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Mission Statement:

To have a positive impact on the lives of our clients and their families by applying conservative financial planning principals, unique strategies and always exceptional service.

January 2020

Hindsight Is 2020: What Will You Do Differently This Year?

Key Retirement and Tax Numbers for 2020

Should I sign up for an identity theft protection service?

What are continuing care retirement communities?

Rod's Notes

Happy New Year!

Wishing you and your family a Happy New Year and a healthy and prosperous new decade! Some say that the new decade doesn't start until 2021 but I am just too excited so I'm starting the new decade now!

Lora, Sara, Rachel and I took Mom up to my sister's house in Nipomo for Thanksgiving. The weather cooperated and the traffic was not bad at all. We really enjoyed seeing my sister Julie, her husband Jerry and their family. They cooked so much delicious food, so I had to do my part by eating as much of it as possible. It was nice to see little ones running around. Then we had Christmas at our home. Lora worked hard to decorate and cook and make everything perfect for us. New Years was quiet, Lora and Sara came down with a bad cold. But to start off the New Year right, Lora and I are taking a break by spending a few days at The Ranch in Laguna. I will be back in the office January 7th ready to start the New Year by working with the Best Clients In The World!!

What is the SECURE Act?

The SECURE Act is the first major retirement income overhaul in more than a decade. It went into effect January 1st 2020. The most notable provision changes the "stretch" provision for most inherited retirement accounts requiring them to be fully distributed within 10 years of the account owner's death. Another major change is the increase to the required minimum distribution age. It has increased from age 70.5 to 72. This only applies to people who don't reach age 70.5 by the end of 2019. I am in the process of writing a paper on all of the SECURE Act changes that will be posted to rodchamberlin.com later this month.

Talking Points

1. Only 8% of people who set New Year's resolutions actually achieve their aims. Roughly half of New Year's promises are broken by mid-year; a quarter of resolutions don't even survive the first week of January.- *Forbes, December 31, 2018*
2. "Nothing so needs reforming as other people's habits."- *Mark Twain*
3. The economy has expanded for an unprecedented 126 straight months, marking the first time in history the U.S. has skirted a recession for an entire calendar decade.- *MorningBrew, December 20, 2019*
4. From 1993 to the end of 2017, if you had purchased the S&P 500 ETF (SPY) at the very first second of regular trading every morning and sold at the close, you would have lost 4.4%. On the other hand, if you had bought the SPY at the last second of trading and sold it at the open the next day- capturing all of the after-hours gains, you would be up 571%. - *New York Times, February 2, 2018*
5. Since 2018, forty-nine high end hotels have reported that a mattress has been stolen off their premises.- *CNN, December 9, 2019*
6. Nearly 250,000 fewer students enrolled in college this fall than a year ago. Researchers attribute the decline to low unemployment, the rising cost of college, and a falling national birth rate.- *NPR, December 16, 2019*
7. "With the Chinese New Year there are dragons, parades, firecrackers – with the New Year in America there are big parties, the ball drops in Times Square, you get drunk, tell someone you love them, and throw up on their shoes. With the Jewish New Year, we fast, we can't turn on the lights, we confess our sins. Happy New Year. What a party. A bunch of guilty, hungry people, sitting in the dark."- *Billy Crystal*



Live within your means

It's easy to want what your friends, colleagues, or neighbors have — and spend money to get those things. That's a mistake. Live within your means, not someone else's.

Hindsight Is 2020: What Will You Do Differently This Year?

According to a recent survey, 76% of Americans reported having at least one financial regret. Over half of this group said it had to do with savings: 27% didn't start saving for retirement soon enough, 19% didn't contribute enough to an emergency fund, and 10% wish they had saved more for college.¹

The saving conundrum

What's preventing Americans from saving more? It's a confluence of factors: stagnant wages over many years; the high cost of housing and college; meeting everyday expenses for food, utilities, and child care; and squeezing in unpredictable expenses for things like health care, car maintenance, and home repairs. When expenses are too high, people can't save, and they often must borrow to buy what they need or want, which can lead to a never-ending cycle of debt.

People make financial decisions all the time, and sometimes these decisions don't pan out as intended. Hindsight is 20/20, of course. Looking back, would you change anything?

Paying too much for housing

Are housing costs straining your budget? A standard lender guideline is to allocate no more than 28% of your income toward housing expenses, including your monthly mortgage payment, real estate taxes, homeowners insurance, and association dues (the "front-end" ratio), and no more than 36% of your income to cover *all* your monthly debt obligations, including housing expenses plus credit card bills, student loans, car loans, child support, and any other debt that shows on your credit report and requires monthly payments (the "back-end" ratio).

But just because a lender determines how much you can afford to borrow doesn't mean you should. Why not set your ratios lower? Many things can throw off your ability to pay your monthly mortgage bill down the road — a job loss, one spouse giving up a job to take care of children, an unexpected medical expense, tuition bills for you or your child.

Potential solutions: To lower your housing costs, consider downsizing to a smaller home (or apartment) in the same area, researching and moving to a less expensive town or state, or renting out a portion of your current home. In addition, watch interest rates and refinance when the numbers make sense.

Paying too much for college

Outstanding student debt levels in the United States are off the charts, and it's not just students who are borrowing. Approximately 15

million student loan borrowers are age 40 and older, and this demographic accounts for almost 40% of all student loan debt.²

Potential solutions: If you have a child in college now, ask the financial aid office about the availability of college-sponsored scholarships for current students, or consider having your child transfer to a less expensive school. If you have a child who is about to go to college, run the net price calculator that's available on every college's website to get an estimate of what your out-of-pocket costs will be at that school. Look at state universities or community colleges, which tend to be the most affordable. For any school, understand *exactly* how much you and/or your child will need to borrow — and what the monthly loan payment will be after graduation — before signing any loan documents.

Paying too much for your car

Automobile prices have grown rapidly in the last decade, and most drivers borrow to pay for their cars, with seven-year loans becoming more common.³ As a result, a growing number of buyers won't pay off their auto loans before they trade in their cars for a new one, creating a cycle of debt.

Potential solutions: Consider buying a used car instead of a new one, be proactive with maintenance and tuneups, and try to use public transportation when possible to prolong the life of your car. As with your home, watch interest rates and refinance when the numbers make sense.

Keeping up with the Joneses

It's easy to want what your friends, colleagues, or neighbors have — nice cars, trips, home amenities, memberships — and spend money (and possibly go into debt) to get them. That's a mistake. Live within *your* means, not someone else's.

Potential solutions: Aim to save at least 10% of your current income for retirement and try to set aside a few thousand dollars for an emergency fund (three to six months' worth of monthly expenses is a common guideline). If you can't do that, cut back on discretionary items, look for ways to lower your fixed costs, or explore ways to increase your current income.

¹ Bankrate's Financial Security Index, May 2019

² Federal Reserve Bank of New York, Student Loan Data and Demographics, September 2018

³ *The Wall Street Journal*, The Seven-Year Auto Loan: America's Middle Class Can't Afford Their Cars, October 1, 2019



Key Retirement and Tax Numbers for 2020

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2020.

Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,500 in compensation in 2020 (up from \$19,000 in 2019); employees age 50 and older can defer up to an additional \$6,500 in 2020 (up from \$6,000 in 2019).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,500 in 2020 (up from \$13,000 in 2019), and employees age 50 and older can defer up to an additional \$3,000 in 2020 (the same as in 2019).

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$6,000 in 2020 (the same as in 2019), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA phases out for the following modified adjusted gross income (MAGI) ranges:

	2019	2020
Single/head of household (HOH)	\$64,000 - \$74,000	\$65,000 - \$75,000
Married filing jointly (MFJ)	\$103,000 - \$123,000	\$104,000 - \$124,000
Married filing separately (MFS)	\$0 - \$10,000	\$0 - \$10,000

Note: The 2020 phaseout range is \$196,000 - \$206,000 (up from \$193,000 - \$203,000 in 2019) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified adjusted gross income phaseout ranges for individuals to make contributions to a Roth IRA are:

	2019	2020
Single/HOH	\$122,000 - \$137,000	\$124,000 - \$139,000
MFJ	\$193,000 - \$203,000	\$196,000 - \$206,000
MFS	\$0 - \$10,000	\$0 - \$10,000

Estate and gift tax

- The annual gift tax exclusion for 2020 is \$15,000, the same as in 2019.
- The gift and estate tax basic exclusion amount for 2020 is \$11,580,000, up from \$11,400,000 in 2019.

Standard deduction

	2019	2020
Single	\$12,200	\$12,400
HOH	\$18,350	\$18,650
MFJ	\$24,400	\$24,800
MFS	\$12,200	\$12,400

Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2020 is \$1,650 (the same as in 2019) for single/HOH or \$1,300 (the same as in 2019) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

	2019	2020
Maximum AMT exemption amount		
Single/HOH	\$71,700	\$72,900
MFJ	\$111,700	\$113,400
MFS	\$55,850	\$56,700
Exemption phaseout threshold		
Single/HOH	\$510,300	\$518,400
MFJ	\$1,020,600	\$1,036,800
MFS	\$510,300	\$518,400
26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount		
MFS	\$97,400	\$98,950
All others	\$194,800	\$197,900
*Alternative minimum taxable income		

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Should I sign up for an identity theft protection service?

Unfortunately, data breaches are now normal, everyday occurrences in our society. As a result, many companies are offering services to help you protect your personal information. If you want an extra layer of protection, an identity theft protection service is a good option. However, the term "identity theft protection service" can be misleading. The reality is that no one service can safeguard all of your personal information from identity theft. What most of these companies actually provide are identity theft monitoring and recovery services.

A monitoring service will watch for signs that an identity thief may be using your personal information. This typically includes tracking your credit reports for suspicious activity and alerting you whenever your personal information (e.g., Social Security number) is being used. The recovery portion of the service usually helps you deal with the consequences of identity theft. This often involves working with a case manager to help resolve identity theft issues (e.g., dealing with creditors or placing a freeze on your credit report). And depending on the level of protection you choose, the service may

also provide reimbursement for out-of-pocket expenses directly associated with identity theft (e.g., postage, notary fees) and any funds stolen as a result of the identity theft (up to plan limits). Identity theft protection services usually charge a monthly fee. Entry-level plans that provide basic protection (e.g., Social Security number and credit alerts) can cost as little as \$10 a month, while plans that offer more advanced features (e.g., investment account monitoring) will cost more.

Keep in mind there are steps you can take on your own to help protect yourself against identity theft, such as:

- Check your credit report at least once a year for errors
- Periodically review your bank and debit/credit card accounts for suspicious charges/activity
- Obtain a fraud alert or credit freeze if necessary
- Have strong passwords, use two-step authentication, minimize information sharing, and be careful when shopping online



What are continuing care retirement communities?

Continuing care retirement communities (CCRCs) are living arrangements that combine independent living, assisted living, and nursing home care on a single campus. CCRCs offer residents a continuum of care throughout their lives.

Typically, you enter a CCRC as a resident of an independent housing unit, which may be a condominium, apartment, or single-family home. When you need more care or are unable to live independently, you can move to the assisted living facility on campus. Should you need the next level of care, you can move into the on-site nursing home.

While specific services and benefits may differ, communities generally offer dining facilities, transportation, lawn care, housekeeping, social activities, laundry, emergency call monitoring, and security. As needs arise, additional services may include preparation of meals, health services such as medical care, and personal care such as assistance with toileting, bathing, and personal hygiene.

The fee arrangements for CCRCs vary and generally include both a monthly fee and an

entrance fee. These fees can be quite substantial depending on the location of the community, the services offered and chosen, and the living arrangements desired. The entry fee may be fully or partially refundable, and monthly fees may increase over time. Medicare and/or health insurance may pay for some of the services provided.

There are three basic types of residential arrangements for CCRCs:

- **Life care or extended contract.** This option offers unlimited assisted living, medical treatment, and skilled nursing care. This alternative is often the priciest because there are typically no additional fees or charges.
- **Modified contract.** This contract is similar to the life care option, except that only certain defined services are included for a predetermined price and/or for a specified length of time. Extra charges will apply if you need additional services or are able to extend the contract's time frame.
- **Fee-for-service contract.** While the initial enrollment fee may be lower, assisted-living and skilled-care services are paid for at their market rates.