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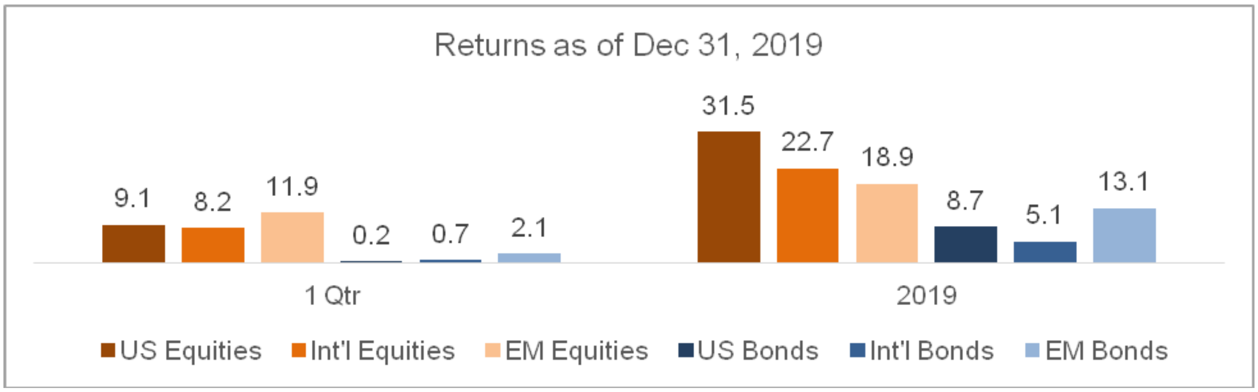
Dear Clients,

What a way to end 2019 with US stocks increasing 31.5% for the year. Employment is high, interest rates are low and concerns of a trade war with China have de-escalated as both countries announced steps to reduce tensions.[1]



The Past Decade and the Current Bull Market

Economic growth over the past decade, in comparison to previous recovery and growth times, has been rather lack luster in comparison. So if we were to have a recession, it would more than likely be relatively mild and short-lived. There are multiple risks to the US economy including the Federal Reserve increasing its rate at which banks borrow, companies continuing to buy back shares, increased trade tensions between US – China, reduced deficit spending, policy changes due to election results or possible war in the Middle East. All of these could impact the current growth of the US economy.[2]

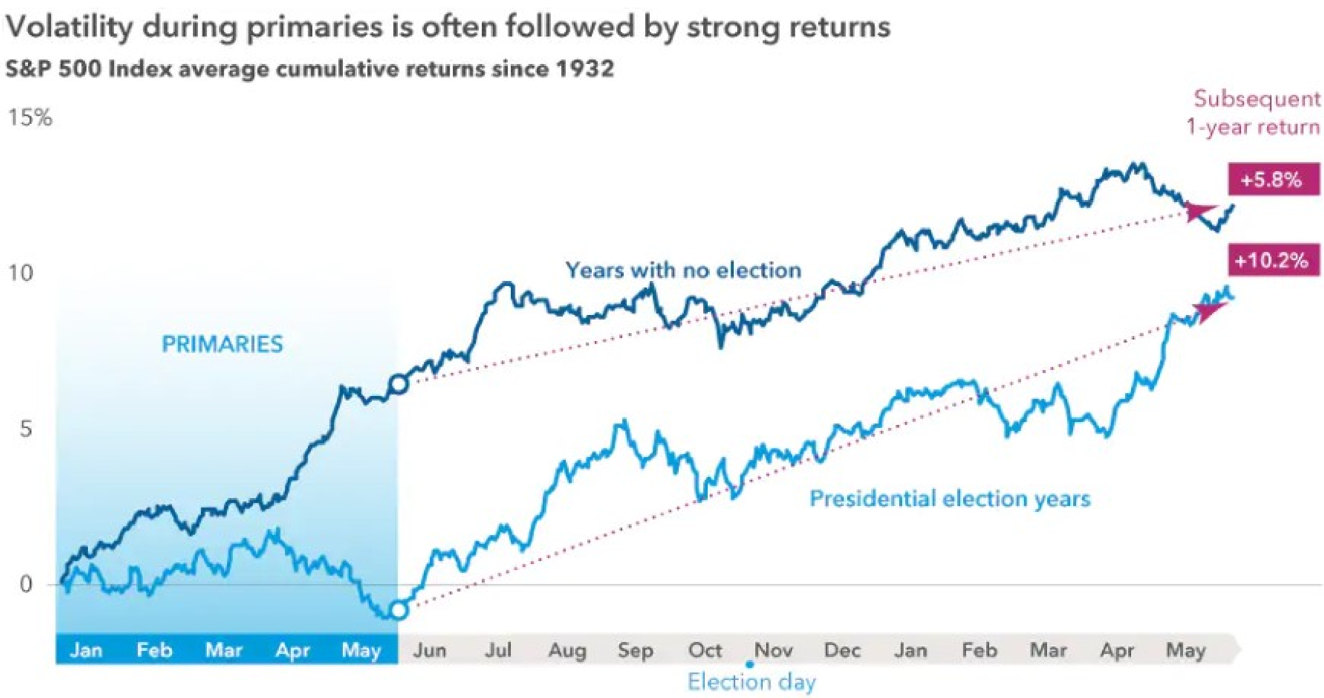
Historically, bull markets have ended due to excesses or bubble characteristics, which we are not yet seeing. Home construction and auto sales are healthy and the US consumer was a driving force in 2019. This past year has also seen funds flow out of stocks and into bonds indicating the memory of the last financial crisis and its lessons are still fresh in investors and businesses minds. The good news is that slow growth, low inflation and easy monetary policy from central banks could indicate the economic expansion continuing for longer than investors suspect, keeping at bay the risk of a deep or long-term recession.

US Election Year

Even though impeachment and politics dominated the news in 2019, remember it is policies and not politics that move markets. In order for policies to change, we would need to see the same political party win the presidency, the

1. Source: T. Rowe Price
2. Source: AssetMark

House and the Senate. At the moment this seems unlikely, as it will be difficult for Democrats to win a majority in the Senate or for Republicans to win a majority in the House. As a result, the most likely outcome is a stalemate that will frustrate any radical change and generally be viewed as reassuring by businesses and investors. Research by Capital Group finds, despite heightened volatility during primary season, since 1932 the S&P 500 has risen an average of 10% in presidential election years, regardless of which party wins the White House. [3]



PERS Corner

The five potential ballot measures filed earlier in 2019 have been withdraws for the 2020 election. Backers of the initiatives indicate that the passing of SB1049 has helped reduce the immediate crisis surrounding the system's debt and that it would make sense to see how things play out with the finances over the next couple of years.

Thank you for the trust you have placed in us and we will continue to work hard to navigate the challenges and opportunities on your behalf. We look forward to discussing your evolving financial goals, as well as reviewing the mixture of asset allocation approaches within your portfolio, as we seek to keep your investment plan aligned with your needs.

Sincerely,

Kadi

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3. Source: Capital Group

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New Spending Package Includes Sweeping Retirement Plan Changes (SECURE Act)

The SECURE Act may have the largest impact on retirement planning since the Pension Protection Act of 2006.

The $1.4 trillion spending package enacted on December 20, 2019, included the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which had overwhelmingly passed the House of Representatives in the spring of 2019, but then subsequently stalled in the Senate. The SECURE Act represents the most sweeping set of changes to retirement legislation in more than a decade.

While many of the provisions offer enhanced opportunities for individuals and small business owners, there is one notable drawback for investors with significant assets in traditional IRAs and retirement plans. These individuals will likely want to revisit their estate-planning strategies to prevent their heirs from potentially facing unexpectedly high tax bills.

All provisions take effect on or after January 1, 2020, unless otherwise noted.

Elimination of the "stretch IRA"

Perhaps the change requiring the most urgent attention is the elimination of longstanding provisions allowing non-spouse beneficiaries who inherit traditional IRA and retirement plan assets to spread distributions — and therefore the tax obligations associated with them — over their lifetimes. This ability to spread out taxable distributions after the death of an IRA owner or retirement plan participant, over what was potentially such a long period of time, was often referred to as the "stretch IRA" rule. The new law, however, generally requires any beneficiary who is more than 10 years younger than the account owner to liquidate the account within 10 years of the account owner's death unless the beneficiary is a spouse, a disabled or chronically ill individual, or a minor child. This shorter maximum distribution period could result in unanticipated tax bills for beneficiaries who stand to inherit high-value traditional IRAs. This is also true for IRA trust beneficiaries, which may affect estate plans that intended to use trusts to manage inherited IRA assets.

In addition to possibly reevaluating beneficiary choices, traditional IRA owners may want to revisit how IRA dollars fit into their overall estate planning strategy. For example, it may make sense to consider the possible implications of converting traditional IRA funds to Roth IRAs, which can be inherited income tax free. Although Roth IRA conversions are taxable events, investors who spread out a series of conversions over the next several years may benefit from the lower income tax rates that are set to expire in 2026.

Benefits to individuals

On the plus side, the SECURE Act includes several provisions designed to benefit American workers and retirees.

- People who choose to work beyond traditional retirement age will be able to contribute to traditional IRAs beyond age 70½. Previous laws prevented such contributions.
- Retirees will no longer have to take required minimum distributions (RMDs) from traditional IRAs and retirement plans by April 1 following the year in which they turn 70½. The new law generally requires RMDs to begin by April 1 following the year in which they turn age 72.
- Part-time workers age 21 and older who log at least 500 hours in three consecutive years generally must be allowed to participate in company retirement plans offering a qualified cash or deferred arrangement. The previous requirement was 1,000 hours and one year of service. (The new rule applies to plan years beginning on or after January 1, 2021.)

- Workers will begin to receive annual statements from their employers estimating how much their retirement plan assets are worth, expressed as monthly income received over a lifetime. This should help workers better gauge progress toward meeting their retirement-income goals.
- New laws make it easier for employers to offer lifetime income annuities within retirement plans. Such products can help workers plan for a predictable stream of income in retirement. In addition, lifetime income investments or annuities held within a plan that discontinues such investments can be directly transferred to another retirement plan, avoiding potential surrender charges and fees that may otherwise apply.
- Individuals can now take penalty-free early withdrawals of up to $5,000 from their qualified plans and IRAs due to the birth or adoption of a child. (Regular income taxes will still apply, so new parents may want to proceed with caution.)
- Taxpayers with high medical bills may be able to deduct unreimbursed expenses that exceed 7.5% (in 2019 and 2020) of their adjusted gross income. In addition, individuals may withdraw money from their qualified retirement plans and IRAs penalty-free to cover expenses that exceed this threshold (although regular income taxes will apply). The threshold returns to 10% in 2021.
- 529 account assets can now be used to pay for student loan repayments ($10,000 lifetime maximum) and costs associated with registered apprenticeships.

Benefits to employers

The SECURE Act also provides assistance to employers striving to provide quality retirement savings opportunities to their workers. Among the changes are the following:

- The tax credit that small businesses can take for starting a new retirement plan has increased. The new rule allows employers to take a credit equal to the greater of (1) $500 or (2) the lesser of (a) $250 times the number of non-highly compensated eligible employees or (b) $5,000. The credit applies for up to three years. The previous maximum credit amount allowed was 50% of startup costs up to a maximum of $1,000 (i.e., a maximum credit of $500).
- A new tax credit of up to $500 is available for employers that launch a SIMPLE IRA or 401(k) plan with automatic enrollment. The credit applies for three years.
- With regards to the new mandate to permit certain part-timers to participate in retirement plans, employers may exclude such employees for nondiscrimination testing purposes.
- Employers now have easier access to join multiple employer plans (MEPs) regardless of industry, geographic location, or affiliation. "Open MEPs," as they have become known, offer economies of scale, allowing small employers access to the types of pricing models and other benefits typically reserved for large organizations. (Previously, groups of small businesses had to be affiliated somehow in order to join an MEP.) The legislation also provides that the failure of one employer in an MEP to meet plan requirements will not cause others to fail, and that plan assets in the failed plan will be transferred to another. (This rule is effective for plan years beginning on or after January 1, 2021.)
- Auto-enrollment safe harbor plans may automatically increase participant contributions until they reach 15% of salary. The previous ceiling was 10%.
