BEDELFINANCIAL

Summer 2020
Solutions for Your Cash in Low-Interest Rate Environment

By: Jonathan Koop, CFA
Portfolio Manager and
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This spring, the Federal Reserve lowered the Fed Funds rate to zero percent to stimulate the economy. While the cut was intended to incentivize large banks to loan money, there were other meaningful effects. Aside from the long-term structural consequences that artificially low-interest rates have on the economy, interest rates on checking and savings accounts also declined, essentially to zero.

This left investors scrambling to find ways to earn interest on their cash. Luckily, there are options available that likely provide better yields than most banks. You need to be savvy, know where to look, and understand that options may carry some requirements or not even be entirely risk-free.

Rewards Checking Accounts

Reward checking accounts are one option for savers to continue earning interest. These accounts are fully FDIC insured, but typically impose a cap on the dollar amount eligible for the higher interest rate (currently ~3.0%) and may necessitate other requirements be met to qualify.

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For example, the 3.0% interest rate may only apply to the first $15k in the account. Additionally, you may be required to make a certain number of debit card purchases per month to qualify.

While it is possible for rates to drop, many institutions have maintained attractive yields for much of the past decade. This may not be a solution for all of your cash needs, but an attractive yield on even a portion of your cash is appealing, nevertheless.

High Yield Savings Accounts

High yield savings accounts (popular with online banks) typically offer interest rates higher than those at a traditional bank while still providing the standard FDIC insurance. Unlike rewards checking accounts, these accounts do not have requirements that must be met to qualify, nor do they cap the amount of money eligible in the account. Because of this, the yields tend to be lower. In today's environment where interest rates at your typical bank are essentially zero, it is possible to find high yield savings accounts yielding ~1.0%.

Cash Management Accounts

Individuals with significant cash face two issues: finding attractive yields and ensuring all of their savings are protected by FDIC insurance. Presently, FDIC insurance only provides coverage on the first $250k in each account at a bank, leaving balances higher than that at risk. If you want to protect more money, it would be necessary to open accounts at multiple banks and regularly monitor all of their interest rates, a tedious process.

To solve this issue, we offer our clients access to a cash management account that is structured to provide FDIC insurance coverage on up to $4 million cash for joint owners at a competitive interest rate, currently starting at 0.70% on the first $500k of deposits. This is accomplished by systematically spreading cash deposits among several program banks, taking advantage of the full FDIC insurance coverage each bank offers. Ultimately, this can be an excellent option for individuals looking for a simple way to protect cash that is more than the normal FDIC insurance while still earning interest.

Ultra-Short Duration Bond Funds

Until now, cash contributions made to a charity had been deductible up to 60% of AGI. The CARES Act has increased this to 100% of AGI. If an individual is charitably inclined, they could greatly reduce or even eliminate their 2020 tax bill by making deductible charitable contributions.(Contributions to donor-advised funds are not eligible contributions.)

Summary

With the Fed holding interest rates at zero, it is challenging to find solutions for your cash. Luckily, there are different options available for individuals with varying cash balances and seeking differing goals. Contact your Bedel team directly to learn more about any of these

Contact Jonathan if you have questions or want additional information regarding this topic.

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BLT Corner

Plan for Tomorrow

Plan for Tomorrow is Bedel's new mantra. While we try to grasp all the devastation that Covid-19 has instilled in the world, it is important to remind ourselves that we're all in this together, and we will get through it. Yes, new issues arise daily from the pandemic, but we haven't lost sight of the plans we've created for our clients, our firm, and ourselves. For many of us, our well thought-out and developed plans need some adjustment. At Bedel, we expect that and can certainly deal with it. We continually revisit our clients' strategies; whether for retirement, college, a social event, or even vacation, we can adapt and realign our process to help you better *plan for tomorrow*.

Bedel is actively planning for tomorrow by working hard to keep our clients abreast of their financial situation and assist with implementing new strategies where appropriate. Even though most of our staff continue to work from home, know that we remain open and available to meet with our clients anytime.

Just a couple of weeks ago, we were able to host our 13th Annual Shred Day to take old, confidential documents from our clients for shredding. It was great to see the 40+ clients who were able to take advantage of this service and some of our staff! The paper we received filled 15 large rolling bins. Now that's clearing out some clutter to make way for tomorrow's plans!

We're also excited to announce that Nick Rosebraugh, a Purdue University graduate with a degree in Financial Counseling & Planning, joined Bedel's operations team on July 20th. He'll be working alongside Kristina Dougan and Alex Golding to support our clients' needs and implement various account transactions. Welcome, Nick!

We appreciate your trust in Bedel Financial and look forward to our continued partnership. Plan for tomorrow…it will be here before we know it!

Be well, and we hope to see you soon,

The Bedel Leadership Team

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www.countmeindy.com

Industry News

Trusting Your Trust: Should Your Trust be the Beneficiary of Your IRA?

By: Meredith Carbrey, CFP®
Senior Wealth Advisor

What happens if your trust is named the beneficiary of your IRA? With the passage of the SECURE Act in 2019, Ed Slott, a recognized IRA expert, claimed that he could sum up the legislation's effect on IRA trust planning in two words: "not good."

Benefits of a Trust

The primary reasons for naming a trust as the beneficiary of retirement accounts are: 1) providing control over how the assets are distributed at your passing; 2) protecting the beneficiaries from risky spending, lawsuits, divorce or creditors; and 3) managing taxes.

Qualifying "see-through" trusts before the SECURE Act could help achieve these goals, but that has changed if your trust beneficiaries are non-eligible designated beneficiaries.

Please note that eligible designated beneficiaries may continue to use their life expectancy to determine inherited IRA distributions (subject to some special rules). These beneficiaries include surviving spouses, minor children of the account owner (until the child reaches the age of majority), disabled beneficiaries, chronically ill beneficiaries, and beneficiaries who are less than ten years younger than the account owner.

Conduit and Discretionary Trust

There are two types of IRA trusts: conduit and discretionary trusts. Under the old rules, and assuming certain qualifications were met, distributions from the inherited IRA to the trust could be stretched over the lifetime of the oldest trust beneficiary.

With a conduit trust, annual RMDs are distributed from the inherited IRA to the trust, and then from the trust to the beneficiaries. All funds are depleted from the trust, and withdrawals are taxed at the beneficiaries' personal tax rates.

A conduit trust will no longer work that way because there are no RMDs until the end of 10 years. As a result, the trust will pay out all funds to the trust beneficiaries, who will then have total access to the funds and incur a large tax liability. The original intent of the trust, to have distribution control, protect the assets, and save on taxes, has been eliminated.

With a discretionary trust, the annual RMDs are distributed from the inherited IRA to the trust. Then it's the trustee's discretion to either distribute the RMD money to the trust beneficiaries or retain the funds in the trust. A discretionary trust provides more control after death, but funds remaining in the trust are taxed at trust tax rates, which are significantly higher than individual rates. In 2020, a joint filer hits the top tax bracket of 37% at $622,050 of taxable income; a trust hits that same tax rate at $12,950.

If a spend-thrift beneficiary is a major concern, a discretionary trust is still an option because the funds can remain protected in the trust even after ten years. However, all of the funds will be taxed either at high trust tax rates or at the beneficiaries' personal tax rates if distributed. Given the high tax costs, this is an expensive way to protect the assets.

Alternative Options

Roth IRA Conversions: Start converting portions of your taxable IRA funds to a Roth IRA at today's low tax rates. Once inherited, the Roth IRA can continue to grow tax-free for ten years and then withdrawn without tax consequences.

Charitable Intentions: 1) Designate all or a portion of your IRA to your favorite charities. The charity will not pay taxes on the IRA, and you can leave tax-efficient assets to other beneficiaries.

(continued below)

Generation NeXt

Construction Fever

By: Kate Arndt, CFP®
Financial Planner

Lockdown seems to have Americans re-evaluating their living situations as houses fly off the market. Record low mortgage rates and scarce inventory may factor into why US home construction rose 17.3 percent in June 2020. Are you thinking about breaking ground? Be sure to understand your financing options.

How Do Construction Loans Work?

A construction loan is a loan that covers the period in which a home is built. The future homeowner borrows a lump amount that the lender releases to the contractor in waves. While the house is being built, the borrower makes interest-only payments on the contractor's amount dispersed. Unlike a traditional mortgage, there is no collateral against the loan since the home is still under construction. This causes interest rates on construction loans to be higher than what's available for similarly sized mortgages.

What's Next?

Upon completion of the build, what happens next is determined by the kind of construction loan you have. There are two main types of construction loans. The first is a construction-to-permanent loan, where the outstanding balance is converted into a traditional mortgage when the home is move-in ready. The upside to this type of loan is that you only pay closing costs once.

The other type of loan is a plain construction loan, meaning the balance is due upon completion of the home. Typically, a borrower will take out a traditional mortgage to pay off the construction loan, thus applying for and closing on two separate loans. The attractive feature of this kind of loan is that borrowers can shop for the best rate when securing the new mortgage.

Uh-Oh!

There are a few financial risks to keep in mind when taking out a construction loan. It's not unheard of for a project to go over budget. Depending on local comps, the finished home may not appraise for what you've borrowed. Both scenarios create unexpected costs.

Consider how you might address these problems.

- Do you have the excess cash on hand?
- Will your lender allow you to add it to the loan principal?
- Can you secure additional financing?

Conclusion

The idea of having a say in every little detail of a brand new home sounds appealing. Be sure to weigh your financing options and consider the risks before breaking ground!

Contact Kate if you have questions or want additional information regarding this topic.

Q&A

RMDs Are Suspended For 2020, What if I Already Took Mine?

By: Sarah Mahaffa, CFP®
Senior Wealth Advisor and
Manager of Financial Planning

The CARES Act includes a provision that suspends ALL required minimum distributions (RMDs) for 2020. Given the market downturn we experienced in the first quarter, the value of retirement accounts dropped significantly. However, RMDs are calculated based on the value as of 12/31 of the prior year (before the economy began to feel the effects of COVID-19). Suspending RMDs allows the retirement account to recover some of the losses, rather than distribute funds during a downturn.

Q: I took my RMD in January before the CARES Act was signed. Can I undo my RMD?

A: Yes. If you took an RMD from an IRA, 401(k), 403(b), 457(b), or Inherited IRA, you can recontribute the amount of the **total** distribution back into your account and avoid paying taxes on the distribution. However, you must replace the funds by **August 31, 2020**. If you had taxes withheld, you would want to include them in the amount you deposit into the IRA.

Q: I had taxes withheld on my distribution. How do I get those back?

A: Any funds that were withheld for taxes were already sent to the IRS. They will count toward your 2020 tax bill. If you overpaid, then you will receive the funds back as a refund after filing your 2020 tax return.

Q: I have an Inherited IRA. Does that change anything?

A: No. The same rules apply to Inherited IRAs.

Q: I turned 70 ½ in 2019 and decided to defer my 1st RMD to 2020. Am I required to take an RMD?

A: No. The suspension applies to all RMDs that would have been required in 2020. The IRS specifically addressed this situation and confirmed that no RMD is required.

Contact Sarah if you have questions or want additional information regarding this topic.

INDUSTRY NEWS CONTINUED...

2) Once you turn 70.5, you can make qualified charitable distributions up to $100,000 to qualified charities. These distributions count toward your RMD and are not included in your taxable income.

3) Consider naming a Charitable Remainder Trust (CRT) the contingent beneficiary of your IRA(s). The CRT would pay income to named beneficiaries quarterly as outlined in the trust provisions over a term of 10 years or longer, even for their lifetime (as you direct). At the end of the CRT term, the balance of the trust assets would pass to the named charities of the trust.

Summary

These provisions of the SECURE Act make a statement that the government intends for retirement accounts to be used for retirement and not for estate planning. However, some strategies can be employed to pass assets to heirs tax efficiently and with protection.

Contact Meredith if you have questions or want additional information regarding this topic.

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Corporate Calendar

Bedel Financial Consulting will be closed for business on the upcoming days:

Sept. 7	Labor Day
Nov. 26	Thanksgiving
Nov. 27	Day after Thanksgiving
Dec. 25	Christmas Day
Jan. 1	New Years Day

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