You are never too old to set another goal or to dream a new dream. *C.S. Lewis*

A MESSAGE FROM LISA BAYER, CFA, CFP, PRINCIPAL

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Looking back over the past year and decade, global investors are surely smiling right now as they tally up their portfolio winnings. As we embark on a new year and decade, the themes that now comes to mind for me are "cautious optimism", and "expect the unexpected".

Some of the challenges and opportunities ahead seem eerily familiar to those last year, with a maturing economic cycle, ongoing impeachment proceedings, and heightened geopolitical risks—all of which can and continue to disrupt markets. But unlike last year, the yield curve is no longer inverted, we appear closer to ratifications of trade deals on multiple fronts, and oh yes, there is this presidential election in the US in 2020, which could set the stage for sweeping new policies and regulations, which as of now, are entirely uncertain. So how to prepare for these uncertainties, challenges and potential opportunities? We have some specific recommendations in this client letter to consider, so be sure to read on.

*In the final weeks of 2019, a major piece of legislation was signed into law, which has significant repercussions to anyone in retirement or saving for retirement. The legislation is entitled, the **S**etting **E**very **C**ommunity **U**p for **R**etirement **E**nhancement (i.e. "SECURE") Act, which became effective on January 1, and resulted in major changes to laws pertaining to Required Minimum Distributions (RMDs), IRA contribution rules, Inherited IRA distribution timelines, and much more. We have taken a stab at summarizing this for you, and it's an important read for anyone in or approaching (or even considering one day) retirement.*

Lastly, The Charles Schwab Corporation and The TD Ameritrade Holding Corporation recently announced they have entered into an agreement for Schwab to acquire TD Ameritrade. While the transaction is subject to customary closing conditions, we expect the transaction to close in the second half of 2020, and integration efforts to begin immediately thereafter. We have included a list of frequently asked questions in this letter, but as always, please reach out if you have concerns or questions not addressed here. Happy New Year, and thank you for making my work so fulfilling. ~ Lisa

MARKET RECAP AND OUTLOOK

Author: Lisa Bayer, CFA, CFP

As we close out the 2010's, investors who broke out of their emotional hangover from the global financial crisis and stayed invested enjoyed solid long term returns across their portfolios. For those who have forgotten, the previous decade of the 2000's was one of the worst in history. While we saw a shaky start to 2019, the Fed's series of monetary easings along with some positive trade talk developments helped flip a previously bear market to a bull, leading the S&P 500 to end 2019 up a whopping 31% and the US Corporate Bond index up more than 14%.

Most non-US returns and non-equity asset classes were also very strong, but generally not as strong as the US, leading to slightly lower overall returns for well-diversified portfolios.

Full year returns for select regions and fixed income classes are included below.

Returns	2019		2018		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	31.5	-	-4.4	9.0	0.87
AC World ex-U.S.	21.4	22.1	-10.2	-13.8	5.7	1.10
EAFE	22.3	22.7	-10.5	-13.4	5.3	1.06
Europe ex-UK	27.5	25.9	-10.6	-14.4	5.9	1.20
Emerging markets	18.5	18.9	-9.7	-14.2	7.8	1.26
Selected Countries						
United Kingdom	16.5	21.1	-8.8	-14.1	4.2	1.01
France	29.3	27.0	-7.5	-11.9	5.9	1.22
Germany	23.9	21.7	-17.7	-21.6	6.4	1.32
Japan	18.9	20.1	-14.9	-12.6	4.3	0.75
China	23.3	23.7	-18.6	-18.7	11.3	1.26
India	10.0	7.6	1.4	-7.3	9.2	1.31
Brazil	31.5	26.7	16.7	-0.1	9.5	1.49
Russia	38.8	52.7	18.1	0.5	7.4	1.53

Source: Factset, Federal Reserve, MSCI, JP Morgan Asset Management

	Yield		Return			
U.S. Treasuries	12/31/2019	9/30/2019	2019	Avg. Maturity	Correlation to 10-year	Correlation to S&P 500
2-Year	1.58%	1.63%	3.31%	2 years	0.67	-0.34
5-Year	1.69%	1.55%	5.82%	5	0.92	-0.32
TIPS	0.15%	0.15%	8.43%	10	0.62	0.13
10-Year	1.92%	1.68%	8.90%	10	1.00	-0.31
30-Year	2.39%	2.12%	16.43%	30	0.93	-0.32
Sector						
Corporates	2.84%	2.91%	14.54%	11.5	0.52	0.31
U.S. Aggregate	2.31%	2.26%	8.72%	8.1	0.88	-0.01
Convertibles	5.66%	5.87%	22.73%	-	-0.29	0.89
High Yield	5.19%	5.65%	14.32%	5.9	-0.22	0.71
Municipals	1.63%	1.70%	7.70%	10.0	0.54	-0.02
MBS	2.54%	2.45%	6.35%	5.1	0.82	-0.13
ABS	2.87%	2.83%	3.77%	2.3	0.06	0.20
Floating Rate	2.30%	2.56%	4.28%	1.9	-0.20	0.38

Source: Barclays, Bloomberg, Factset, S&P, JPMorgan Asset Mgt.

Going into a new year and decade, many global investors once again seem on edge as we face emerging economic and political risks, including significant emerging geopolitical tensions in the Middle East and heightened political polarization across the globe. On top of this, soft monetary policies in this slowing late-cycle economy are producing increasingly higher deficits and driving investors into riskier assets, potentially both distorting asset prices and reducing the efficacy of the Fed's toolbox in the future.

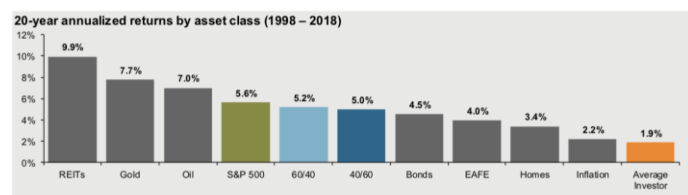
Amid this backdrop, however, there are opportunities, and 2020 is no different. Economic data remains relatively sound and near-term global recessionary risks have faded slightly, despite some weakening manufacturing activity and business sentiment. While global growth remains low by historical standards, the emerging risks noted above can also represent opportunities if the associated outcomes are unexpectedly positive—just as we saw in 2019 with the short term "cease fire" in US/China trade negotiations and the Fed's multiple actions to cut interest rates.

Moreover, lest we forget, we are witnessing one of the greatest technological revolutions of all time, which can have a meaningful impact on productivity and growth in this period of demographic challenges. Just think about

so many of the disruptive forces underway in areas like power generation and clean energy, digital currencies and mobile banking, targeted medical therapies based on our individualized bio-markers, cloud-based networking, robotics, artificial intelligence, and the list goes on! So how should investors prepare for these opportunities amid such uncertain conditions in the future?

First, we believe investors should first and foremost assure their portfolios are well diversified, provide for sufficient downside protection based on their individual situations, and are rebalanced such that allocations in pricier "crowded" markets and asset classes are reduced. There are significant performance gaps today both between style (US growth versus US value) and region (US versus non-US) that have not been observed at levels like this in more than a decade that can offer some longer-term opportunities. For example, while US growth companies have outperformed value in most of the last 12 years, value has outpaced growth by more than 2 percentage points each year on average since 1929 (*Source: Morningstar Investment Research*). Moreover, while US returns have outpaced non-US returns in this past decade bull market, the opposite was the case the prior decade. Half of the world's market capitalization is outside of the United States, with many developed and developing economies growing far faster than the US.

In the midst of a record-long bull market, it's natural to expect more of the same, particularly in the US which has seen prices soar 800% over the last 30 years, even after experiencing a 50% decline in stocks during the financial crisis. Yet even with an abundance of investment opportunities ahead of us, we believe investors should reset their expectations for a lower return environment in the coming decade, particularly given the low, and in some cases, negative global bond yields we are seeing now. For a more realistic look at returns over prior decades, take a look at a fascinating chart produced by JPMorgan Asset Management in terms of real returns by asset class over the past 20-year period rather than the booming 30-year period previously noted:



Source: J.P. Morgan Asset Management; (Top) Barclays, Bloomberg, FactSet, Standard & Poor's; (Bottom) Dalbar Inc.

It may be helpful in times like these to remember Benjamin Franklin's sage advice: "By failing to prepare, you are preparing to fail."

INVESTMENT PERSPECTIVES

RESEARCH REVIEW: PROTECTING THE DOWNSIDE TO OUTPERFORM

Author: Lisa Bayer, CFA, CFP

As Opus clients, you are likely well aware of our view that as one approaches retirement years with an expectation they will fund many of their living expenses from their portfolios, downside protection becomes an increasingly important component of one's investment strategy. While there are multiple ways to incorporate downside protection into a portfolio, this article addresses the overall anomaly of low volatility equity investment securities. These securities, which for purposes of this article relate to low volatility mutual or exchange traded funds, are intended to provide a smoother ride and a superior risk/reward profile than comparable underlying indexes over the long term. While there are multiple low volatility index-oriented funds to compare, they generally attempt to construct the least-volatile portfolios under a given set of constraints, such as reducing exposure to higher-volatility names, increasing exposure to stocks with more stable cash flows, incorporating stocks based on how they interact with one another, or reducing sector concentration risk, for example.

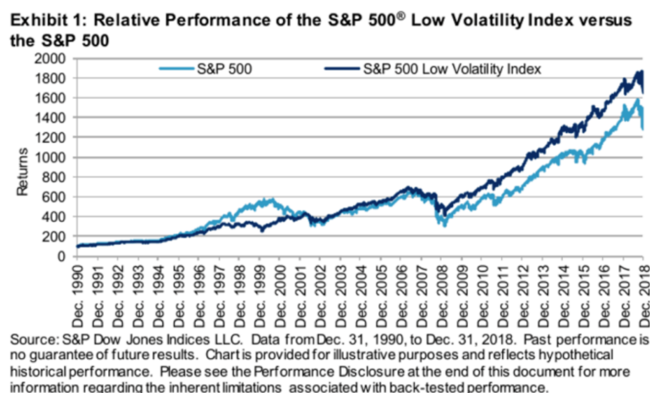
Below are some select excerpts from a recent whitepaper from S&P Dow Jones Indices, "Is the Low Volatility Anomaly Universal?" (Chan, Lazzara). The conclusion of this and related research is clear: Low volatility indices have outperformed their cap-weighted benchmarks over time with lower risk. And while they tend to lose less when markets decline and gain less when markets rise, they outperform in periods of high volatility, exactly the time when the payoff is the highest.

While I have included key excerpts from this research below, you can find below a link to the full referenced whitepaper along with a video link discussing this paper.

Low Volatility Investing White Paper
Low Volatility Investing Video

Is the Low Volatility Anomaly Universal? (Chan, Lazzara, April 2019)

"Anyone who studies finance learns early on that risk and reward go hand in hand and that with higher expected returns come higher risks. Therefore, low volatility portfolios, which are by definition less risky than the market average, should underperform. Against this logical theory we have only some inconvenient facts. The outperformance shown in Exhibit 1 was accompanied by volatility levels that were consistently lower than those of the S&P 500. Over the 28-year period, the S&P 500 Low Volatility Index gained 10.7% compared to the S&P 500's 9.8%, with a 23% lower standard deviation. Other examples abound. It's no wonder that academics regard "the long-term outperformance of low-risk portfolios [as] perhaps the greatest anomaly in finance."



Low volatility investing gained immense popularity in the last decade. A proliferation of passive investment vehicles based on this concept attracted more than $70 billion in assets globally as of the end of February 2019. The low volatility phenomenon is not, however, a new concept; academics first wrote about it more than four decades ago. Low volatility strategies are familiar in the investment world; portfolio managers have sought volatility reduction, explicitly or otherwise, for as long as there have been portfolio managers. In the U.S., the S&P 500 Low Volatility Index was the first index vehicle to exploit this phenomenon systematically. Since 1991, the index has outperformed the S&P 500 (see Exhibit 1); more importantly, it has done so at a substantially lower level of volatility. Furthermore, the phenomenon is found in all markets segments and regions we have observed.

The methodology underlying the S&P 500 Low Volatility Index is almost painfully simple. Based on the standard deviation of the trailing 252 daily returns, we identify the 100 least volatile stocks in the S&P 500 and weight them inversely to their volatility. The index is rebalanced quarterly; no quadratic formulae need apply. We sometimes refer to this as a "rankings- based" approach to low volatility, since index inclusions are driven strictly by a stock's volatility ranking compared to those of its peers.

PERFORMANCE PATTERNS

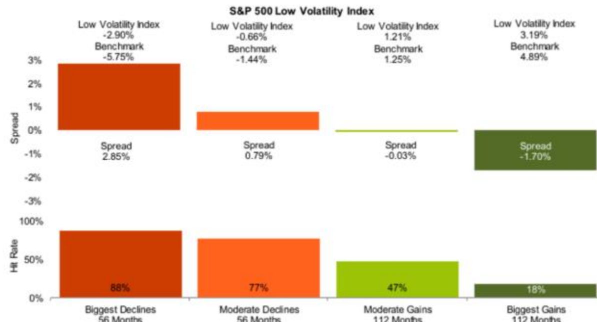
The S&P 500 Low Volatility Index tended to rise less than the market when the market was up, and tended to decline less than the market when the market was down—and that's why its overall volatility was lower than that of the S&P 500. Low volatility strategies allow for market participation during good times while also providing protection in bad times.

UNIVERSALITY

If the low volatility story ended there, it would be an interesting strategy for U.S. portfolio managers, but not much more. However, there is more to the story; applying the methodology originally developed for the S&P 500 produces similar results in a range of other markets. For mid- and small-cap U.S. stocks, as well as for a range of international markets, this methodology has produced substantial reductions in volatility relative to the applicable benchmark index. Without exception, it also generated superior returns. It's particularly important, when comparing low volatility strategies from different regions, to be aware of the differential impact of each market environment. For example, low volatility outperformed in Pan Asia by a much greater amount than in the U.S., but that could be because the Asian markets did not perform as well during our test period as the U.S. market.

The concept of dispersion can illuminate this asymmetry. Dispersion measures the degree to which stock returns in a given market differ from one another. The higher the dispersion is, the greater will be the difference between the returns of a capitalization-weighted index and the returns of a factor index such as low volatility. The periods in which low volatility has tended to outperform have been periods of above-average dispersion. Similarly, the periods in which low volatility has underperformed have been periods of below-average dispersion. This effect is not coincidental. As we've seen, low volatility (and other defensive indices) tend to outperform in weak

stock markets. Weak stock markets tend to occur in times of relatively high volatility. And high volatility is typically associated with high dispersion.

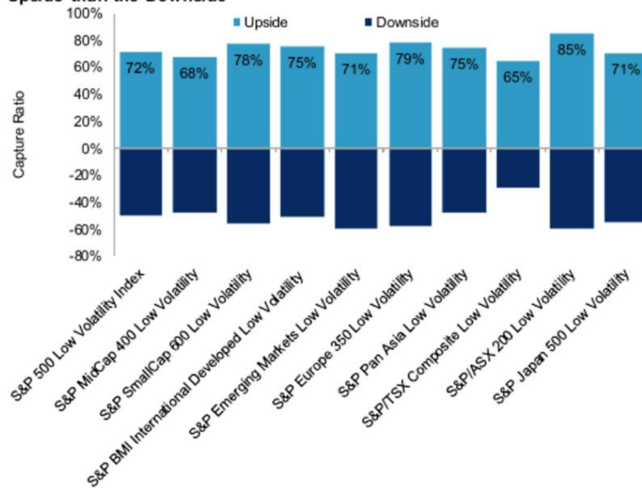


APPENDIX B: AVERAGE MONTHLY PERFORMANCE IN DIFFERENT MARKET ENVIRONMENTS

Source: S&P Dow Jones Indices LLC. Data from Dec. 31, 1990, to Dec. 31, 2018. Biggest declines were months when the benchmark was down more than 2.46%, moderate declines were months when the benchmark returned between -2.46% and 0%, moderate gains were months when the benchmark returned between 0% and 2.45%, and biggest gains were months when the benchmark gained more than 2.45%. Past performance is no guarantee of future results. Charts are provided for illustrative purposes and reflect hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

The advantage of low volatility is that the upside capture ratio is characteristically greater than the downside capture. This is not a lucky coincidence—it follows directly from the way in which dispersion interacts with the market's direction. When the market is down, low volatility tends to outperform, and dispersion tends to be high. The gap between the performance of low volatility and the benchmark is therefore relatively large, leading to low capture ratios. When the market is up, low volatility tends to underperform, but dispersion tends to be low. The gap between the performance of low volatility and the benchmark is therefore relatively small, producing higher capture ratios.

Exhibit 9: In All Markets Observed, Low Volatility Captured More of the Upside than the Downside



Source: S&P Dow Jones Indices LLC. Data through Dec. 31, 2018. Index start date varies for each asset class (see Appendix A). Standard deviations are computed by annualizing the standard deviation of monthly returns. Past performance is no guarantee of future results. Chart is provided for illustrative purposes and reflects hypothetical historical performance. Please see the Performance Disclosure at the end of this document for more information regarding the inherent limitations associated with back-tested performance.

CONCLUSION

The low volatility anomaly is an observable phenomenon across market segments and regions. Low volatility indices have outperformed their capitalization-weighted benchmarks over time with lower risk. Even more remarkably, without exception, low volatility indices exhibit a distinct pattern of returns when compared to their benchmarks. They all attenuate the performance of the broader market, losing less when markets decline and gaining less when markets rise. Because of this, dynamic, low volatility indices are poised to take advantage of an important market characteristic; they outperform in periods of relatively high dispersion. Otherwise said, low volatility strategies tend to be right when the payoff for being right is most advantageous."

RESEARCH REVIEW 2: NEW AGE ANNUITIES—ONE WAY NOT TO OUTLIVE YOUR MONEY

Author: Lisa Bayer, CFA, CFP

As Baby Boomers continue to retire *en masse*, more of them than ever are seeking retirement and retirement withdrawal plans that will help them meet their spending goals and contingencies without worrying they will outlive their assets. For those with sufficiently large assets and/or reliable pensions, well diversified portfolios with appropriate asset allocations and thoughtful withdrawal strategies are usually adequate to address these concerns. However, some portfolios are susceptible to premature depletion should there be significant market pullbacks early into one's retirement years. There are multiple ways to address these risks, such as modifying spending patterns (spending less in bear markets), creating lower-volatility portfolios, maintaining larger cash reserves, establishing reverse mortgage lines of credit, or introducing more guaranteed income components to their portfolio. This last topic is what I will be addressing here.

"New-Age" Annuities

Many financial advisors have shied away from annuities of old given their historically high fees and complex and opaque natures. More recently, however, there has been a revolution in this space, with insurance companies now creating both variable and fixed annuity products for fee-based fiduciary advisors that are stripped of high fees and commissions. Below I introduce why a guaranteed component to a portfolio can be important to many of

those contemplating or in retirement. My focus here will be on fixed income annuities, which are simply contracts issued and guaranteed by an insurance company, wherein in exchange for a lump sum, a life insurance company guarantees a fixed interest rate and the principal investment. When annuitized, the fixed annuity can provide guaranteed income payouts for life—just like a pension or social security. While there are multiple flavors of these types of annuities along with all types of riders, I will attempt to cover the conceptual basics here.

Managing Longevity Risk with Guaranteed Income

Whether from a pension stream or some sort of annuity stream, lifetime income guarantees can help buffer portfolios from the risk of outliving one's portfolio in several ways. First, a guaranteed income stream in a portfolio can create a greater likelihood that an investment portfolio is sustainable over the course of a retiree's life, partly because quality treasury or investment grade bonds today—which historically were relied upon to fund retirement income needs—provide far lower yields than were historically available. Many guaranteed fixed income annuities can provide higher income streams than bonds due to "risk pooling", meaning those living longer are subsidized by those with shorter lives. In other words, one is essentially agreeing to leave part of their "insurance premium" on the table for others in the risk pool in the event of an early death.

These "mortality credits" for those living longer lives allow for higher guaranteed payouts than would be available from similar quality guaranteed bonds. In other words, for those who want to spend more in retirement than current bond yields can provide, an alternative to a more aggressive stock portfolio is to incorporate "risk pooling" through insurance companies. This is especially important when market declines occur early into one's retirement, which can increase the percentage rate required from the portfolio to meet one's spending need, and potentially causing its premature depletion. Moreover, because of the advantages of risk pooling, investors can conceivably hold a "riskier" portfolio outside of the guaranteed stream, increasing their odds that their retirement goals could be achieved.

All of this is not only conceptual, but validated by a great deal of research, including a recent study by Wade Phau, Ph.D.,CFA, Professor of Retirement Income at the American College for Financial Services. Pfau determined in his 2017 study that a combination of lifetime income guarantees combined with stock investments supported the highest average legacy value of assets and the best way to support retirement spending goals. This is in contrast to various combinations of stocks and bonds. To better illustrate these concepts, I have introduced some excerpts below directly from Pfau's research published in the Journal for Financial Planning, a link to which can be found here:
Retirement Income Showdown: Risk Pooling Versus Risk Premium

Retirement Income

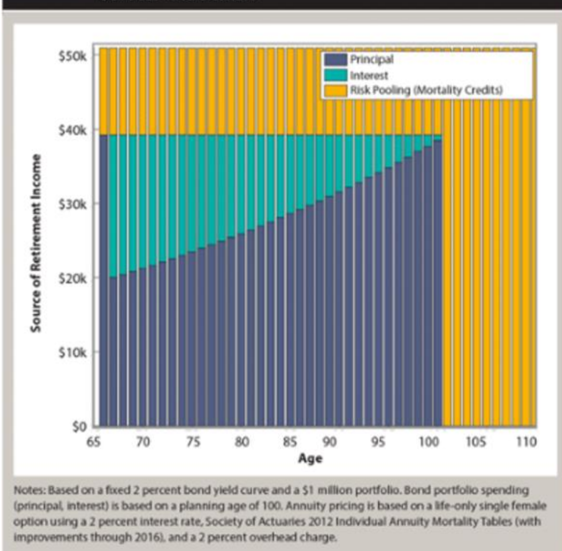
"Consider a 65-year-old female client who decides that her appropriate planning horizon is the age for which there is only a 10 percent chance she might live even longer. She plans for 35 years of retirement spending from age 65 through age 99, with an assumption she will pass away on her 100th birthday. With a 2 percent interest rate, if she invests $1 million in a bond portfolio and plans to live to age 100, Table 1 shows that she can sustain retirement spending of $39,218 per year throughout her retirement.

Table 1: Sustainable Retirement Spending from Bonds for a 65-Year-Old Individual with $1 Million

Planning Horizon (Age)	Interest Rate					
	0%	1%	2%	3%	4%	5%
70	$200,000	$204,000	$207,998	$211,995	$215,988	$219,976
75	$100,000	$104,537	$109,144	$113,816	$118,549	$123,338
80	$66,667	$71,410	$76,299	$81,327	$86,482	$91,755
85	$50,000	$54,867	$59,958	$65,258	$70,752	$76,422
90	$40,000	$44,957	$50,216	$55,755	$61,550	$67,574
95	$33,333	$38,364	$42,774	$49,533	$55,606	$61,954
100	$28,571	$33,667	$39,218	$45,184	$51,517	$58,164
105	$25,000	$30,154	[illegible]	$42,002	$48,580	$55,503
110	$22,222	$27,431	$33,245	$39,597	$46,406	$53,583

Next, an income annuity is introduced as a tool to pool longevity risk. With a 2 percent interest rate and [actuarial] mortality data, the lifetime annual income that could be supported by a $1 million premium for a 65-year-old female is $51,943. If a realistic overhead charge of 2 percent is added, the lifetime annual income is $50,924. With a 2 percent interest rate, Table 1 showed that this income was slightly more than what could be generated with a planning age of 90. More precisely, a bond ladder could support this amount of income for 24.55 years, which falls between ages 89 and 90. The income annuity has effectively calibrated lifetime income to what an individual could support on her own if her planning age was roughly the same as her median life expectancy. The $50,924 from the annuity is 30 percent more than the $39,218 that could be supported (through age 100) from bonds.

Figure 2 illustrates the sources of income for an income annuity. There are three sources of returns: (1) repayment of the principal; (2) interest earned on the principal; and (3) mortality credits available through risk pooling. For principal and interest, Figure 2 shows the amortized payments from the bond portfolio as it was spent down through age 100, when it was depleted and bond income stopped. The 30 percent additional income through age 100, and then any ongoing income beyond age 100 for those still alive, is a unique source of additional returns from pooling risk (the short-lived subsidizing the long-lived) not available from a bond portfolio. These mortality credits are mortality-contingent in that the income is only received when an individual is still alive. Importantly, though, for those demonstrating longevity risk aversion (and who therefore use a planning age somewhere beyond their statistical life expectancy), higher income is supported no matter how long one actually lives. Annuitization can reduce concern about outliving assets and provide a license to spend more.



Notes: Based on a fixed 2 percent bond yield curve and a $1 million portfolio. Bond portfolio spending (principal, interest) is based on a planning age of 100. Annuity pricing is based on a life-only single female option using a 2 percent interest rate, Society of Actuaries 2012 Individual Annuity Mortality Tables (with improvements through 2016), and a 2 percent overhead charge.

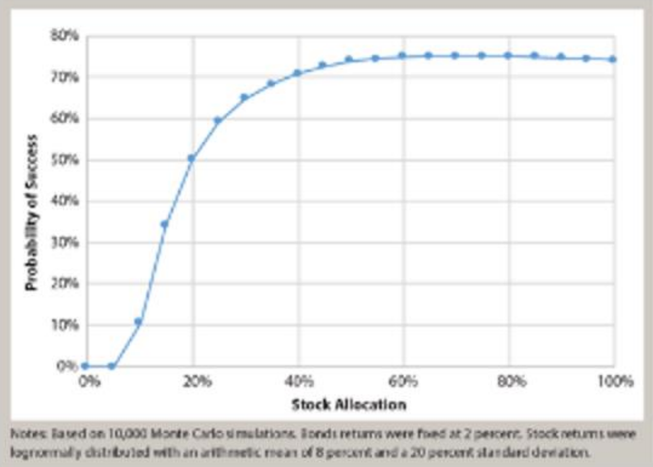
To further investigate the case of a 65-year-old female deciding between bonds and an income annuity, the following assumption was added: her retirement spending goal was to take a $45,000 distribution at the start of each year. The 65-year-old client has $1 million at retirement, faces a 2 percent bond yield curve, and wishes to build a financial plan that works through a planning age of 100. The life-only income annuity costs $883,669 at age 65 and provides income for life. Costs are fixed at the initial premium level. Meanwhile, the cost of funding retirement with bonds is dependent on the length of life; it is the present-discounted value of the $45,000 spending stream for an increasing number of years. For a planning age of 100 (35 years of payments), the bond ladder cost is $1,124,485, which is 27 percent more than the annuity cost. The bond ladder cost continues to rise with longevity. The trade-off for the bond ladder is that there are more legacy assets for a given level of wealth in the event of an early death, but rising costs and risk of portfolio depletion in the event of a long life. For those with longevity risk aversion, the income annuity offers contractually guaranteed higher lifetime spending at the cost of potential legacy in the event of an early death.

Risk Premium as a Retirement Income Solution

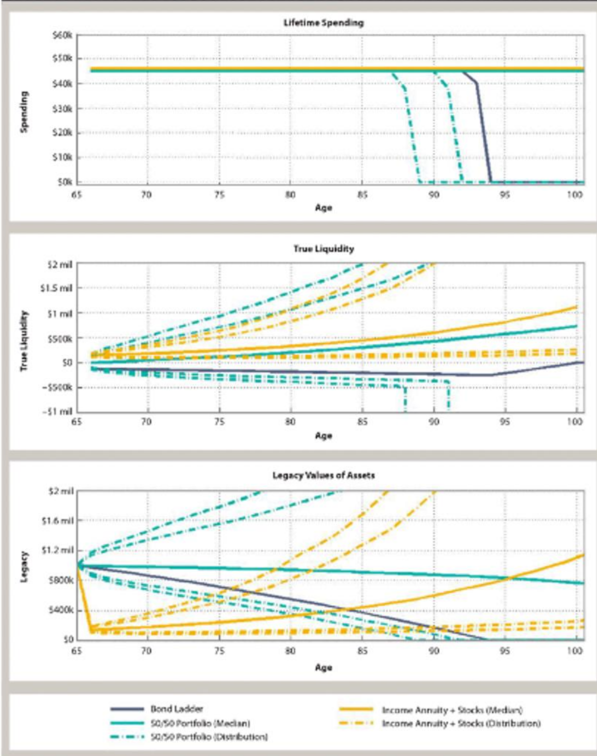
Thus far, the financial portfolio has grown based on a fixed growth rate less any distributions. Stocks are then added as a volatile asset class. The 'risky' asset was based on large-capitalization stocks in the United States. The Stocks, Bonds, Bills, and Inflation yearbook from Morningstar provides historical data that shows that the arithmetic average return on large-capitalization stocks for the period 1926–2015 was 12 percent, with a standard deviation of 20 percent. During this time period, this was 6 percent larger than the 6 percent average return earned by long-term U.S. government bonds.

The hypothetical retiree analyzed here sought to support a retirement spending goal of $45,000 annually for 35 years from a starting portfolio of $1 million. Figure 4 shows the probability of success for meeting this goal for different asset allocations using 10,000 Monte Carlo simulations. Figure 4 shows that for someone to consider the risk premium as a retirement solution, it is important not to be timid with one's stock allocation. Being able to support the full spending goal required an internal rate of return on investments of 2.97 percent. With bonds yielding 2 percent, success was not possible with an all-bonds portfolio (confirming the earlier point that the bond portfolio depleted by age 94).

Adding stocks to the portfolio created the opportunity to achieve upside growth, improving the odds that the goal could be achieved. Success probabilities peaked for portfolios that included at least 50 percent stocks. For stock allocations of at least 50 percent, the probabilities of success for the spending plan fell between 74 percent and 75 percent.



To continue the example used here, assume that the 65-year-old female seeking to fund $45,000 per year through age 100 is comfortable holding a 50 percent stock allocation in retirement, and is willing to accept a 25 percent chance that her portfolio will be depleted by age 100. Figure 5 provides the key results for comparing three strategies: (1) bond ladder; (2) an investment portfolio with 50 percent stocks; and (3) using an income annuity to cover the spending goal while investing remaining funds in 100 percent stocks.



For strategies including stocks, Figure 5 shows the median as a solid line, and the 5th, 10th, 90th, and 95th percentiles of the distribution as dashed lines. For lifetime spending, the bond portfolio supported income through age 94. The 50/50 portfolio experienced a 5 percent chance that the spending goal could not be fully met by age 88, and a 10 percent chance by age 91. The first case of wealth depletion happened at age 79, and there was a 15 percent chance that the investment portfolio ran out of assets before the bonds-only strategy. For the other percentiles of the distribution shown in Figure 5, income could be sustained indefinitely. As for the income annuity, partially annuitizing $883,669 of the $1 million provided a contractual guarantee to support the $45,000 spending goal for life.

Regarding legacy assets, wealth was slowly spent down with the bond portfolio as the spending rate exceeded the 2 percent portfolio return, until the portfolio reached $0 at age 94. With the investment portfolio and the equity risk premium, the distribution of outcomes was wide. As noted, at both the 5th and 10th percentiles the 50/50 portfolio depleted earlier than the bond portfolio. This was the risky aspect of investing for the risk premium. However, the potential for upside was great. Median wealth was $767,116 at age 100, and at the 90th percentile of the distribution wealth had already exceeded $2 million by age 84. There was a 43.7 percent chance that the initial $1 million could be preserved by the planning age. Meanwhile, for the partial annuitization strategy, legacy wealth declined dramatically as the life-only annuity was purchased, but it increased over time as a result of no further distributions being taken from this asset combined with the more aggressive 100 percent stock allocation supported by the retiree's increased risk capacity. Median wealth was $1,103,637 by the planning horizon, and there was a 53.3 percent chance that the initial $1 million was preserved by the planning age.

With risk pooling, the ability to support greater legacy was hampered until late in retirement. There was a greater than 50 percent chance that legacy was larger with risk pooling by age 94, and an 80 percent chance for a larger legacy by age 100. Preserving legacy for the early part of retirement was the primary advantage of the risk premium investment-only strategy.

Conclusion

For the retirement income showdown between risk pooling and risk premium, the analysis of the case study here has shown that risk pooling provided stronger support for meeting a retirement spending goal and for preserving true liquidity. The risk premium did support greater legacy at the beginning of retirement, but this advantage diminished at more advanced ages. For clients choosing between these strategies, an important distinction will be on how much weight is given to the increased legacy in early retirement supported by the risk premium. Those favoring spending and true liquidity will find that it is much more difficult than commonly assumed for an investments-only strategy to outperform a strategy with partial annuitization.

Ultimately, the message of this research is that risk premiums do not obviously outperform risk pooling as a way to meet retirement spending goals as well as provide support for contingencies and legacy.

TAX TOPICS: THE NEW SECURE ACT AND HOW IT IMPACTS YOU

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In the final weeks of 2019, a major piece of legislation was signed into law, which will have significant repercussions to anyone in retirement or saving for retirement. The legislation entitled the Setting Every Community Up for Retirement Enhancement ("SECURE") Act went into effect on January 1, 2020, and resulted in major changes to laws pertaining to Required Minimum Distributions (RMDs), IRA contribution rules, Inherited IRA distribution timelines, and more. While we have summarized below some of the key provisions of this law that we believe will impact our clients the most, this is not all encompassing to say the least.

REQUIRED MINIMUM DISTRIBUTIONS WILL START AT AGE 72, NOT 70 1/2

Starting January 1, 2020, required minimum distributions will begin at age 72 rather than age 70½. Notably, those who are currently receiving RMDs must continue to take them, and because this change only applies to individuals who turn 70 ½ in 2020 or later, those who turned 70½ in 2019 will still need to take RMDs for 2019 no later than April 1, 2020. Only those who will turn 70½ in 2020 or later may wait until age 72 to begin taking required distributions.

Also, for those of you making qualified charitable distributions (QCDs), these will continue to be permitted at age 70 ½, though they will only reduce the required RMD once that requirement is in place, which going forward will be at age 72. Confused? If you are impacted by this change, be assured we will contact you to review your options.

TRADITIONAL IRA CONTRIBUTIONS ARE NOW PERMITTED AFTER AGE 70 1/2

Beginning in the 2020 tax year, the new law will allow you contribute to your traditional IRA (as well as your Roth IRA) in the year you turn 70½ and beyond, provided you have earned income (or have a spouse with earned income and contributing under spousal IRA rules). You may not make 2019 (prior year) traditional IRA contributions if you are over 70 ½.

"STRETCH" ALLOWANCE FOR INHERITED IRA ACCOUNTS DISAPPEAR

One of the most notable changes coming out of the SECURE Act is the elimination of the "stretch IRA" for non-spouse beneficiaries. Under prior rules, non-spouse beneficiaries could take distributions over the course of their lifetimes, whereas now, upon death of the account owner in 2020 and beyond, distributions of IRAs to individual beneficiaries must now be made within 10 years. There are exceptions for spouses, disabled individuals, chronically ill individuals, and individuals not more than 10 years younger than the account owner. Minor children who are beneficiaries of IRA accounts also have a special exception to the 10-year rule, but only until they reach the age of majority.

The elimination of the stretch IRA makes Roth IRA and Roth conversion strategies even more important. Traditional IRA beneficiaries may face an increased tax burden under the new legislation due to the compression of the distribution period from the beneficiary's lifetime to no more than 10 years. As a result, a Roth IRA, where distributions are tax-free both to the IRA owner and beneficiary, may be the preferred option.

Similarly, a series of conversions of a Traditional IRA to a Roth IRA may be an increasingly beneficial strategy. Note that the new legislation widens the "Roth conversion window" by increasing the RMD age to 72. The Roth conversion window refers to the time period of lower relative income between the end of regular employment and the start of pensions, Social Security, and RMDs from tax-deferred plans and IRAs. As income tax is payable on the amount converted from a Traditional IRA to a Roth IRA, a longer conversion window may allow for a series of smaller Roth conversions at lower marginal tax rates and a reduced income tax liability.

We have received some questions regarding how certain types of trust beneficiaries would be impacted under these new rules, and there are most definitely new planning challenges that have emerged for situations wherein trusts were named as retirement account beneficiaries. We recommend anyone in these situations consult their estate attorneys sooner rather than later, as in general, "see-through" trusts, such as conduit trusts and discretionary trusts, could now be subject to the 10-year distribution timeline, and in some cases, no distributions would be permitted *until* year 10, resulting in potentially substantially higher tax liabilities.

Beneficiary accounts associated with 403(b) and 457 plans (and some other collective bargaining plans) won't be impacted by these changes until January 1, 2022, and annuities in which annuitizations have been contracted or begun will also be exempt from these changes.

ADOPTION AND BIRTH EXPENSES

The new law allows penalty-free withdrawals of up to $5,000 (per person) from retirement plans for birth or adoption expenses, up to certain limits.

OTHER PRIVISIONS

The Secure act also provides for:

- Penalty-free withdrawals of up to $5,000 from retirement plans for the creation of certain Safe Harbor retirement accounts, as well as increased tax credits to establish such plans, with various associated requirements to qualify
- Improved access to employer plans for part-time workers
- Changes to "Kiddie-tax" marginal tax brackets
- 529 usage for apprenticeships and some student loan repayments
- Increased access to annuity lifetime income options in 401K plans
- Temporarily re-instituting tax deductions such as mortgage insurance premium deductions and qualified tuition/related expense deductions
- Extended the 7.5% of AGI "hurdle rate" that must be exceeded to deduct qualified medical expenses for 2019 and 2020
- Higher penalties for failing to file tax returns
- Qualified disaster distributions from retirement accounts
- Other miscellaneous changes.

OPUS UPDATES

CHARLES SCHWAB'S PROPOSED ACQUISITION OF TD AMERITRADE – FAQS

By now, all of our clients have been notified by TD Ameritrade of Charles Schwab's proposed acquisition, wherein The Charles Schwab Corporation would acquire The TD Ameritrade Holding Corporation. While the transaction is subject to customary closing conditions, including receipt of applicable regulatory approvals and approval by the stockholders of both companies, we expect the transaction to close in the second half of 2020, and integration efforts to begin immediately thereafter.

For our clients who custody their funds at TD Ameritrade Institutional, there is no immediate impact. Until the transaction is complete, we will remain separate and continue to operate our respective businesses as usual. Once the deal closes, which we expect to be sometime in the second half of calendar 2020, we will begin our integration, focusing on decisions that will enhance the client experience by identifying the best capabilities from both firms.

Below are select Frequently Asked Questions provided by TD Ameritrade Institutional pertaining to this acquisition

for our clients. Should you have any further questions or concerns, please feel free to contact us any time.

1. **What is happening?**

The Charles Schwab Corporation and TD Ameritrade Holding Corporation have entered into an agreement for Schwab to acquire TD Ameritrade in an all-stock transaction valued at approximately $26 billion.

Our combined client experience will bring together the best of Schwab's and TD Ameritrade's innovative and client-centric platforms, products, and services. These include leading trading and wealth management platforms, custody platforms and technology, investor education, award-winning service, retirement services, banking, asset management, and a unique satisfaction guarantee. Together, under the respected Charles Schwab brand, we will continue to challenge the status quo and pool our resources and expertise to truly transform lives and investing for the better.

2. **Why this deal? Why now?**

We expect this combination to deliver strategic benefits and attractive returns for owners of both companies. Under the agreement, TD Ameritrade stockholders will receive 1.0837 Schwab shares for each share of TD Ameritrade, which represents a 17% premium over the 30-day volume weighted average price exchange ratio as of Nov. 20, 2019.

We share a common history with Schwab – one that dates back to our founding on "May Day" in 1975. For nearly 45 years we have worked tirelessly to make Wall Street more accessible, and financial dreams more attainable, for millions of Americans. This transaction brings together two industry pioneers to better serve clients in a hyper-competitive environment. We believe we can accomplish more together than we could apart. Together, under the respected Charles Schwab brand, we will continue to challenge the status quo and pool our resources and expertise to transform lives, and investing, for the better.

3. **Why is being acquired better for shareholders than going alone?**

We have an opportunity with Schwab to deliver strategic benefits and attractive returns for owners of both companies. We are bringing together two industry pioneers to better serve clients in a hyper-competitive environment. We believe we can accomplish more together than we could apart. For nearly 45 years we have worked tirelessly to make Wall Street more accessible, and financial dreams more attainable, for millions of Americans. We can ensure that our legacy lives on by joining forces with a respected firm like Schwab to pool our resources and expertise and deliver an outstanding client experience for retail investors and independent RIAs.

4. **How do TD Ameritrade clients stand to benefit from this transaction?**

There is no immediate impact for clients of either firm. Until the transaction is complete, we will remain separate and continue to operate our respective businesses as usual. Once the deal closes, which we expect to be sometime in the second half of calendar 2020, we will begin our integration, focusing on decisions that will enhance the client experience by identifying the best capabilities from both firms. We expect the combined client experience will reflect the best that each firm has to offer, including leading trading and wealth management platforms, custody platforms and technology, investor education, award-winning service, retirement services, banking, asset management, and a unique satisfaction guarantee. More specific details will be shared later after integration planning is underway.

5. **What will happen to the products, services, and people that I'm used to doing business with at TD Ameritrade?**

There is no immediate impact for clients of either firm. Until the transaction receives all necessary regulatory approvals and is closed, we and Schwab remain separate entities and will continue to operate our businesses as usual. We expect that our combined client experience will bring together the best of Schwab's and TD Ameritrade's innovative and client-centric platforms, products, and services. These include leading trading and wealth management platforms, custody platforms and technology, investor education, award-winning service, retirement services, banking, asset management, and a unique satisfaction guarantee. Integration planning will

begin once the deal has closed, which we believe will happen in the second half of 2020. More information will be available at that time.

6. Will Schwab retain TD Ameritrade's trading platforms, specifically thinkorswim?

Our combined client experience will bring together the best of Schwab's and TD Ameritrade's innovative and client-centric platforms, products and services. These include leading trading and wealth management platforms, custody platforms and technology, investor education, award-winning service, retirement services, banking, asset management, and a unique satisfaction guarantee. Integration planning will begin once the deal has closed, which we believe will happen in the second half of 2020. More information will be available at that time.

7. Will you develop a new brand strategy for the combined entity?

Schwab has a proud history, a respected brand, and a strong corporate culture. As the acquirer, we expect those things to remain post-integration. The combined company will carry the Schwab name.

GENERAL INFORMATION

Opus Financial Solutions LLC ("Opus") is a fee-only, registered investment adviser with locations in Downers Grove, Illinois and Boulder, Colorado. For more information, please visit our website at www.opusfinancialsolutions.com.

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