who shares the participant's principal residence) who has experienced pandemic-related financial setbacks as a result of:

- A quarantine, furlough, layoff, or reduced work hours
- An inability to work due to lack of child care
- Owning a business forced to close or reduce hours
- Reduced pay or self-employment income
- A rescinded job offer or delayed start date for a job

Employers that have added coronavirus-related relief options to their plans prior to release of IRS Notice 2020-50 should ensure that they notify employees of the expanded eligibility.

Employers can rely on an employee's self-certification that he or she is a qualified individual for the purposes of the loan or withdrawal provisions, unless, of course, a plan administrator has "actual knowledge to the contrary." The Notice includes details about what "actual knowledge" means and includes a sample self-certification statement.

Adoption of the provisions

Plan sponsors are not required to adopt the CARES Act loan and withdrawal provisions. If they choose to

do so, as with the RMD provision, sponsors have until the last day of the plan year beginning in 2022 (or 2024 for a governmental plan) to adopt amendments.

If a plan chooses not to adopt the CRD provision, sponsors should note that qualified participants may still choose to categorize certain other types of distributions — including distributions that in any other year would be considered RMDs — as CRDs on their tax returns, as long as the total amount does not exceed $100,000.[2]

For more information, review IRS Notices 2020-50 and 2020-51, and speak with your tax professional.

[1] Qualified beneficiaries may also treat a distribution as a CRD; however, nonspousal beneficiaries are not permitted to recontribute funds, as they would not otherwise be eligible for a rollover.

[2] Notice 2020-50 specifies the types of distributions that are not eligible for the special tax treatment.

Remote learning may not be a perfect substitute, but motivated students can continue to grow intellectually and work toward a valuable college degree.

College Disrupted: Students Face High Costs and Pandemic Impact

Even in normal times, it can be challenging for families to cover college expenses without borrowing money and/or risking their own retirement security. For the 2019-2020 academic year, the cost of in-state tuition, fees, room, and board at a four-year public college averaged $21,950, and the total for a private college approached $50,000.[1]

Sadly, the college world is not immune from the health fears and financial pain inflicted by the coronavirus pandemic. More students might choose schools that are less expensive and/or closer to home, take a year off, or forgo college altogether. The American Council on Education predicted a 15% decline in college enrollment nationwide for the next academic year.[2]

With the financial futures of students and supportive parents at stake, it is more important than ever for families to make informed college decisions.

Reopening plans

As of August 5, 2020, about 29% of the nearly 3,000 institutions tracked by *The Chronicle of Higher Education* had announced plans for an online fall semester, 23.5% were planning to hold classes primarily or fully in person, 16% were proposing various hybrid models of in-person classes and remote learning, and the remainder were still undecided.[3]

To reduce campus density and make room for social distancing in classrooms and residence halls, many colleges are inviting 40% to 60% of students back to campus (prioritizing freshman or seniors, certain majors, programs with clinical requirements, and students with unsafe home situations, for example) while expanding and improving remote teaching capabilities for students studying at home.[4] Some colleges have backtracked on earlier plans to reopen due to a surge of the virus, and more could follow suit as events unfold.[5]

A new landscape

Students who live on campus or attend classes in person are likely to find strict rules and restrictions regarding safety practices (physical distancing, face coverings, virus testing) and changes in many facets of campus life, including living situations, food options, class settings, social gatherings, and popular extracurricular programs such as arts and athletics.

Acknowledging that students are not getting the college experience they wanted and are now more price sensitive, many schools are freezing tuition, and others are offering discounts, increasing scholarships, or allowing students to defer payments.[6] In anticipation of $23 billion in revenue losses, colleges nationwide have also had to lay off employees, reduce salaries, eliminate programs, and make other budget cuts.[7-8]

In mid-March, Moody's Investors Service downgraded the outlook for higher education from stable to negative, citing reduced enrollment. Institutions with large endowments and/or strong cash flows are better positioned to withstand the crisis, but lost tuition poses a bigger threat to smaller colleges.[9]

Shopping for schools

High school students who are involved in the planning and application process might be lucky to enter college after the worst of the health crisis is over. Still, more economic hardship means that cost could play a greater role in school selection.

Many students don't pay published tuition prices, and financial aid packages differ from school to school. After identifying schools that might be a fit, families can use net price calculators to compare how generous different colleges might be, based on the household's financial situation and the student's academic profile.

Before choosing a school, students should understand how much they might have to borrow and what the monthly payment would be after college. It's also important to take a hard look at earning potential when choosing an academic program. Those who plan to enter lower-paying fields may fare better if they keep costs down and borrowing to a minimum.

Seeking financial aid

To receive grants and/or loans, students must complete the Department of Education's Free Application for Federal Student Aid (FAFSA) and apply for aid according to the college's instructions as early as possible. Higher-earning families should also fill out the FAFSA because they may qualify for more need-based aid than they might expect, and some schools may require a completed FAFSA for merit-based scholarships.

College students with parents who have lost a job or earned less income than normal this year due to COVID-19 may want to appeal for a revised aid package, if not for fall then for spring. The financial aid administrator may be able to reduce the loan component of a student's aid package and/or increase the scholarship, grant, or work-study component.

Will college pay off?

The average college graduate earns $78,000 per year, compared with about $45,000 for the average worker with a high school diploma. The wages of workers without a college degree tend to fall more during recessions, and they are more likely to be unemployed, as seen during the pandemic.[10]

A 2019 Federal Reserve analysis of the cost (four years of tuition and lost wages) and the benefits (higher lifetime earnings) concluded that a college degree is a sound investment for most people; the average rate of return for a bachelor's degree is about 14%.[11]

When Fed economists adjusted this analysis to account for the 2020 pandemic, the return on a college degree rose to 17% (under the assumption that many workers with a high school diploma would be unemployed for a year). For a student who takes a gap year, the estimated return dropped to 13%. The $90,000 cost of a delay includes one year's worth of post-graduation earnings and slower growth in wages over a lifetime.[12]

Remote learning may not be a perfect substitute for in-person interactions and relationships, especially for students enrolled at expensive institutions. Still, motivated students can grow intellectually and work toward a degree that could be valuable in terms of future earnings and social mobility.

Many colleges may be able to utilize their investments in technology and online curriculums long after the pandemic passes, providing future undergraduates with more opportunities to earn an affordable college degree remotely.

1) College Board, 2019

2, 7) American Council on Education, 2020

3) *The Chronicle of Higher Education,* August 5, 2020

4, 9) *The New York Times,* July 7, 2020, and May 12, 2020

5) NPR.com, July 22, 2020

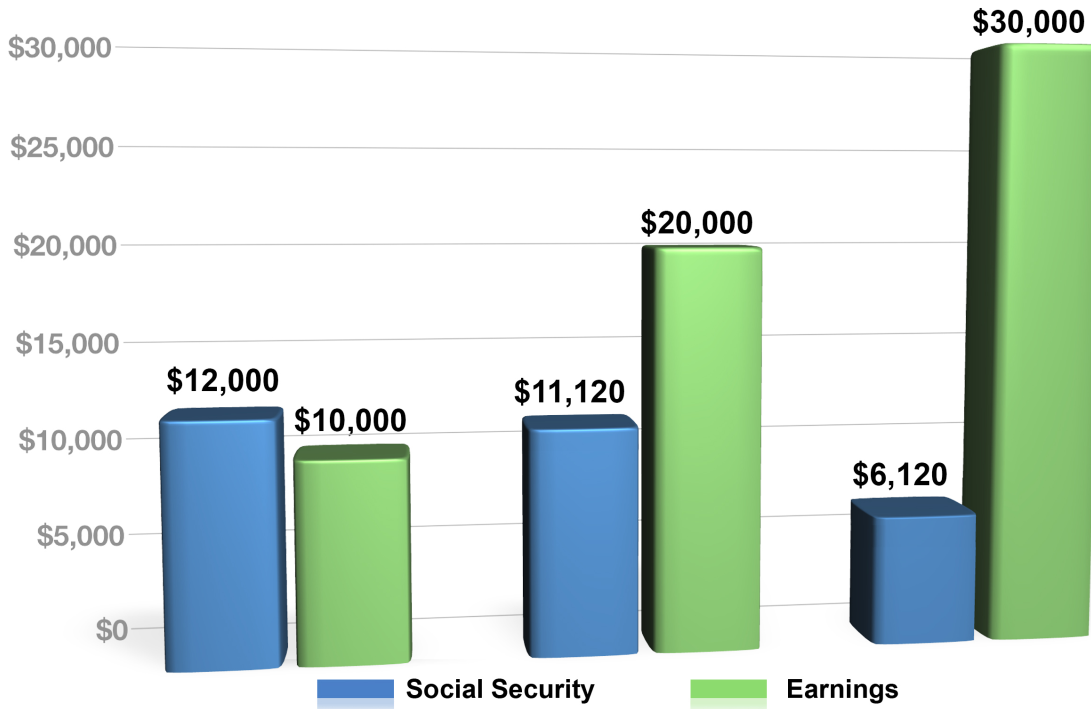
6, 8) *Inside Higher Ed,* April 27, 2020, and June 29, 2020

10-12) Federal Reserve Bank of New York, 2019-2020

How Earnings Affect Social Security

If you begin to receive Social Security retirement (or survivor's) benefits before you reach full retirement age, money you earn over a certain limit will reduce the amount of your Social Security benefit. In 2020, your benefit will be reduced by $1 for every $2 of earnings in excess of $18,240.*

The chart below shows the effect of annual earnings of $10,000, $20,000 and $30,000 on a $12,000 annual Social Security benefit ($1,000 monthly) for someone who is subject to the reduction.



Source: Social Security Administration, 2019

*Special rules apply in both the year you reach full retirement age and the year you retire if you have not reached full retirement age.

Social Security Retirement Benefits

Social Security was originally intended to provide older Americans with continuing income after retirement. Today, though the scope of Social Security has been widened to include survivor, disability, and other benefits, retirement benefits are still the cornerstone of the program.

How do you qualify for retirement benefits?

When you work and pay Social Security taxes (FICA on some pay stubs), you earn Social Security credits. You can earn up to 4 credits each year. If you were born after 1928, you need 40 credits (10 years of work) to be eligible for retirement benefits.

How much will your retirement benefit be?

Your retirement benefit is based on your average earnings over your working career. Higher lifetime earnings result in higher benefits, so if you have some years of no earnings or low earnings, your benefit amount may be lower than if you had worked steadily. Your age at the time you start receiving benefits also affects your benefit amount. Although you can retire early at age 62, the longer you wait to retire (up to age 70), the higher your retirement benefit.

You can find out more about future Social Security benefits by signing up for a *my* Social Security account at the Social Security website, ssa.gov, so that you can view your online Social Security Statement. Your statement contains a detailed record of your earnings, as well as estimates of retirement, survivor, and disability benefits. If you're not registered for an online account and are not yet receiving benefits, you'll receive a statement in the mail every year, starting at age 60. You can also use the Retirement Estimator calculator on the Social Security website, as well as other benefit calculators that can help you estimate disability and survivor benefits.

Retiring at full retirement age

Your full retirement age depends on the year in which you were born.

If you were born in:	Your full retirement age is:
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months

1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Tip: *If you were born on January 1 of any year, refer to the previous year to determine your full retirement age.*

If you retire at full retirement age, you'll receive an unreduced retirement benefit.

Retiring early will reduce your benefit

You can begin receiving Social Security benefits before your full retirement age, as early as age 62. However, if you retire early, your Social Security benefit will be less than if you wait until your full retirement age to begin receiving benefits. Your retirement benefit will be reduced by 5/9ths of 1 percent for every month between your retirement date and your full retirement age, up to 36 months, then by 5/12ths of 1 percent thereafter. For example, if your full retirement age is 67, you'll receive about 30 percent less if you retire at age 62 than if you wait until age 67 to retire. This reduction is permanent — you won't be eligible for a benefit increase once you reach full retirement age.

However, even though your monthly benefit will be less, you might receive the same or more total lifetime benefits as you would have had you waited until full retirement age to start collecting benefits. That's because even though you'll receive less per month, you might receive benefits over a longer period of time.

Delaying retirement will increase your benefit

For each month that you delay receiving Social Security retirement benefits past your full retirement age, your benefit will increase by a certain percentage. This percentage varies depending on your year of birth. For example, if you were born in 1943 or later, your benefit will increase 8 percent for each year that you delay receiving benefits, up until age 70. In addition, working past your full retirement age has another benefit: It allows you to add years of earnings to your Social Security record. As a result, you may receive a higher benefit when you do retire, especially if your earnings are higher than in previous years.

Working may affect your retirement benefit

You can work and still receive Social Security retirement benefits, but the income that you earn before you reach full retirement age may affect the amount of benefit that you receive. Here's how:

- If you're under full retirement age: $1 in benefits will be deducted for every $2 in earnings you have above the annual limit
- In the year you reach full retirement age: $1 in benefits will be deducted for every $3 you earn over the annual limit (a different limit applies here) until the month you reach full retirement age

Once you reach full retirement age, you can work and earn as much income as you want without reducing your Social Security retirement benefit. And keep in mind that if some of your benefits are withheld prior to your full retirement age, you'll generally receive a higher monthly benefit at full retirement age, because after retirement age the SSA recalculates your benefit every year and gives you credit for those withheld earnings

Retirement benefits for qualified family members

Even if your spouse has never worked outside your home or in a job covered by Social Security, he or she may be eligible for spousal benefits based on your Social Security earnings record. Other members of your family may also be eligible. Retirement benefits are generally paid to family members who relied on your income for financial support. If you're receiving retirement benefits, the members of your family who may be eligible for family benefits include:

- Your spouse age 62 or older, if married at least one year
- Your former spouse age 62 or older, if you were married at least 10 years
- Your spouse or former spouse at any age, if caring for your child who is under age 16 or disabled
- Your unmarried child under age 18
- Your unmarried child under age 19 if a full-time student (through grade 12) or over age 18 and disabled if disability began before age 22

Your eligible family members will receive a monthly benefit that is as much as 50 percent of your benefit. However, the amount that can be paid each month to a family is limited. The total benefit that your family can receive based on your earnings record is about 150 to 180 percent of your full retirement benefit amount. If the total family benefit exceeds this limit, each family member's benefit will be reduced proportionately. Your benefit won't be affected.

How do you apply for Social Security retirement benefits?

The SSA recommends that you apply three months before you want your benefits to start. To apply, fill out an application on the SSA website, call the SSA at (800) 772-1213, or make an appointment at your local SSA office.

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