POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

508.481.2299 www.polarisadv.com Second Quarter 2020

Amid The Coronavirus Crisis, Nine Tax And Investment Tips

The stock market had recently lost about a third of its value before rebounding 9.4% on news that Congress was closer to an agreement on a $2 trillion economic stimulus package. The coronavirus crisis has reshaped the financial economic landscape and the situation is changing fast. Here are nine financial focal points for your immediate consideration.

CARES Act. Coronavirus Aid, Relief and Economic Security (CARES) would include direct payments of $1,200 to many American adults and $500 to children. It would pay for $850 billion in loan and assistance for businesses, states and cities. It also allocates large spending increases for unemployment insurance, as well as for hospitals and health-care providers.

Immediate Issues. Hunkered down across the country, practicing social distancing, you may not be at all ready yet to talk about the financial implications of the epidemic. However, if your family is in the throes of a medical crisis and has any tax or financial planning issues, please do not hesitate to contact our office.

What's Ahead. The pending CARES Act will, if enacted, allocate hundreds of billions of dollars to individuals as well as businesses. Once the new law is signed by the President, its impact on your personal situation will be clearer. There will be no shortage of questions about qualifying for tax relief in specific situations.

Virus-Related. CARE waives the 10% early withdrawal penalty on retirement account distributions for taxpayers facing virus-related economic challenges. According to The Tax Foundation, withdrawals are taxable over three years, but you can recontribute for three years without

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Beware! Financial Solutions For COVID May Be Bad For US!

On page two of this quarter's newsletter is an article titled "Expect an Outbreak of Financial Fraud!" It suggests that predictions and "solutions" for the COVID-19 crisis, which many Wall Street firms have recently cooked up, will probably be wrong. Consider one "solution" put forward years ago for investors looking for higher interest rates on their bank account and CD money. Called "Bank Loan Funds" or something similar, the pitch was that we could earn the rates that banks charge their borrowers, rather than the rates they pay their depositors. Bank loans are usually short-term, and interest rates are pegged to a floating rate, like prime. So, if rates increased in the future, we could participate in that. The loans usually paid off at full value, so our principal should be returned.

Sounds great, except that we'd have to take on the risk of borrowers' default. We passed on this one! What happened? For a while, the scheme worked well, but then came COVID. The economy shut down. Businesses were forced to close. The chance of loan defaults soared. The funds naturally tanked. CDs, covered by the FDIC, held their value.

We operate with a couple of rules of thumb. First, if it sounds too good to be true, it probably is. And second, "solutions" cooked up in a hurry by Wall Street firms trying to capitalize on current events are usually bad ideas.

Stay Safe,

Ric and Trang

Expect An Outbreak Of Financial Fraud

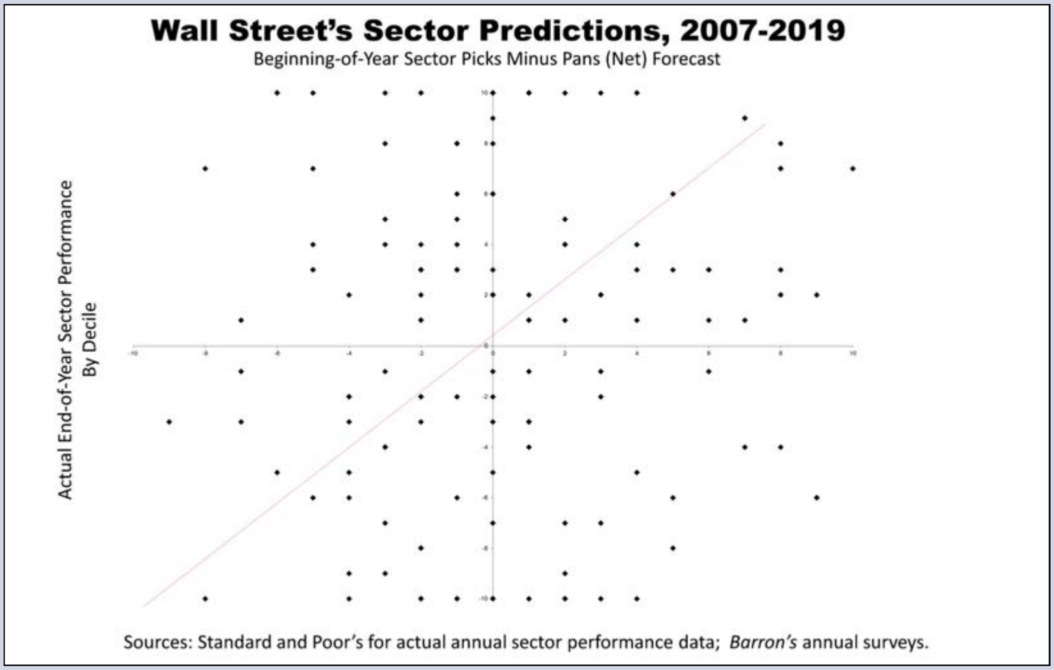
Predictions of a crash in commercial real estate are rampant, as are forecasts of explosive growth in tech and biotech. Should you believe them?

Every crisis spawns new sales pitches and outright frauds, and the unprecedented nature of the Coronavirus epidemic makes it harder to know what to believe. Here are some facts to keep in mind as financial gurus, Wall Street seers and outright fraudsters bombard shell-shocked investors with predictions of which sectors will prosper most in from the epidemic.

This scattergraph shows the history of the Wall Street strategist sector performance based on their predictions published in Barron's for the past 13 years. If Wall Street strategist predictions had been correct, the black dots would all fall along the red line or cluster around it. The randomness of the picks shows that Wall Street's predictions of the best sectors are not working.

This data was compiled by economist Fritz Meyer, a strategist at one of the world's largest investment companies for over a decade before going independent in 2009. We periodically share Mr. Meyer's updates to this chart and it's worth repeating amid these surreal times.

If Wall Street strategists' predictions had been correct, if Wall Street could predict which industry is doomed and which will prosper the most, then the black dots would all fall along the red line.



The randomness of the picks shows that Wall Street's top strategists' picks and pans, as published in Barron every year since 2009, were usually way off the mark. Past performance is not indicative of future results, but the Covid 19 epidemic does not suddenly make it easier to predict which industry sector will be best or worst in 2020.

Instead of trying to predict the future, rebalancing into undervalued sectors is a prudent choice. It's not as exciting as the stories spawned by Coronavirus financial schemes, but it can provide a sensible, low-expense choice for investors over the long run. ●

Don't Be Deceived By New Tax Law's Name

With tens of millions of Americans desperately seeking security in retirement, Uncle Sam should have been more careful about how he named the new tax law, known as the SECURE Act. Instead of co-opting the names of federal laws for marketing purposes, the U.S. government should be able to figure out how to name a new law that skirts the standards in federal truth-in-advertising regulations.

Gaming the name of the Setting Every Community Up for Retirement Enhancement Act, so it can be abbreviated "SECURE," misleads retirement investors. The SECURE Act increases fairness of rules governing federally qualified retirement plans -- IRAs, Roth IRAs, 401(k)s, and other federally tax-deferred retirement accounts. It's loaded with technical corrections and would be better named, "The 2019 Technical Corrections Act For Retirement

Four Retirement Income Withdrawal Methods

How much should you withdraw from your tax-deferred 401(k) or IRA, and in what form? Here's a brief summary of four retirement income withdrawal methods to help you optimize the decumulation of your retirement income portfolio prudently.

Goals, Obstacles, And Taxes

Your strategy must annually balance withdrawing enough to live comfortably against making your assets last a lifetime. Taxes are a material consideration, since traditional IRA, 401(k) and 403(b) accounts are taxed as ordinary income.

Withdrawals before age 59½ are subject to a 10% early withdrawal penalty. In addition, you must start withdrawing from federally qualified retirement accounts when you reach age 70½. However, under provisions of the SECURE Act, which became law at the end of 2019, the required minimum withdrawal age was pushed back to 72 starting 1/1/2020.. An extra 18 months of tax-deferred growth at your age is a nice unexpected bonus.

To minimize taxes on withdrawals, consider paying tax on these assets now and placing them in Roth IRAs, where you pay taxes up front instead of when you're retired. The four methods are:

Bucket Approach

You divide your retirement assets into three separate accounts. The three buckets allow you to set aside a segment of your investments to grow, while having the assurance of a steady income stream.

Your first bucket is in cash, meaning short-term instruments. Replenishing the cash bucket with earnings generated by the other two buckets enables a quantitative discipline like dollar-cost-averaging.

It's currently not uncommon for these short-term accounts to pay 1.8% to 2.4% annually. A minimum deposit of $5,000 or so is commonly required. Expect to fractionally beat inflation annually, and do not expect capital appreciation. Read the prospectus, of course, or call us.

In all, you allocate three to five years' worth of living expenses, around 20% of your investments in cash, to the first bucket. The second bucket contains fixed-income assets, most often bonds or bond mutual funds and yield interest income.

The third bucket is for stocks. This remains the growth component of your portfolio, as stocks tend to grow the most over the long-term. They get socked the worst during recessions, too, which is why they aren't subject to the near-term withdrawal with the bucket strategy, which would sap your financial security over time.

4% Method

The 4% annual withdrawal method aims to preserve your wealth yet throw off enough to live on. You simply withdraw 4% of your investments annually to start, and, thereafter, annually adjust it for inflation. The 4% method over 30-years is a prudent way to manage the risk of outliving your money. With this withdrawal scheme, and a $1 million retirement account, you would withdraw $40,000 the first year, $40,800 in year No. 2, and $41,616 in year three, assuming a 2% inflation rate.

The virtue of the 4% solution is simplicity. The downside is that, in the event of a bear market loss, you must be prepared to withdraw less and perhaps live more modestly. In The Great Recession of 2008, stocks dropped and lost nearly half their value, for example. If stocks made up 60% of your portfolio, even this prudent method put a big dent in your retirement income portfolio and took years to recover from.

Fixed Dollar Withdrawal

With this approach, you withdraw a fixed amount each year, perhaps a flat $40,000. After two or three years, you would reassess the annual amounts you are withdrawing to ensure you are comfortable with the way it is going. A fixed dollar method is a simple approach, and you can instruct your IRA custodian to withhold an amount to pay for taxes on the income withdrawn each year.

The trouble is, this strategy will not insulate you from inflation and fixed dollar withdrawals are not mindful of year-to-year depletion of your nest egg due to market downturns in stocks, bonds and other risk assets.

The inflation rate has been below 2% for years and is expected to remain low, but that could change and a decline in stock or bond prices in combination with your fixed withdrawals could precipitously shrink the size of your portfolio.

Systematic Method

Another strategy that's easy to administer is to withdraw only the interest and dividends your portfolio accrues. This allows your principal to grow over time and better ensures a retirement income portfolio. The disadvantages are that you won't take out the same amount each year, and conservative income investors must accept the risk of owning stocks as well as bonds or be prepared for the risk that their fixed-income portfolio will result on less real retirement income.

These methods are tools for making a retirement income portfolio custom built to your personal specifications. No single method is best. While the 4% strategy is the method favored for long-term investors, the fixed dollar withdrawal may make sense depending on your health, Medicaid planning, and other personal details. Please call our office with any questions. ●

Investors," or something as instructive to taxpayers.

Consumers should not be required to read between the lines to figure out how the name of a tax law about retirement investing affects them. The names of tax laws should meet plain-English standards imposed by the government's own truth-in-advertising rules. They should at least hint at whether a law will save taxpayers and their heirs from overpaying the IRS on retirement income annually, materially and needlessly, or cost them more.

The SECURE Act is a highly technical area of tax and financial planning, and minimizing its effects requires analysis of your personal situation, but don't let the acronym fool you. The SECURE Act's effects sweep across rules that could allow you to delay required minimum distributions from qualified accounts an extra 18 months, to age 72 instead of 70½, which has been a huge bonus to baby boomers nearing retirement, as well as those in the retirement account decumulation and withdrawal phase of life.

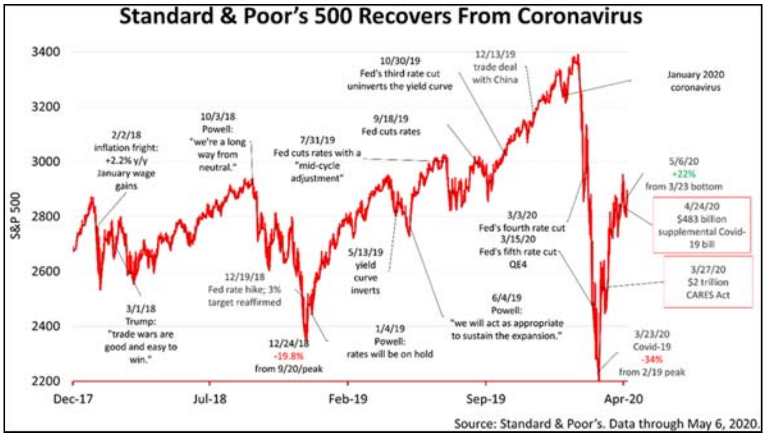
The SECURE Act does not do much to make your retirement more secure. In fact, failing to plan for its myriad technicalities affecting Roth IRA conversions, new limits on inherited federally qualified accounts, and the benefits of life insurance is liable to make your retirement less secure. Don't be deceived. ●

Amid The Awful News, Some Good Signs

During this bleak period in world history, amid the terrible news of death, sickness and financial destruction, there are reasons for hope and promising signs of a U.S. recovery from the Covid-19 pandemic.

After the Standard & Poor's 500 stock index bottomed on March 23, 2020, it soared more than 20%. The March 23 low coincided with the release of details on the $2.2 trillion Coronavirus Aid, Relief, and. Economic Security (CARES) Act. The Act was signed into law March 27, 2020. This swift action by the U.S. Government likely prevented an economic calamity that would have been far worse.

The CARES Act allocated $454 billion to Federal Reserve Bank Special Purpose Vehicles that the central bank can leverage 10 to 1, thereby enabling it to lend up to $4.54 trillion to companies in financial distress. The Fed funding vehicle was unprecedented in size and represents an historic moment within the annals of modern central bank intervention. Never before in a crisis has any nation's central bank flexed its financial muscle in this way. The U.S. has expanded the power of its sovereignty, placing a new and unprecedented type of safety net in position to cushion the economic fall from the almost complete shutdown of the economy.



Standard & Poor's 500 Recovers From Coronavirus

Source: Standard & Poor's. Data through May 6, 2020.

In a recent speech, Fed Chairman Jerome Powell warned that without more relief from Congress and continued Fed loans to aid ailing industry sectors and promote further liquidity, the risk of long-term damage to the economy would remain heightened. "At the Fed," said Mr. Powell, "we will continue to use our tools to their fullest until the crisis has passed and the economic recovery is well under way." His frank remarks show the Fed is prepared to meet the crisis by playing a larger role in managing the economy than perhaps any other central bank in world history.

"The recovery may take some time to gather momentum, and the passage of time can turn liquidity problems into solvency problems," Mr. Powell said. "Additional fiscal support could be costly, but worth it if it helps avoid long-term economic damage and leaves us with a stronger recovery."

Although past performance is not a guarantee of future results, the stock market bottomed three to six months before the end of each recession since 1957, another hopeful sign. ●

Amid The Coronavirus Crisis

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affecting retirement account maximums.

Business Owners. CARES allocates $350 billion for Small Business Interruption Loans, to help small businesses (fewer than 500 employees) make payroll and other expenses, according to The Tax Foundation, a non-partisan tax policy research group with a business-friendly reputation. "Notably, small businesses may take out loans up to $10 million and cover employees making up to $100,000 per year," according to the group. "Loans taken for this purposes are forgiven if the business does not lay off its employees (forgiveness is scaled down as layoffs rise)."

- Employer Social Security payroll tax payments may be delayed until January 1, 2021.
- Companies with tax credit carryforwards and previous alternative minimum tax (AMT) liability can claim larger refundable tax credits than they otherwise could.

Charity Encouraged. CARE creates a $300 above-the-line charitable deduction, even for filers taking the standard deduction and expands the limit on charitable contributions for itemizers.

Education Loans. The Department of Education today announced that all borrowers with federal loans will have their interest rates automatically set at 0% for at least 60 days, giving borrowers with federal loans the option to suspend payments for at least two months without accruing interest.

Team Up. Your family and your business are likely to be impacted financially by Covid-19 and now is a good time to plan how you can efficiently communicate with your team. While clients can depend on our firm as part of their team, your team might also include members of your family as well as other professionals. If you own a business, your team might include key employees responsible for operations or accounting. Ideally, you have a way to meet and collaborate online.

Keep In Touch. The public health crisis is rapidly changing. So, too, is the financial, investment and tax planning situation. This update is a way for you to stay on top of the latest financial, tax and investment news. Please let us know the best way to keep in touch with you with updates. ●

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