MP McShane Partners

February 2022 Insights

Investment Overview

The McShane Partners Core Contrarian Equity Portfolio Strategy

The McShane Partners Core Contrarian Equity Portfolio Strategy ("the Strategy") finished 2021 strong relative to its considerable outperformance in 2020 where it solidly outperformed its low-volatility comparable fund group and trailed the S&P 500® Index by **±1.0%** but with *superior risk-adjusted returns*. When analyzing performance, it is critical to revisit the Strategy's two main directives: first, the Strategy's primary objective is to produce *consistent*, *lower-volatility returns* through all phases of the market cycle and over a long-term investment horizon; second, the Strategy should *behave differently* than passive equity market benchmarks or indexes, often *contrarily* to broader market trends. These attributes have been advantageous in the midst of the year-to-date correction across equity markets in 2022.

As a result of the extreme policy response to the global COVID-19 pandemic, 2021 was defined by a scarcity of low-risk investment options capable of generating incremental income as fixed income (i.e., bonds) become unappetizing when *real yields fall dramatically below inflation*, making them apt to rise with a *negative impact* on bonds as prices decline when rates rise. This is reflected in the **-1.45%** and **-2.15%** declines in the Bloomberg U.S. Aggregate Index in 2021 and year-to-date ("YTD"), respectively.

Furthermore, the exponential growth of corporate and government debt across global financial markets has accelerated fund flows into *increasingly risky assets*, making risk assets extremely expensive and unattractive. This uncomfortable conundrum made responsible portfolio management tricky entering 2021, while also

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Wealth Advisory Overview

The Effect of Inflation on Financial Planning

The cost of living has been increasing at a rate above 5% over the past 12 months, according to the Bureau of Labor Statistics (BLS). This unusually high number (inflation averaged about 2% over the last 20 years) generated many headlines and may have you wondering what it means for your retirement plan. Before panicking about inflation, it is helpful to understand how inflation works and how it can impact your long-term financial plan.

What is Inflation?

Inflation is a general increase in prices and the cost of living. Over a given period, the prices of some of the goods we consume increase. Inflation measures the average increase in prices. If prices on average go up, it becomes more costly to purchase the same goods and services, thereby increasing the cost of living.

The BLS publishes the most common measure of prices, called the Consumer Price Index (CPI). When prices increase, so does the CPI. The CPI uses over 200 categories of goods and services divided into eight major categories and collects prices on these goods monthly from 75 different metropolitan areas. The BLS then constructs the CPI by weighting the prices of each of the goods and services based on how much a typical household spends on each of them. For example, the typical household in the BLS sample spends 15% on transportation.

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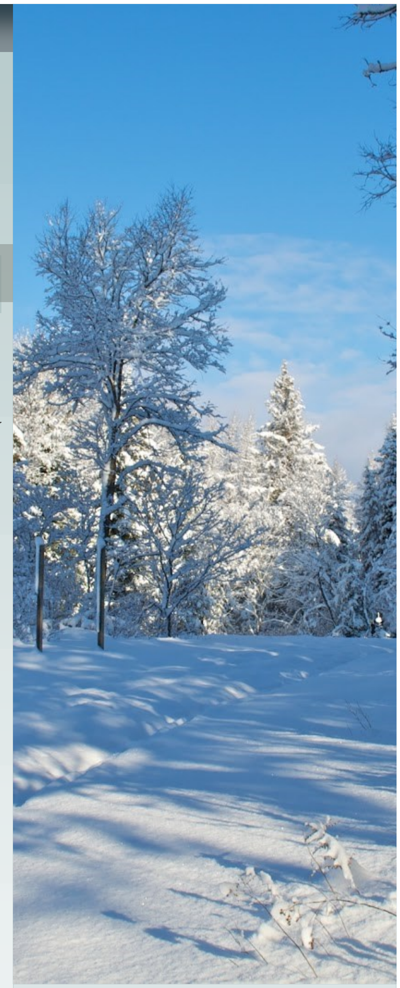

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Points of Interest

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providing a perfect environment for the Strategy. **At this time, the Strategy's goal is to own stocks that can *consistently produce income* with *lower levels of volatility*, while *exceeding inflation* and outperforming the S&P 500® Index on a *risk-adjusted basis*.**

Portfolio Overview | Performance Review

The Strategy had consistent but underwhelming performance in 2021, outperforming two out of the four quarters but underperforming by almost three percentage points for the calendar year 2021 ("CY2021"). That said, as can be seen in the comprehensive overview of the Strategy's performance provided in Table I, below, the Strategy was competitive relative to its peer group of low-volatility strategies and was in-line with the S&P 500® Dividend Aristocrats Index which serves as a secondary benchmark for the strategy.

Most of the underperformance was the result of the Strategy's more measured exposure to growth as a factor or style. The Information Technology (i.e., "Technology") sector and growth dramatically outperformed again in 2021, and the Strategy had more exposure to Consumer Staples, with broader, more comprehensive sector-level diversity than the market-capitalization-weighted S&P 500® Index, which favors outsized representations of large-cap Technology stocks. This overreliance on Technology has completely unwound year-to-date ("YTD") in 2022, exposing the inherent risks of overweighting sector or style-based exposures within an investment portfolio given the pending

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Table I: MP Core Contrarian Strategy - Peer Group Comparison & Performance Analysis
USD Total Return - Data as of December 31st 2021

Name/Description	Symbol/ Ticker	2020	1Q21	2Q21	3Q21	4Q21	2021
MP Core Contrarian Equity Portfolio Strategy*		**17.29%**	**6.86%**	**5.75%**	**0.79%**	**10.46%**	**25.83%**
S&P 500® Index	SP50	18.40%	6.17%	8.55%	0.58%	11.03%	28.71%
S&P 500® Value Index	SVXK	1.36%	10.77%	4.99%	**-0.85%**	8.31%	24.90%
S&P 500® Growth Index	SGX	33.47%	2.12%	11.93%	1.87%	13.37%	32.01%
S&P 500® Dividend Aristocrats Index	SP50DIV	8.68%	8.50%	5.80%	**-1.77%**	11.73%	25.99%
Invesco S&P 500 High Dividend Low Volatility ETF	SPHD	**-10.47%**	**15.24%**	3.67%	**-3.13%**	7.91%	24.65%
Invesco S&P 500 Quality ETF	SPHQ	**16.94%**	5.61%	**9.95%**	0.25%	9.95%	**27.86%**
FlexShares US Quality Large Cap Index Fund	QLC	13.29%	6.18%	**9.13%**	0.39%	10.42%	**28.33%**
iShares Core S&P 500 ETF	IVV	**17.96%**	6.32%	**8.38%**	**0.60%**	11.06%	**28.59%**
iShares MSCI USA Quality Factor ETF	QUAL	**16.66%**	5.26%	**9.42%**	**-0.54%**	10.81%	26.76%
Parnassus Core Equity Fund-Investor Shares	PRBLX	**20.77%**	**7.13%**	7.39%	0.12%	10.62%	**27.38%**
ProShares S&P 500 Dividend Aristocrats ETF	NOBL	7.93%	**8.46%**	5.57%	**-1.86%**	11.62%	25.24%
AMG Yacktman Fund - Class I	YACKX	15.04%	**8.84%**	4.80%	**-0.54%**	5.35%	19.52%
iShares Core Dividend Growth ETF	DGRO	8.98%	**8.28%**	4.87%	0.26%	11.22%	26.40%
MFS Low Volatility Equity Fund Cl A	MLVAX	11.15%	3.12%	**8.95%**	**2.19%**	8.94%	25.00%
SPDR SSGA US Large Cap Low Volatility ETF	LGLV	7.11%	5.09%	6.71%	**0.60%**	**13.41%**	**27.68%**
WisdomTree US Quality Dividend Growth ETF	DGRW	13.48%	6.42%	4.87%	**-0.90%**	**12.51%**	24.23%
FlexShares US Quality Low Volatility Index ETF	QLV	9.43%	2.95%	7.84%	**1.11%**	**12.32%**	25.94%
Vanguard Dividend Appreciation ETF	VIG	15.09%	4.55%	5.70%	**-0.32%**	**12.32%**	23.55%
FMI Large Cap Fund Investor Class	FMIHX	10.09%	6.05%	4.11%	**-2.65%**	9.78%	18.00%
BMO Low Volatility Equity Fund Class A	BLVAX	**-2.14%**	4.06%	5.52%	**-0.08%**	10.72%	21.32%
Invesco S&P 500 Low Volatility ETF	SPLV	**-1.57%**	3.84%	5.17%	0.31%	**13.28%**	23.89%
iShares MSCI USA Min Vol Factor ETF	USMV	5.35%	2.33%	6.70%	0.24%	10.41%	20.69%
Fidelity U.S. Low Volatility Equity Fund	FULVX	3.81%	2.14%	6.62%	**-1.11%**	9.14%	17.52%

* *For Additional Information, Please Refer to Disclosures: The McShane Partners Core Contrarian Equity Portfolio Strategy*

Source: McShane Partners - Envestnet | Tamarac, Inc. & FactSet Research Systems, Inc.

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normalization of interest rates and a maturing market cycle.

The *largest positive contribution to absolute performance* in 2021 came from long-term positions in shares of Nucor Corp. ("NUE"), which returned **+118.45%** in CY2021, helping to offset the relative underperformance of positions in Activision Blizzard, Inc. ("ATVI"), which fell **-28.00%** for CY2021.*

Our patience and conviction despite headline risks and stock volatility paid off when the scandalous 2021 decline in ATVI reversed in 2022 when Microsoft Corp. ("MSFT") announced its planned acquisition of ATVI for total consideration of $74.0 billion, making it potentially the largest Technology deal ever. The risk remains that the political prejudices against behemoth Technology companies remains decidedly negative, creating potential antitrust hurdles for successful completion of the deal. As a result, shares of ATVI still trade at a **-17.1%** discount to the announced all-cash offer deal price, creating a favorably balanced risk-reward scenario given the visibility on a stated return relative to the implied potential downside in the event the deal falls through.

Risk Metrics Move in 2021

Given the Strategy's explicit mandate on relative risk metrics and the Investment Team's fundamental approach to valuation, the Strategy has traditionally run with a beta <u>below</u> 1.00: *beta is relative measure of an investment's sensitivity to the movements of a given financial market or index (i.e., benchmark), wherein the respective benchmark's beta is 1.00 by definition*. When reviewing risk-return analytics or quantifying risk-adjusted performance, beta can be useful when a portion of the investment's performance history can be attributed to or explained by the benchmark, although it is important to understand that a low beta does not imply lower levels of volatility, but, rather, a lower relative level of benchmark-related (i.e., market-related) risk.

After the initial pandemic-induced market correction during the first quarter of 2020 ("1Q20"), the Investment Team shifted portfolio-level positioning to increase relative exposure to market-related

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Table II: S&P 500® Index Sector Heat Map
USD Total Return - Data as of December 31st 2021

Sector-Level Index	2019	2020	1Q21	2Q21	3Q21	4Q21	2021
Defensives							
Utilities	+26.35%	+0.48%	+2.80%	**-0.41%**	**+1.78%**	+12.93%	**+17.67%**
Communication Services	**+32.69%**	**+23.61%**	+8.08%	+10.72%	+1.60%	**-0.01%**	+21.57%
Health Care	**+20.82%**	+13.45%	+3.18%	+8.40%	+1.43%	+11.17%	+26.13%
Consumer Staples	+27.61%	+10.75%	**+1.15%**	**+3.83%**	-0.31%	+13.31%	**+18.63%**
Near Cyclicals							
Energy	**+11.81%**	**-33.68%**	**+30.85%**	+11.30%	-1.66%	+7.97%	**+54.64%**
Financials	**+32.13%**	**-1.69%**	**+15.99%**	+8.36%	**+2.74%**	**+4.57%**	+35.04%
Real Estate	+29.01%	**-2.17%**	+9.02%	**+13.09%**	+0.88%	**+17.54%**	**+46.19%**
Cyclicals							
Information Technology	**+50.29%**	**+43.89%**	**+1.97%**	**+11.56%**	+1.34%	**+16.69%**	+34.53%
Consumer Discretionary	+27.94%	**+33.30%**	+3.11%	+6.95%	+0.01%	+12.84%	+24.43%
Industrials	+29.37%	+11.06%	+11.41%	+4.48%	**-4.23%**	+8.64%	+21.12%
Materials	**+24.58%**	+20.73%	+9.08%	+4.97%	**-3.51%**	+15.20%	+27.28%
S&P 500® Index	**+31.49%**	**+18.40%**	**+6.17%**	**+8.55%**	**+0.58%**	**+11.03%**	**+28.71%**

Source: McShane Partners - FactSet Research Systems, Inc.

* *In accordance with Rule 206(4)-1(a)(2) of the Investment Adviser Act of 1940 (the "Advisers Act"), upon request by an individual or interested party, McShane Partners (the "Adviser") will make available a list of applicable discretionary investment recommendations made by the Adviser with respect to the McShane Partners Core Contrarian Equity Portfolio Strategy (the "Strategy") over the corresponding trailing 12-month period ended December 31st 2021.*

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risk, which helped us keep up with the massive rebound in U.S. equity markets throughout the rest of calendar year 2020 ("CY2020"), including the pro-cyclical rotation following the 2020 U.S. Presidential election; for example, the Strategy's positioning in NUE, a leading manufacturer of steel and steel products headquartered in Charlotte, NC. In the midst of the ongoing global pandemic and COVID-19 crisis, the Strategy ended CY2021 with a slightly elevated beta of **±1.04** for the trailing 12-month period ended December 31st 2021.

Given persistent concerns about the market's ability to digest difficult earnings comparisons in 2022 and stretched valuations, the Investment Team targeted strategic reductions in beta early on in the year; most recently, the Strategy's positions in shares of Cognizant Technology Solutions Corp. ("CTSH") were sold as a result of the stock's historically elevated beta, as well as recent relative outperformance vs. the broader S&P 500® Index. Running a lower beta and producing similar performance to the S&P 500® Index has contributed to the Strategy's track record of delivering strong risk-adjusted returns, which is why the Investment Team is paying particularly close attention the Strategy's risk metrics at this time and will not tolerate excessive risk exposures and will actively reduce risk.

The combined backdrop of normalizing interest rates, enigmatic inflation, and decelerating earnings growth suggests a more complicated year for financial markets, similar to what we saw in 2018. Calendar year 2018 ("CY2018") was categorized by negative returns for equity markets and passive, index-tracking strategies, as financial markets digested rising rates and concerns over percolating wage inflation. The Strategy generated a net total return of **+2.47%** for CY2018 vs. **-4.38%** for the S&P 500® Index, with international equity markets experiencing double-digit declines for the year. History is not a predictor of the future, but this type of counter-market performance without leverage or shorting makes the Strategy an ideal candidate for consideration when confronted with divergent scenarios in an evolving, dynamic equity market with frustratingly low bond yields.

Monthly Index Review
USD Total Return

Data as of January 31st 2022	January 2022	2022 YTD	2021	2020
S&P 500® Index	-5.17%	-5.17%	**+28.71%**	+18.40%
Dow Jones Industrial Average	-3.24%	-3.24%	+20.95%	+9.72%
NASDAQ Composite	**-8.96%**	**-8.96%**	**+22.18%**	**+44.92%**
Russell 2000	**-9.63%**	**-9.63%**	+14.82%	**+19.96%**
MSCI Emerging Markets	-1.89%	-1.89%	**-2.22%**	+18.69%
MSCI EAFE	-4.82%	-4.82%	+11.78%	+8.28%
Bloomberg U.S. Aggregate Index	-2.15%	-2.15%	**-1.54%**	+7.51%

Stock & Strategy Spotlight

Name	Ticker	January 2022	2022 YTD	2021
SK Telecom Co. Ltd. Spons. ADR	SKM	-1.61%	-1.61%	+15.48%

Description & Investment Thesis

On November 30th 2021, SK Telecom Co. Ltd. ("SKM") successfully completed its planned horizontal spin-off of several non-core businesses into a new independent entity, SK Square Co. Ltd. ("Square"), as part of the company's stated strategy of streamlining operations and prioritizing high-quality, value-additive, and profitable growth initiatives across its core telecommunications services and products businesses. In conjunction with the spin-off of Square, the company completed a *reverse stock split* in its *American depositary receipt* ("ADR") shares to reflect the adjusted *ADR exchange ratio* following the Square spin-off, most likely due to the fact that ADR shareholders were ineligible to receive shares of Square as part of the transaction. Instead, SKM ADR shareholders received a special dividend payment of **±$19.26/share** on Dec. 27th 2021, which was reflected in the gap down in share price when the stock began trading post-dividend. Despite the multitude of moving points involved in this transaction, the Investment Team believes that the underlying fundamentals remain healthy, and the long-term thesis remains intact for SKM.

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Disclosures: The McShane Partners Core Contrarian Equity Portfolio Strategy

Performance data for the McShane Partners Core Contrarian Equity Portfolio Strategy reflect aggregated, asset-weighted returns of underlying account-level performance and is unaudited.

Strategy Limitations The Investment Strategy (the "Strategy") performance shown reflects the asset-weighted performance of actual performance data and time-weighted returns for representative Investment Portfolios (the "Portfolios") over the respective time frames in accordance with the objectives of the McShane Partners Core Contrarian Equity Portfolio Strategy (the "MP Core Contrarian Strategy") managed by McShane Partners (the "Adviser"). While the performance of the Strategy is believed to have been calculated reliably and accurately, the Strategy performance data and returns have not been audited, and, as such, the results are subject to limitations inherent in the use of historical performance reporting and returns.

Fees & Expenses Strategy performance results shown are presented net of applicable management fees of and assumes the reinvestment of dividends and all other income. Because some investors may have different fee arrangements, and, depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

Net Strategy performance is presented gross of custodial fees but net of investment management fees and transaction costs. Net performance is calculated by using the actual fees charged to each Investment Portfolio throughout the Strategy for the performance period. Returns include the reinvestment of dividends and other earnings. Prospective investors should expect their rates of return to be reduced by investment management fees, along with other expenses incurred in the management of the account, which are fully described in the McShane Partners' Brochure (Form ADV Part 2A). Because some investors may have different fee arrangements and, depending on the timing of a specific investment, net performance for an individual investor may vary from the net performance as stated herein.

Other Information Past performance is not necessarily indicative of future results. All investments are subject to risk, and investing in accordance with the strategy, like all investments, may lose money. The performance shown is representative of investment strategies and styles used by the Adviser and such style may not be suitable for each potential investor. The Strategy is representative of an investment strategy and style used by the Adviser and such style may not be suitable for each potential investor. All material presented is compiled from sources believed to be reliable and current, but accuracy cannot be guaranteed. This is not to be considered as an offer to buy or sell any financial instruments. Additional information regarding policies for calculating and reporting returns is available upon request.

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Information Regarding Benchmarks & Indexes

Information about indexes is provided to allow for comparison of the performance of the Adviser to that of certain well-known and widely recognized indexes. There is no representation that such index is an appropriate benchmark for such comparison. You cannot invest directly in an index, which also does not take into account trading commissions and costs. The volatility of indexes may be materially different from the performance of the Adviser. In addition, the Adviser's recommendations may differ significantly from the securities that comprise the indexes.

Benchmark & Index Definitions The following benchmark and index definitions used by the Adviser for the Strategy have been sourced directly from the respective index provider's website, and the data are considered to be widely-known, publicly-available information.

Return Methodology S&P Dow Jones Indices calculates multiple return types which vary based on the treatment of regular cash dividends. The classification of regular cash dividends is determined by S&P Dow Jones Indices: Gross Total Return ("TR") versions reinvest regular cash dividends at the close on the ex-date without consideration for withholding taxes.

S&P 500® Index

The S&P 500® Index ("S&P 500®") is widely regarded as the best single gauge of large-cap U.S. equities. There is over $11.2 trillion indexed or benchmarked to the index, with indexed assets comprising approximately $4.6 trillion of this total. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

S&P 500® Value Index | S&P 500® Growth Index

The S&P U.S. Style Indices measure the performance of U.S. equities fully or partially categorized as either growth or value stocks, as determined by Style Scores for each security. The Style series is weighted by float-adjusted market capitalization ("FMC"). The Style index series divides the complete market capitalization of each parent index approximately equally into growth and value indices based on three factors each used to measure growth and value.

S&P 500® Dividend Aristocrats Index

The S&P 500® Dividend Aristocrats Index measures the performance of S&P 500® companies that have increased dividends every year for the last 25 consecutive years. The Index treats each constituent as a distinct investment opportunity without regard to its size by equally weighting each company.

Wealth Advisory Overview

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Therefore, the transportation category has a 15% weighting.

Over the last 12 months, the main sources of inflation have been energy costs, including gasoline and utilities, as well as transportation, including the prices of used cars. More recently, you may have noticed higher prices at grocery stores and restaurants. There may be differences across various states and regions. Therefore, the BLS website makes CPI information available at a regional level.

Why is Inflation Bad?

The most obvious effect of inflation is that it lowers the purchasing power of your income. For example, if your income increased by 3% at the beginning of 2021 and the cost of living went up by 5%, your real income declined by approximately 2% over the course of the year. While incomes tend to adjust to inflation over time, not everyone's income will move in tandem with inflation. Therefore, high inflation can mean a decrease in real income for some individuals and can be particularly hard for individuals living on fixed incomes.

Make a Plan

Inflation causes most individuals to worry. Therefore, it is important that you have a good financial plan in place to help you achieve your goals. Whether you are planning for a future retirement, evaluating your retirement readiness, or estimating the amount you can safely withdraw, a well-developed financial plan will assist you in charting a successful path. While having a financial plan in place is an important first step, it is also important to note that planning is an evolving process. Financial planning assumptions should be revised and updated frequently to assist you in making decisions as your financial picture evolves. While we think that long-term inflation will be more normalized, a financial plan that considers multiple inflation scenarios can be simulated to ensure that you are prepared for inflation risks.

What Can You Do Now?

There is no silver bullet to protect against unexpected inflation. It is one of the risks that must be incorporated when developing a long-term financial plan. However, there may be some steps that can be taken to limit the impact of inflation on your personal situation.

- *Purchase Instead of Rent* – During an inflationary period, the market usually favors purchasers over renters. Landlords usually increase rents next to the level of inflation. But if you are a homeowner, your payments are fixed, and the value of your home is likely to increase over time.
- *Refinance Debt* – If you haven't yet taken advantage of historically low-interest rates, you may want to consider refinancing your mortgage or other loans. Low-interest rates mean the price of borrowing money is particularly low. Reducing the costs of your loans means you have more money to help with other costs that may be rising.
- *Budget* – Watching what you spend will help you stay on track. Tracking your cash flow by monitoring your income, expenses and savings can help you spend the same, regardless of the increasing costs.
- *Maintain a Diversified Investment Portfolio* - Inflation is just one factor to consider when making adjustments to a portfolio. For investors, diversifying across several different types of assets to help withstand a volatile stock market period is essential. It is best to create a mix of investments that differ from each other to keep up with rising prices. How much in stocks versus bonds and other asset classes should depend on your goals and time horizon, not on current inflation fears.
- *Don't Make Dramatic Changes* – To avoid catastrophic risks, be careful not to make too many drastic changes based on current inflation or changing market conditions.

Tax Update: 2022 Frequently Referenced Tax Numbers

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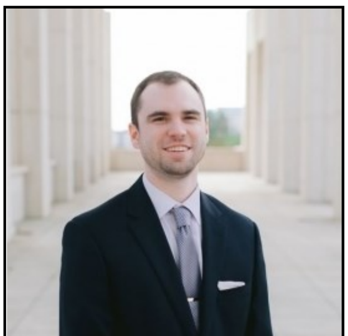
- The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased to $20,500, up from $19,500. The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan remains unchanged at $6,500. Therefore, participants in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan who are 50 and older can contribute up to $27,000, starting in 2022.
- The standard deduction for married couples filing jointly for tax year 2022 rises to $25,900 up $800 from the prior year. For single taxpayers and married individuals filing separately, the standard deduction rises to $12,950 for 2022, up $400, and for heads of households, the standard deduction will be $19,400 for tax year 2022, up $600.
- The annual gift tax exclusion in 2022 is $16,000.
- Estate and gift tax basic exclusion is $12,060,000 per person during 2022, up from a total of $11,700,000 for estates of decedents who died in 2021. This is set to sunset on December 31, 2025.
- The limit on annual contributions to an IRA remains unchanged at $6,000. The IRA catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains $1,000.

NextGen: HSAs as a Retirement Vehicle



Daniel Hudspeth, CFP®
Wealth Associate

A Health Savings Account, also referred to as an HSA, is available to those who participate in high deductible health plans. The threshold for a high deductible plan is currently $1,400 for individuals and $2,800 for families. The current annual contribution limits are $3,650 for individuals and $7,300 for families with an additional $1,000 catch up contribution available at age 55. These accounts provide tax deferred or even tax-free growth when used for qualified medical expenses which include co-pays, health insurance deductibles, eye care, prescriptions, etc. Plan participants can continue to contribute until Medicare enrollment. While these accounts are a valuable tool for funding health care expenses, they also provide flexibility to fund something else – retirement.

HSAs are similar to traditional retirement accounts such as IRAs and 401(k)'s in the sense that each account type provides tax deferred growth. This means that an account holder would not be taxed until the year a distribution is made from the account. However, the HSA can also provide the additional tax-free treatment when used for qualified medical expenses.

Instead of using the HSA to reimburse current medical expenses, an individual could leave funds to grow much like their investments in other retirement accounts. This provides the account holder with some flexibility since these funds are always available for medical expenses if needed as the money in the account is not "use it or lose it". If funds are not needed for medical expenses, they can be withdrawn during retirement for other expenses and have grown tax deferred up until that point. As always, please contact a McShane Partners team member for more information about HSAs and any questions you may have.

Senior Planning: Strategies for Original Account Owners to Mitigate Shortened Window for Inherited IRA Distributions

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In our December newsletter we reviewed strategies that beneficiaries could use to manage the tax impact of the new 10-year rule for inherited IRAs. The 10-year rule, part of the Secure Act of December 2019, resulted in a loss of the stretch provision for certain non-eligible designated beneficiaries who inherit individual retirement accounts (IRAs). Instead of taking a required amount each year "stretched out" over their lifetime, beneficiaries are now required to deplete the entire inherited account balance within 10 years of the original account holder's death. This month we will look at options available to the original account owners.

Increase the Number of Beneficiaries on Retirement Accounts

- If possible, this will spread the IRA account balance over more beneficiaries resulting in smaller accounts being inherited. The results would be smaller distributions for each beneficiary and therefore a lower tax burden.
- Avoid beneficiaries who are minor children. This could result in the Kiddie Tax and therefore would eliminate the benefit of the additional beneficiary.

Leave Beneficiaries Unequal Amounts Based on Their Own Tax Situations

- Roth assets are not taxable to beneficiaries, so this works best if there are both Roth assets and Traditional pre-tax IRA assets. More of the Roth assets can be allotted to the higher earning beneficiaries and less to the lower earning beneficiaries, while the lower earning beneficiaries would then receive more of the pre-tax Traditional IRA assets.
- Be sure to explain the reasons for the unequal distributions to heirs in advance to avoid any confusion or hard feelings.

Bypass the Spouse to Create Two Separate 10-Year Windows

- Leaving some or all IRA assets to the children instead of the spouse starts a 10-year window for each child. When the second spouse passes, another 10-year window is created for the withdrawal of the remaining inheritance, effectively stretching the withdrawal period out longer than if the children had inherited all the assets at the second death
- Make sure that the surviving spouse has enough assets to support them throughout retirement, without the IRA assets from the first spouse.

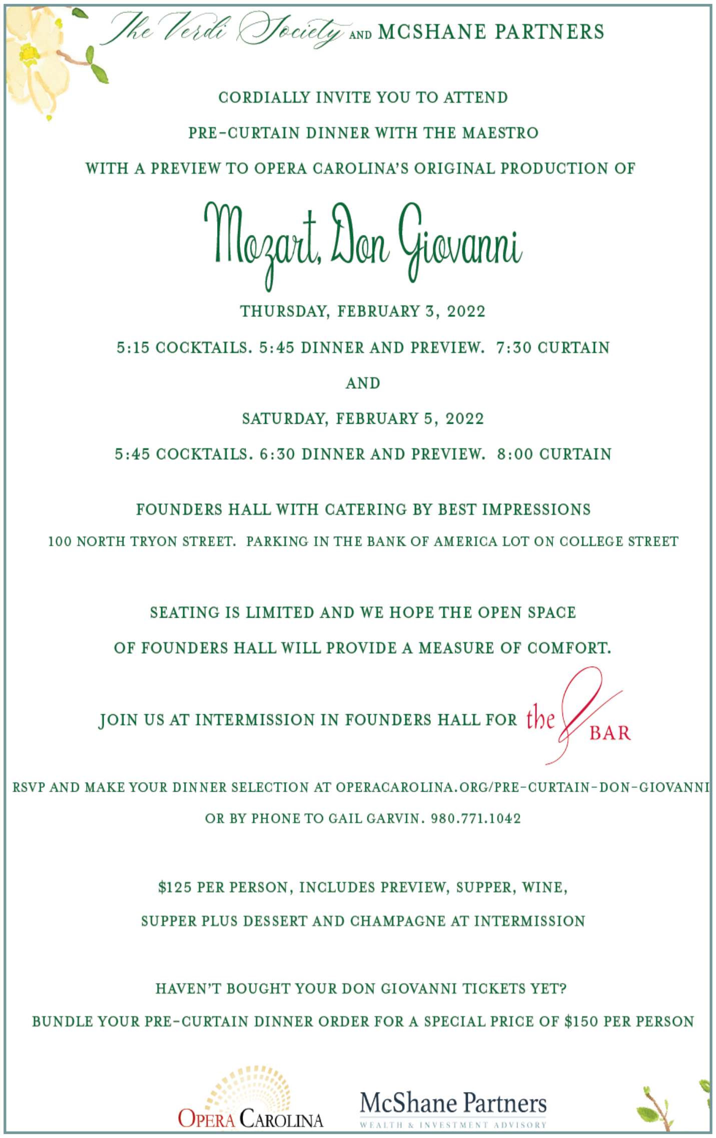
Partially or Completely Convert Existing IRA Accounts to Roth IRA Accounts

- This is the most efficient way for account owners to mitigate the potential tax burden on heirs. By converting existing IRA accounts to Roth IRAs, the original owner is essentially pre-paying the tax based on the owner's presumably lower tax bracket rather than the beneficiary's potentially higher tax bracket during high earning/ working years.
- Be sure to consider the relevant tax situations of all involved and the impact of the original owner's tax liability on their cash flow.

Let your McShane Partners Wealth Advisor know If you have questions regarding the new 10-year rule and how it will affect your beneficiaries.

Around McShane Partners

Opera Carolina—Don Giovanni



McShane Partners is proud to join the Verdi Society in sponsoring a preview to the Opera Carolina's production of Mozart's Don Giovanni on February 3rd and 5th .

Snow Days

The McShane Partners team enjoyed the winter weather last month. Operations Manger Corey Meyer and his 8 month old Husky, Comet, were right at home during the freezing temperatures.

McShane Partners Tax Director and Wealth Advisor Becky Hoover enjoying the 10 inches of snow at her cabin in Blowing Rock, NC.

McShane Partners

Wealth management is our only business; therefore, our attention is undivided, and our intentions are transparent.

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