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Is It Time to Review Your IRA Estate Planning Strategies?
Working from Home: Is It Rewarding or Restricting?
Is there any way to stop getting unwanted robocalls?
How can I avoid becoming a victim of a social engineering scam?

# Johnston Investment Counsel

*LIFE THE WAY YOU PLANNED IT.*

## Do Target-Date Funds Hit the Bull's-Eye for You?

More than half of 401(k) participants have assets invested in target-date funds.[1] These "all-in-one" funds are often the default option in workplace plans, and their apparent simplicity appeals to many investors. But target-date funds are not as simple as they appear to be. Like all investment strategies, they have strengths and weaknesses.

### Focused on time

Target-date funds offer a professionally managed mix of assets (typically a combination of other funds containing stocks, bonds, and cash alternatives) selected for a specific time horizon. The target date, usually included in the fund's name, is the approximate date when an investor would begin to withdraw money for retirement (or another purpose, such as paying for college). An investor expecting to retire in 2045, for example, might choose a 2045 fund. As the target date approaches, the fund typically shifts toward a more conservative asset allocation to help conserve the value it may have accumulated and potentially provide income.

### One size may not fit all

Target-date funds utilize basic asset allocation principles that are often used to construct more complex portfolios, but the allocation is based solely on the target date and does not take into account the investor's risk tolerance, personal goals, asset levels, sources of income, or any other factors that make an investor unique. An investor with $200,000 in a target-date fund has the same asset allocation as an investor with $20,000 in the fund. An investor who also has a pension and might be comfortable taking more risk with 401(k) investments is placed in the same risk category as an investor who will depend primarily on savings in the 401(k) account.

Considering this one-size-fits-all approach, target-date funds may be more appropriate for novice investors with relatively low assets or those who simply prefer a set-and-forget option in their 401(k) accounts. If you keep assets in a target-date account, it's important to learn more about the specific fund and how it operates.

### Glide to or beyond retirement

The transition from more aggressive to more conservative investment allocations is driven by a formula called the *glide path,* which determines how the asset mix will change over time. The glide path may end at the target date or continue to shift assets beyond the target date, taking the fund into your retirement years.

Funds with the same target date may vary not only in their glide path but also in the underlying asset allocation, investment holdings, turnover rate, fees, and fund performance. Be sure you understand the asset mix of your fund and how it changes over time.

Asset allocation is a widely accepted method to help manage investment risk. It does not guarantee a profit or protect against investment loss, and there is no guarantee that you will be prepared for retirement on the target date or that the fund will meet its stated goals. Keep in mind that investing in other securities outside of a target-date fund may change your overall asset allocation.

The principal value of a target-date fund is not guaranteed before, on, or after the target date. The return and principal value of all mutual funds fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost.

*Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.*

[1] Investment Company Institute, 2019

# Is It Time to Review Your IRA Estate Planning Strategies?

*The SECURE Act ushered in changes that may have a dramatic impact on IRA estate planning strategies. Account owners may want to review their plans with their financial professionals.*

*There are costs and ongoing expenses associated with the creation and maintenance of trusts.*

The Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was passed in December 2019 as part of a larger federal spending package, included a provision that warrants special attention from those who own high-value IRAs. Specifically, the "stretch" IRA provision — which permitted nonspouse beneficiaries who inherited IRAs to spread distributions over their lifetimes — has been substantially restricted. IRA owners may want to revisit their estate planning strategies to help prevent their heirs from getting hit with higher-than-expected tax bills.

## The old "stretch" rules

Under the old rules, a nonspouse beneficiary who inherited IRA assets was required to begin minimum distributions within a certain time frame. Annual distributions could be calculated based on the beneficiary's life expectancy. This ability to spread out taxable distributions over a lifetime helped minimize the annual tax burden on the beneficiary. In the past, individuals could use this stretch IRA strategy to allow large IRAs to continue benefiting from potential tax-deferred growth for possibly decades.

***Example:*** *Consider the hypothetical case of Margaret, a single, 52-year-old banking executive who inherited a million-dollar IRA from her 85-year-old father. Margaret had to begin taking required minimum distributions (RMDs) from her father's IRA by December 31 of the year following her father's death. She was able to base the annual distribution amount on her life expectancy of 32.3 years. Since she didn't really need the money, she took only the minimum amount required each year, allowing the account to continue growing. Upon Margaret's death at age 70, the remaining assets passed to her 40-year-old son, who then continued taking distributions over the remaining 13.3 years of Margaret's life expectancy. The account was able to continue growing for many years.*

## The new rules

As of January 2020, the rules for inherited IRAs changed dramatically for most nonspouse beneficiaries.[1] Now they generally are required to liquidate the account within 10 years of the account owner's death. This shorter distribution period could result in unanticipated and potentially large tax bills for high-value inherited IRAs.

***Example:*** *Under the new rules, Margaret would have to empty the account, in whatever amounts she chooses, within 10 years. Since she stands to earn her highest-ever salaries during that time frame, the distributions could push her into the highest tax bracket at both the federal and state levels. Because the account funds would be depleted after 10 years, they would not eventually pass to her son, and her tax obligations in the decade leading up to her retirement would be much higher than she anticipated.*

## Notable exceptions

The new rule specifically affects most nonspouse designated beneficiaries who are more than 10 years younger than the original account owner. However, key exceptions apply to those who are known as "eligible designated beneficiaries" — a spouse or minor child of the account owner; those who are not more than 10 years younger than the account owner (such as a close-in-age sibling or other relative); and disabled and chronically ill individuals, as defined by the IRS. The 10-year distribution rule will also apply once a child beneficiary reaches the age of majority and when a successor beneficiary inherits account funds from an initial eligible designated beneficiary.

## A word about trusts

In the past, individuals with high-value IRAs have often used what's known as conduit — or "pass-through" — trusts to manage the distribution of inherited IRA assets. The trusts helped protect the assets from creditors and helped ensure that beneficiaries didn't spend down their inheritances too quickly. However, conduit trusts are now subject to the same 10-year liquidation requirements, so the new rules may render null and void some of the original reasons the trusts were established.

## What can IRA account owners do?

IRA account owners should review their beneficiary designations with their financial or tax professional and consider how the new rules may affect inheritances and taxes. Any strategies that include trusts as beneficiaries should be considered especially carefully. Other strategies account owners may want to consider include converting traditional IRAs to Roths; bringing life insurance, charitable remainder trusts, or accumulation trusts into the mix; and planning for qualified charitable distributions.

[1] For account owners who died prior to December 31, 2019, the old rules apply to the initial beneficiary only (i.e., successor beneficiaries will be subject to the 10-year rule).

# Working from Home: Is It Rewarding or Restricting?

***Telecommuting, or working from home, is offered by many employers to their employees. Find out whether the financial advantages and disadvantages of working from home make it a viable option for you.***

Imagine that your employer gives you the choice between working from home or commuting to the office throughout your work week. You might think the obvious choice is to work from the comfort of your own home; after all, staying in your pajamas all day and avoiding stressful commutes sound appealing. But there are some considerations to think about before you decide that telecommuting is right for you.

## Weigh the potential rewards...

Working from home could end up saving you a considerable amount of money. It eliminates the cost of commuting by cutting down what you spend on gas, public transportation, parking fees, and car maintenance. And depending on your company's dress code, you could save what you might spend on expensive work-related clothes.

Besides reducing some of your daily expenses, working from home could provide more opportunities and increased productivity. Telecommuting might mean you are no longer tied to a single location, which could allow you to explore more flexible work opportunities within the company. Working from home may also motivate you to use your time more effectively and accomplish more for your company because you'll save time commuting.

Balancing work and family life could be easier when you work from home, as well. Time that you might spend traveling to work, appointments, and family obligations will be saved when you no longer have to schedule around a daily drive to and from the office. Depending on your company's flexibility and the demands of your job, working from home may even eliminate or reduce child-care needs for your children, giving you more time to spend with your loved ones in addition to saving you money.

It's possible that you could be healthier by working from home. Your exposure to co-workers who come to work with a cold or the flu is reduced, which prevents you from having to take a sick day to visit your doctor. You may also wind up feeling less stressed when you don't have to worry about commuting or potential work-life issues.

## ...against the potential restrictions

Before you get too excited about the appeal of working from home, consider the drawbacks. For instance, telecommuting could affect your work performance. Isolation from the office may result in your professional achievements being overlooked, which could potentially delay a promotion or raise. Less opportunity to interact regularly with co-workers might mean missing out on important information or a sense of loneliness. Plus, distractions around your home can interfere with your daily responsibilities and could result in a negative response from your employer.

Another financial downside of working from home is the prospect of providing your own office materials. Does your company provide you with supplies and equipment, such as a computer, printer, and fax machine? Will you need to pay for office setup, postage services, scanners, and high-speed Internet, among other items?

Think about how your increased presence at home may result in higher home utility usage. Specifically, you'll probably spend much of your time using energy-consuming technology to perform your job. In turn, this could cause your gas and electric bill to spike. Practicing energy efficiency may help reduce the bill, but you still might have to pay more than you'd like each month as the cost of working from home.

## Additional points to consider

If your employer allows you to work from home, think about a few other things besides how it would affect your wallet.

- Consider whether your home has appropriate space to accommodate a home office
- Understand that you may need to seek remote tech support occasionally to perform your job
- Think about whether you're self-directed and able to work well independently in a home setting
- Set expectations for yourself
- Become familiar with any company policies that may apply to remote employees

It's possible that you can strike a balance and choose to work from home one or two days a week, thereby reaping more of the telecommuting positives than negatives. You could also ask to undergo a trial period to make sure that working from home is truly what works best for both you and your employer.

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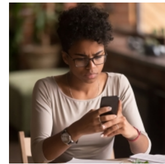


## Is there any way to stop getting unwanted robocalls?

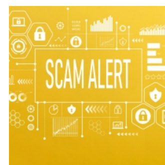
Whether it's a helpful announcement from your child's school or an appointment reminder from a doctor's office, getting robocalls has become an everyday occurrence. Unfortunately, robocalls are also used by criminals to collect consumers' personal and financial information and/or conduct various scams.

The good news is that consumers have won additional protections against unwanted robocalls under the Telephone Robocall Abuse Criminal Enforcement and Deterrence (TRACED) Act. One of the main goals of the law is to make it easier for consumers to avoid unwanted robocalls by:

- Requiring all carriers to implement caller-ID technology at no additional cost to consumers
- Making it easier for law enforcement to prosecute illegal robocallers and increasing penalties for robocall violations
- Creating an interagency task force to study and improve government prosecution of robocall violations

Even when these new protections are implemented, it will take some time to eliminate unwanted robocalls. In the meantime, here are some things you can do to protect yourself:

- Don't answer calls when you don't recognize the phone number.
- If you pick up an unwanted robocall, hang up right away and avoid answering "yes" or "no" questions, providing personal information, or pressing a number to "opt out."
- Consider signing up for a robocall blocking service. Many phone service providers now offer robocall blocking solutions at no additional charge, or you can download additional robocall protection through a third-party app.
- Register your phone number on the National Do Not Call (DNC) Registry, which removes your number from the call lists used by legitimate telemarketing companies. Keep in mind that registering with the DNC Registry will result in your getting fewer calls from legitimate telemarketers, but it won't stop illegal robocallers from contacting you.




## How can I avoid becoming a victim of a social engineering scam?

Imagine that you receive an email with an urgent message asking you to verify your banking information by clicking on a link. Or perhaps you get an enticing text message claiming that you've won a free vacation to the destination of your choice — all you have to do is click on a link you were sent. In both scenarios, clicking on the link can accidentally result in revealing your sensitive personal and financial information to a cybercriminal.

In a social engineering scam, a cybercriminal psychologically manipulates victims into divulging sensitive information. Cybercriminals "engineer" believable scenarios designed to evoke an emotional response (curiosity, fear, empathy, or excitement) from their victims. As a result, people often react without thinking first due to curiosity or concern about the message that was sent. Since social engineering scams appear in many forms and appeal to a variety of emotions, they can be especially difficult to identify.

Fortunately, there are steps you can take to protect yourself from a social engineering scam:

- If you receive a message conveying a sense of urgency, slow down and read it carefully before reacting. Don't click on suspicious or unfamiliar links in emails, text messages, and instant messaging services.
- Never download email attachments unless you can verify that the sender is legitimate. Similarly, don't send money to an email that requests charitable help unless you can follow up directly with the organization.
- Be wary of unsolicited messages. If you get an email or a text that asks you for financial information or passwords, do not reply, delete it.
- Remember that social engineering scams can also be used over the phone. Use healthy skepticism when you receive phone calls that demand money or request sensitive personal and financial information.

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## What Makes Us Happy?

Researchers that study happiness often ask whether money buys happiness. The research suggests that, yes money can buy happiness. But, only up to a point. For example, once a person's basic needs are met, additional money does not always make people happier.

Two British scientist's investigation hopes to shed new light on the subject of a country's wealth related to its people's happiness. According to the Economist, "By examining millions of books and newspaper articles published since 1820 in four countries (America, Britain, Germany, and Italy), the researchers developed what they hope is an objective measure of each place's historical happiness. And their answer is that wealth does bring happiness, but some other things bring more of it."

The researchers essentially confirmed what other found – that meeting basic needs are a key to rising happiness. By charting "aggregate happiness" against history, they found certain time periods were "happier in aggregate" than other periods. Not surprising is that periods of aggregate unhappiness came during times of economic and sometimes physical pain -- including wartime, market crashes, revolutions and steep depressions.

The chart is shown on the following page. Between end of World War II, and the 1970's, the U.S. experienced relative unhappiness. Korea, Vietnam, and energy crisis, civil unrest, and stagflation were all part of this less joyful period. But, starting around 1980, there has been a steady rise in U.S. happiness – until the Great Recession.

Looking abroad, people in Britain were generally happier during the Victorian era than they have ever been since, and, predictably, the European countries saw a decline in overall happiness during World Wars I and II—and a sharp recovery in happiness took place when the wars were over.

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It was the best of times...
National subjective well-being, derived from analysis of digitised books
Britain
Victorian era
First world war
Second world war
Swinging Sixties
↑ Higher well-being
Thatcher elected prime minister
Great Depression
1820
40
60
80
1900
20
40
60
80
2000
09
United States
US civil war
1929 stockmarket crash
Korean war
Vietnam war
Italy
Revolutions of 1848
Unification of Italy
Mussolini elected
"Clean hands" corruption investigation
Germany
Revolutions of 1848
Hitler elected chancellor
Reunification of Germany
Wars of German unification
↑ Higher well-being
Source: Nature Human Behaviour
*Censorship in 1940s Germany likely made its published output seem more positive

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## Planning After Death

Do you know what happens to your outstanding debt after you die? You might be surprised to learn that it is not as straightforward as you may have thought.

Remember that certain assets, such as life insurance proceeds, retirement and annuity accounts and certain brokerage accounts are not included in the value of your estate. You cannot be forced to use those assets to pay off your debts. As a result, the value of your estate may not be as great as you think.

Your executor will review the assets and liabilities in your estate and prioritize the liabilities according to some pretty straightforward rules. For example, certain creditors like medical providers and mortgage holders are generally paid first. For the remaining liabilities, a probate court will decide the order these liabilities are paid, unless there are clear instructions in your will.

Mortgage debt usually passes to the spouse or partner whose name is also on the loan documents. If there is no joint mortgage holder, and the estate does not have sufficient funds to pay off the debt, the person inheriting the home can usually move in and resume making the mortgage payments. Home-equity loans follow different rules. Banks can demand that the person inheriting the home (and the loan) immediately replay the amount outstanding. With that said, in many cases, the bank will allow the heir to make the continuing payments.

Auto loans work similarly to mortgages. If funds are available, the estate will pay the remaining balance. If not, the person inheriting the car has the option to continue making payments or selling the vehicle to re-pay the loan.

For credit cards, any joint account holder is liable for the debts after the co-account holder dies. If there is no joint account holder, only the estate is responsible for paying the outstanding debt. Spouses who live in community property states may or may not be liable for the outstanding debt.

Student loans are typically paid out of the estate, but if those funds are not available, the loan provider cannot force anyone else to pay off the loans, since they are unsecured. However, if there is a co-signer for the loan, that person is liable for repaying the debt. Similar to credit cards, a spouse in a community property estate may be liable for student loans incurred during the marriage.