Roffman Miller
Wealth Management

outlook

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The Fed is Posturing and is Uncertain About Their Next Move

Stranger things

Our founder, Peter Miller, often said: "good market, short letter." Based solely on the past month, I could end this here. As fortune would have it though, there are far too many interesting things to write about in today's economy and I have space to fill. Both the U.S. stock and bond markets have made decent gains. Bonds of course have risen on the back of a decline in interest rates. With a consensus that short-term rates will go even lower in the second half of the year, stocks moved higher. What I find strange is the optimism reflected in the stock market even as the Fed is telegraphing a reduction in rates to support the economy.

Mark Frombach
Chief Investment Officer

U.S. unemployment is at a 50-year low, and GDP growth is positive for the tenth year in a row. Why would we need to lower interest rates now? The Fed Open Market Committee (FOMC), which controls overnight lending rates in the U.S., relies heavily on the Leading Economic Index to help see peaks and troughs in the business cycle and determine where rates should be. The index has been flat for the past six months, not giving any definitive indication of the economy improving or receding. In my opinion the Fed is posturing and is not certain about what their next move will be.

If our economy does experience a recession in the next few years we should not be surprised. Of course, if it comes, I'll expect the country to recover as usual. What might be different this time is the cause. Historically we cause recessions by raising interest rates, and clearly that is not imminent. Policy debates and politics seem likely to play a starring role given the upcoming election campaign's intense focus on the tax code, trade, prescription drug prices, healthcare, banking and tech regulations. These discussions create uncertainty about the future, and uncertainty keeps both corporations and individuals from spending.

Maybe it's a stretch to call those observations strange. What I wanted to point out is that so much effort goes into predicting what will happen, but regardless of what those predictions are the markets will do what they want to do. The danger in making predictions is you are often wrong and the cost is high.

Here's a really strange one: I read recently that there is $13 trillion in outstanding government debt today at negative yields. Not U.S. government debt, but bonds issued by the likes of Germany and Japan. Who invests money with a guaranteed return of less than your principal? Ryan makes a good case for investing in intermediate-term bonds as a protection against falling rates even in this low rate environment because as we learned in 2018 rates don't necessarily go up even though everyone is predicting it will happen.

Please have a safe and enjoyable summer, and as always we invite you to give us a call and stop in to review your investments.

Mark Frombach, *Chief Investment Officer*

What is it?

The SECURE Act and How it May Affect your IRA

PROVIDED BY LORI HARTMAN

If you follow national news, you may have heard of the Setting Every Community Up for Retirement Enhancement (SECURE) Act. Although the SECURE Act has yet to clear the Senate, it saw broad, bipartisan support in the House of Representatives and could make IRAs a more attractive component of your retirement strategy. However, it also changes the withdrawal rules on inherited "stretch IRAs," which may impact retirement and estate strategies, nationwide. Let's dive in and take a closer look.[1]

Secure Act Consequences. Currently, those older than 70 ½ must take withdrawals and can no longer contribute to their traditional IRA. This differs from a Roth IRA, which allows contributions at any age, as long as your income is below a certain level: less than $122,000 for single filing households and less than $193,000 for those who are married and jointly file. This can make saving especially difficult for an older worker. However, if the SECURE Act passes the Senate and is signed into law, that cutoff will vanish, allowing workers of any age to continue making contributions to traditional IRAs.[2]

The age at which you must take your Required Minimum Distributions (RMDs) would also change. Currently, if you have a traditional IRA, you must start taking the RMD when you reach age 70 ½. Under the

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new law, you wouldn't need to start taking the RMD until age 72, increasing the potential to further grow your retirement vehicle.[3]

As it stands now, non-spouse beneficiaries of IRAs and retirement plans are required to withdraw the funds from its IRA, tax-sheltered status, but can do so by "stretching" the disbursements over time, even over their entire lifetime. The SECURE Act changes this and makes the use of "stretch" IRAs unlikely. Under the new law, if you leave a Traditional IRA or retirement plan to a beneficiary other than your spouse, they can defer withdrawals (and taxes) for up to 10 years max.[4]

What's next? Currently, the SECURE Act has reached the Senate, where it failed to pass by unanimous consent. This means it could move into committee for debate or it could end up attached to the next budget bill, as a way to circumvent further delays. Regardless, if the SECURE Act becomes law, it could change retirement goals for many, making this a great time to talk to a financial professional.

NOTE: The 2019 Federal estate tax exemption is $11.4 million per individual and $22.8 million per couple. Therefore, most Americans don't have to worry about owing Federal estate tax but they may have to pay a state death tax.

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CITATIONS.

1) financial-planning.com/articles/house-votes-to-ease-rules-for-rias-correct-trump-tax-law [5/23/19]
2) irs.gov/retirement-plans/amount-of-roth-ira-contributions-that-you-can-make-for-2019 [6/18/19]
3) congress.gov/bill/116th-congress/house-bill/1994 [5/16/1900]
4) aw.com/newyorklawjournal/2019/04/05/what-to-know-about-the-2-big-retirement-bills-in-congress/ [4/5/19]

Retirees Can Reduce Tax Burden

Retirees often consider moving to another state to reduce their tax burden. For our clients, this usually means leaving Pennsylvania or New Jersey for sunny Florida. In fact, according to data from United Van Lines, the moving and relocation company, more people left New Jersey than any other state in 2018. Regardless of the states involved the concept is the same and there are a few issues you'll need to consider.

HOW MIGHT YOU SAVE ON TAXES?

Of course this will depend on the states involved but I'll use a move to Florida as an example. The incentives usually include saving on income taxes, property taxes, and/or death taxes. Florida has no state income tax and no state "death tax." The so-called death tax refers to estate and inheritance taxes. Income tax: Pennsylvania imposes a flat 3.07% state income tax while NJ uses six marginal tax brackets ranging from 1.4% to 8.97%. Death tax: NJ and PA no longer have an estate tax but both have an inheritance tax. Under NJ law, spouses, children, and parents are exempt from inheritance tax. Transfers to siblings and friends are subject to inheritance tax ranging from 11% to 16% (siblings get an exemption on the first $25,000). PA only exempts a transfer to your spouse. Transfers to your children and grandchildren are subject to 4.5% tax. If you're leaving money to your sibling it's taxed at 12%, and for everyone else PA imposes a 15% inheritance tax. Assuming you left $4,000,000 to your children the PA tax would be approximately $180,000 (or about $45,000 for every $1 million) vs $0 if you established Florida as your primary domicile.

RESIDENCE VS DOMICILE

While these terms are used interchangeably, legally there is a difference. You may have multiple residences but you will only have one legal domicile. Whether you're moving to Florida, New Mexico, Arizona, etc., to garner the tax benefits of your new state you will need to do more than buy or rent a home in the state. You will need to make the state your domicile.

Generally, a domicile is considered the place where you intend to make your permanent home and the place where you intend to return to after you've been away. Proving this intent isn't always easy and while you may be ready to change your domicile, your current state may not be so quick to let you go. States, especially those with higher tax rates, are aggressively pursuing residency audits to catch those incorrectly changing domicile in an attempt to avoid state income taxes. Changing your domicile is a two-step process. First you must meet the requirements for residence under the laws of the new jurisdiction but it's just as important to disconnect from the state that you're leaving. A commonly held misconception is that you can sufficiently disconnect from your current state by simply spending more than half the year (183 days) outside of the state. If you've sold your home in PA and bought a new one in Florida that's a major factor to help prove your intent to change your domicile. However, if, for example, you will own homes in both states your intent to make Florida your permanent home isn't as clear.

So what can you do to avoid or withstand any state challenge to your change in domicile?

There are certain actions that most agree carry substantial weight when courts and taxing authorities consider the questions of domicile. Here's a list of some often-cited actions indicating you've changed you domicile:

- Own or rent your home in your new state
- File a Declaration of Domicile with the clerk of the Circuit Court in the county where you will reside
- Obtain a new driver's license and register your vehicles, boats, etc. in your new state
- Register to vote in your new state and actually vote at the first opportunity
- Transfer your bank accounts and update your billing address for credit cards
- File income and personal property taxes in new state
- Establish memberships in clubs, libraries, and museums
- See doctors and other professionals in your new state
- Keep valuable works of arts and family heirlooms in your new residence
- Spend less than half the year in your old state and keep travel records
- Keep your pets in your new home and have a local vet
- If you're religious, join a congregation and attend services regularly

You may want to update your will and other legal documents. Most importantly, you'll want to discuss the matter with your attorney and CPA.

Kevin Cooke, *Investment Manager*

5G technology will be 20 times faster than 4G

The Next Generation of Connectivity: 5G

1G technology came out in the 1980s. This was our first cell phone. If you remember the scene in the movie Pretty Woman where Richard Gere makes a cell phone call from the park, the cell phone was the size of a shoe box and the antenna was about two feet long. This was 1G technology or the "first generation" of wireless cellular communication. Since then we've made major technological advancements about every 10 years. In 1991 2G or the second generation technology was introduced.

This advancement replaced the analog technology of 1G with a digital method of encrypting telephone conversations. It also introduced greater speeds and allowed for voicemail and text messaging. The third generation came out in 1998. 3G allowed for faster speeds and data transmission.

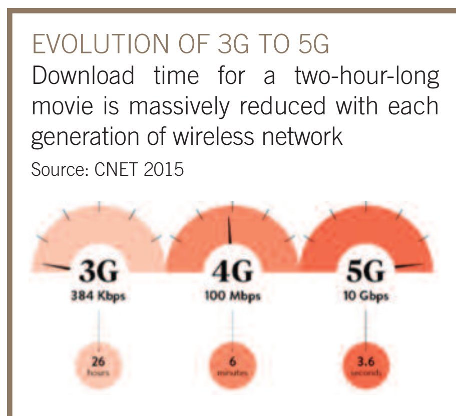
Bob Hofmann
President

As a result, our phones were now capable of high-speed internet, gaming, mobile TV and video conferencing. When 3G gained widespread acceptance Apple introduced the first iPhone in 2007 with a starting price of $499 for the 4GB model. In 2008 the fourth generation of connectivity was introduced as 4G. This allowed for much faster download and upload times. This is the current day standard and 4G allows data transmissions 8x faster than the previous generation 3G. So what advancements will 5G bring to our daily lives? It's a potential game changer. 5G technology will be 20 times faster than 4G. Latency, which is the time for data to travel between two points, will essentially be eliminated. As a result, 5G will fundamentally change many industries and we'll be one step closer to a fully connected world.

EVOLUTION OF 3G TO 5G

Download time for a two-hour-long movie is massively reduced with each generation of wireless network

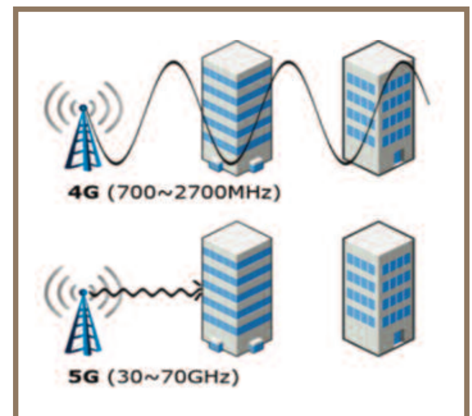
Source: CNET 2015



To give you an example of how 5G can change our daily lives, let's talk about autonomous vehicles. In the not so distant future, we'll have 5G cities where cars will be able to communicate with each other using 5G technology. This technology has the ability to almost eliminate accidents. If a car is running a red light the car will communicate with the surrounding cars and brakes will be automatically applied to prevent an accident. Also, pedestrians, motorcycles, and bicycles riders will all communicate with cars on the road to ensure a safer environment. Everyone will have an interconnected device which will communicate simultaneously with the world around them. The healthcare industry will also benefit from the use of 5G networks. Using 5G a doctor could perform robotic surgery from a different location around the world. 5G will have virtually no lag time and it's almost limitless in its capacity.

5G technology will take time to be widely applied. When 3G was invented in 1998 it took until 2007 for the first iPhone to be introduced. The world is moving faster today but widespread universal usage of 5G technologies is still many years away in my opinion. Unfortunately, the current 4G infrastructure can't support 5G communication. As a result, new cell stations will have to be built to supplement the existing cell towers. These new cell stations won't be the large towers that we're familiar with. Instead, they'll be small boxes which will be hidden in plain sight. We'll see these boxes on every street corner hidden on utility poles or building facades. They can be as small as the router in your home.

5G uses high- frequency waves which carry much more data than lower frequency 4G waves. Unfortunately, high-frequency waves simply don't travel as far and they don't go through buildings, trees or even rain.



As a result, 5G technologies requires a lot more cell stations as waves need to bounce off buildings and around walls.

In time every block will have a cell station that will be part of a globally connected network. Fortunately, these 5G cell stations will cost approximately $300 each. A traditional 4G cell tower can run about $150,000 in comparison. The construction of these cell stations and the installation will bring a lot of jobs and opportunities for companies to prosper. There are many companies that will benefit from the 5G build out. Companies like Verizon, AT&T, Nokia, Ericsson, Qualcomm, Cisco, Broadcom, and Xilinx are a few.

5G isn't a fantasy or some far off technology witnessed in Star Wars. In fact, Verizon has 5G networks currently up and running in Chicago and Minneapolis. These test cities are really in their infancy and the 5G buildout still has a long way to go. However, early tests are very promising. CNET tested the Verizon 5G network in Chicago and they were able to download 10 hours of 4k video in about 5 minutes. It took CNET 5 minutes to download only one hour of 4k content under the 4G network. AT&T, T-Mobile, and Sprint plan on opening their own 5G sites in 2020. In June of 2019, the Ericsson Mobility Report predicted that 45% of the world will have access to 5G by the year 2024. When writing about 5G Fortune.com said, "It will change everything."

Bob Hofmann, *President*

When and How to enroll in Medicare

Shortly after age 64 many people find themselves staring at the ever growing pile of Medicare literature that they have received (and will continue to receive) in the mail. Even if Medicare is not a topic that you have cared or thought much about, it is hard to ignore the big bold print on the mail: DEADLINES… LATE ENROLLMENT PENALTIES…

You quickly learn that there may be huge consequences by not enrolling for Medicare at age 65. Now you wonder—"does this affect me?" Knowing where to start, navigating your choices and understanding your deadlines can be overwhelming, here is a guide to help:

What is Medicare? Medicare is the government sponsored health insurance that is available once you turn age 65 regardless of "normal retirement age for social security". It is also available to individuals under age 65 if they are receiving social security disability income or have certain kidney conditions. It comes in 2 parts—Medicare Part A which provides inpatient hospital coverage and Medicare Part B which provides outpatient coverage including Doctor, Specialist, Labs, X-rays, Outpatient surgery and chemo, ER, and hospital observation.

Whether you need to enroll in Medicare when you turn age 65 will depend on your situation…

Scenario 1: If you plan to keep your group health insurance through an employer that has more than 20 employees (if your spouse is the primary on the plan this is your spouse's employer), as a general rule, the Group Health Plan will be considered creditable coverage for Medicare. The Primary insured must remain "actively at work" through the employer providing benefits for the plan to remain creditable. Medicare is secondary to the group health plan and there is no penalty for deferring Medicare. When you/your spouse are ready to retire and losing the group coverage, you can take a one page Employment Verification form to your/ your spouse's Human Resources department. This one page form will be your proof of creditable coverage and allow you to enroll in Medicare after age 65 with no penalty.

Scenario 2: If you plan to keep your group health insurance through an employer that has less than 20 employees (if your spouse is the primary on the plan, this is your spouse's employer), you will need to enroll in Medicare at age 65. If you DO NOT enroll in Medicare at age 65 you could have holes in your health coverage.

• Once you turn age 65, Medicare is primary to group health insurance (groups under 20 employees), so the health insurance may not pay for the part of your medical bills that Medicare is responsible for (typically 80%). If you do not have Medicare, this expense may become your responsibility.

Scenario 3: If you intend on retiring at 65 or have already retired, OR if you are covered under COBRA, Retiree Healthcare, Individual Health Insurance or have No Health Insurance, you will need to enroll in Medicare at age 65 or as soon as you fall into this category. If you DO NOT enroll in Medicare, you could have holes in your health coverage and you may also receive a penalty.

• Once you turn age 65, Medicare is primary to individual, retiree or Cobra health insurance, so the health insurance may not pay for the part of your medical bills that Medicare is responsible for (typically 80%). If you do not have Medicare, this expense may become your responsibility.

• The penalty is 10% for every 12 months you are not enrolled in Medicare and should have been. This amount is added to your Medicare premium when you enroll later and will carry with you as long as you are enrolled in Medicare.

Regardless of your situation, it is prudent to talk with a professional prior to your 65th birthday to set you on the right path and put your mind at ease on the timeline for your upcoming Medicare Transition.

by: Tracy Russo
President, Medicare Specialist, HTA, June, 2019

This article is designed to provide accurate authoritative information. It is published with the understanding that the author and publisher are not affiliated with a government agency and do not represent Medicare and or the Social Security Administration. HTA does not provide legal service. HTA is an insurance agency that provides Medicare Supplemental insurance from over 35 insurance carriers.
Reference: www.medicare.gov, www.ssa.gov, Medicare's "Who Pays First" Guide

Fixed Income Corner

By Ryan Cooks

US TREASURY	YTM	GLOBAL 10 YEARS		BOND INDEXES	YIELD	CONSUMER BENCHMARK	RATES
1 Year	1.85%	Japan	-0.14%	Barclays Aggregate	2.45%	Fed-Funds Target	2.25-2.50%
5 Year	1.74%	German	-0.36%	U.S. Agency (Barclays)	2.11%	Libor, 3 month	2.33%
10 Year	1.97%	France	-0.05%	Mortgaged-Backed (Barclays)	2.74%	Prime Rate	5.50%
30 Year	2.50%	U.K.	0.77%	Corp 1-10 Year (Merrill)	2.85%		
				High Yield (Merrill)	5.67%		
*as of 7.2.2019				7-12 Year Municipal (Merrill)	1.75%		

Is there risk in doing nothing at all?

This isn't just the market equivalent of the question, "if a tree falls in the woods…" Most often when investors are trying to make a decision about a particular investment, one of the primary questions is, "Can I lose money, and if so, how much?" What's not asked nearly often enough is, "What do I risk by doing nothing?" The sometimes very difficult answer in the big picture is you risk not having enough money to support yourself and your family in the future. Too often the fear of short-term loss keeps us from making the decisions we know will have a far greater impact on us in the long-term.

Although this is a broad point to consider, it's that idea of doing what's easier versus what's better for us that I would apply to the fixed income options available these days. After a brief period last fall, we are once again stuck having to make difficult choices in a low interest rate environment. It is worth noting that I had many conversations in 2018 about why we would even consider buying a bond, or one more than a year or two in maturity, if we *knew* interest rates were going up and we were going to "lose money on bonds." My reply is usually something to the effect that nothing is certain and rates can always go the other way on us as hard as it may seem in the current circumstances.

More important than reliving history we can't do anything about, today we are left with the very comfortable and easy *do-nothing* decision to leave money earmarked for bonds in a money market fund that is going to yield us somewhere between 2%-2.25%, or take on some market risk to pick up what many might view as marginal additional yield between 2.50%-3.00%. We must ask ourselves what are we risking by staying comfortable and doing the easy thing, and the answer here is potentially even *lower rates* for an even *larger portion* of assets by staying in the money market or being too short on our bond ladders. We must also keep in mind that money market rates are fickle and indeed the topic du jour is the potential for 2-3 Federal Reserve rate cuts. We cannot move the markets in our favor, but we can make the best of what we've got by making the decisions we know will lead to longer-term success.

Roffman Miller
Wealth Management

1835 Market Street, Suite 500
Philadelphia, PA 19103
215.981.1030 / 800.995.1030
Fax 215.981.0146
info@roffmanmiller.com / roffmanmiller.com