Financial Wellness Update

May 12, 2020

THE TRUST COMPANY *of* TENNESSEE

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Information has been obtained from a variety of sources believed to be reliable though not independently verified.

Any forecast represents median expectations, and actual returns, volatilities and correlations will differ from forecasts.

Each index is unmanaged and investors cannot actually invest directly into an index.

Past performance does not indicate future performance.

This paper does not represent a specific investment recommendation.

Please consult with your advisor, attorney and accountant, as appropriate, regarding specific advice.

THE CARES ACT

NEW! CARES ACT DISTRIBUTIONS

After the CARES Act

The **10% early withdrawal penalty is waived** on distributions up to $100,000 from a retirement plan or IRA if:

Diagnosed with COVID-19

- The participant, their spouse, or dependent is diagnosed with Coronavirus.

Adverse Financial Consequences

- The participant experiences adverse financial consequences as a result of being quarantined including:
  - Furloughed
  - Laid off
  - Reduced work hours
  - Unable to work due to lack of child care due to COVID-19
  - The closing or reducing of hours of a business owned or operated by the individual due to COVID-19

Other factors subject to changes by the Treasury

This distribution must occur from a tax-qualified retirement plan on or after January 1, 2020 and before December 31, 2020.

PLAN LOANS

After the CARES Act

For 180 days from the date of enactment of the CARES Act, a participant as previously described under the Hardship Rules, can request a loan for the lesser amount of:

1. $100,000 minus the highest outstanding balance of loans in the past 12 months, or
2. 100% of the present value of the participant's vested account balance.

The due dates for repayment of these loans is also delayed for one year.

REQUIRED MINIMUM DISTRIBUTIONS

After the CARES Act

The CARES Act waives RMDs for calendar year 2020 for all defined contribution plans, including 401(k), 403(b), 457(b) and IRAs.

This includes 2019 RMD distributions due by April 1, 2020 for those who had not yet received their first distribution if they turned 70 ½ in 2019.

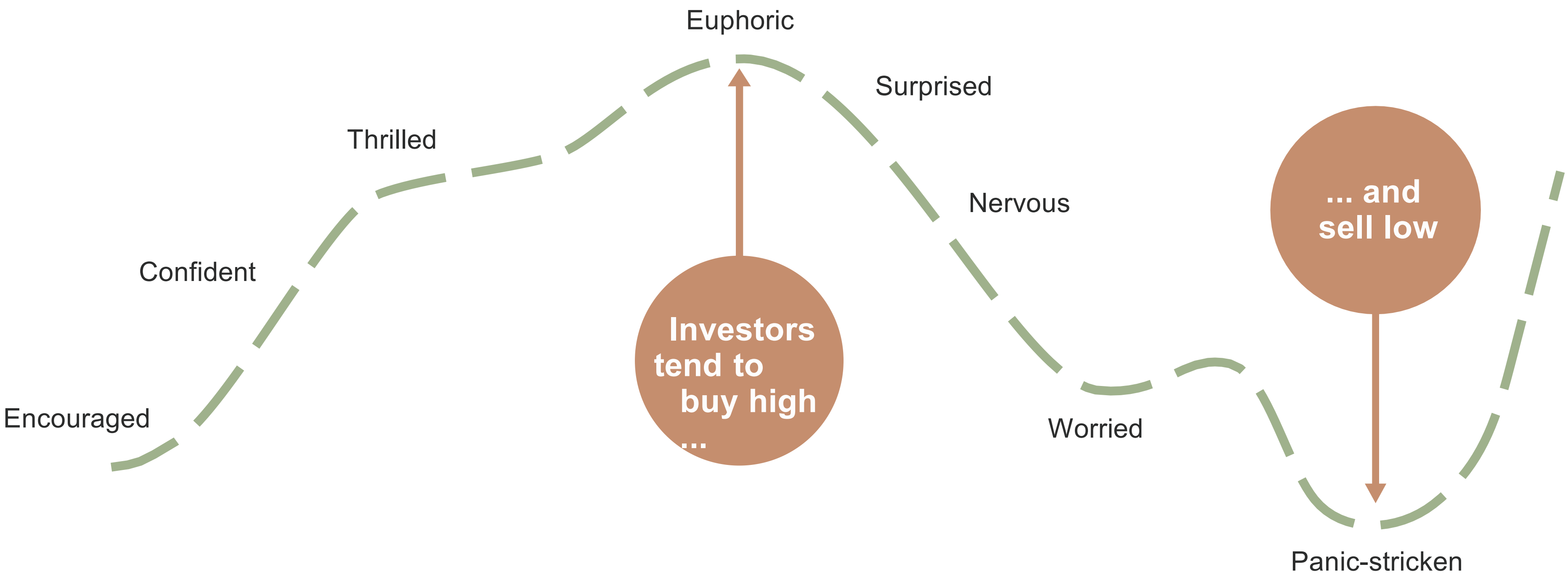
FINANCIAL WELLNESS
&
MANAGING VOLATILITY

INVESTING WITH EMOTIONS CAN BE COSTLY

When things are bad, we want to limit our losses. When things are great, we wish we had invested more. We all fear missing out.

When investing, giving in to fear often is a losing strategy. Investors with this mindset tend to buy high and sell low as they invest more in a rising market and pull money out in a falling market.

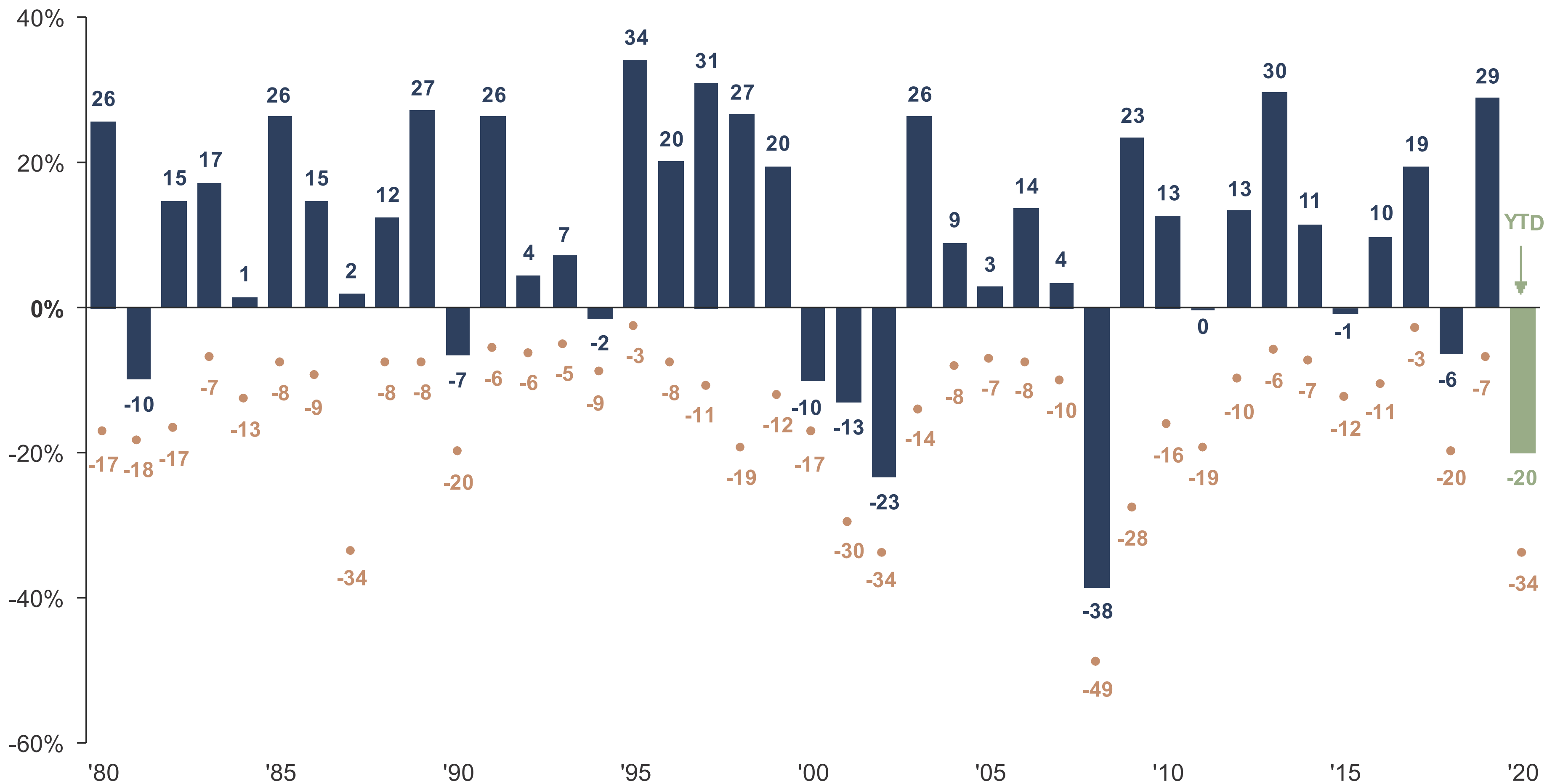
Riding the ups and downs of the market



ANNUAL RETURNS AND INTRA-YEAR DECLINES

S&P 500 intra-year declines vs. calendar year returns

Despite average intra-year drops of 13.8%, annual returns positive in 30 of 40 years



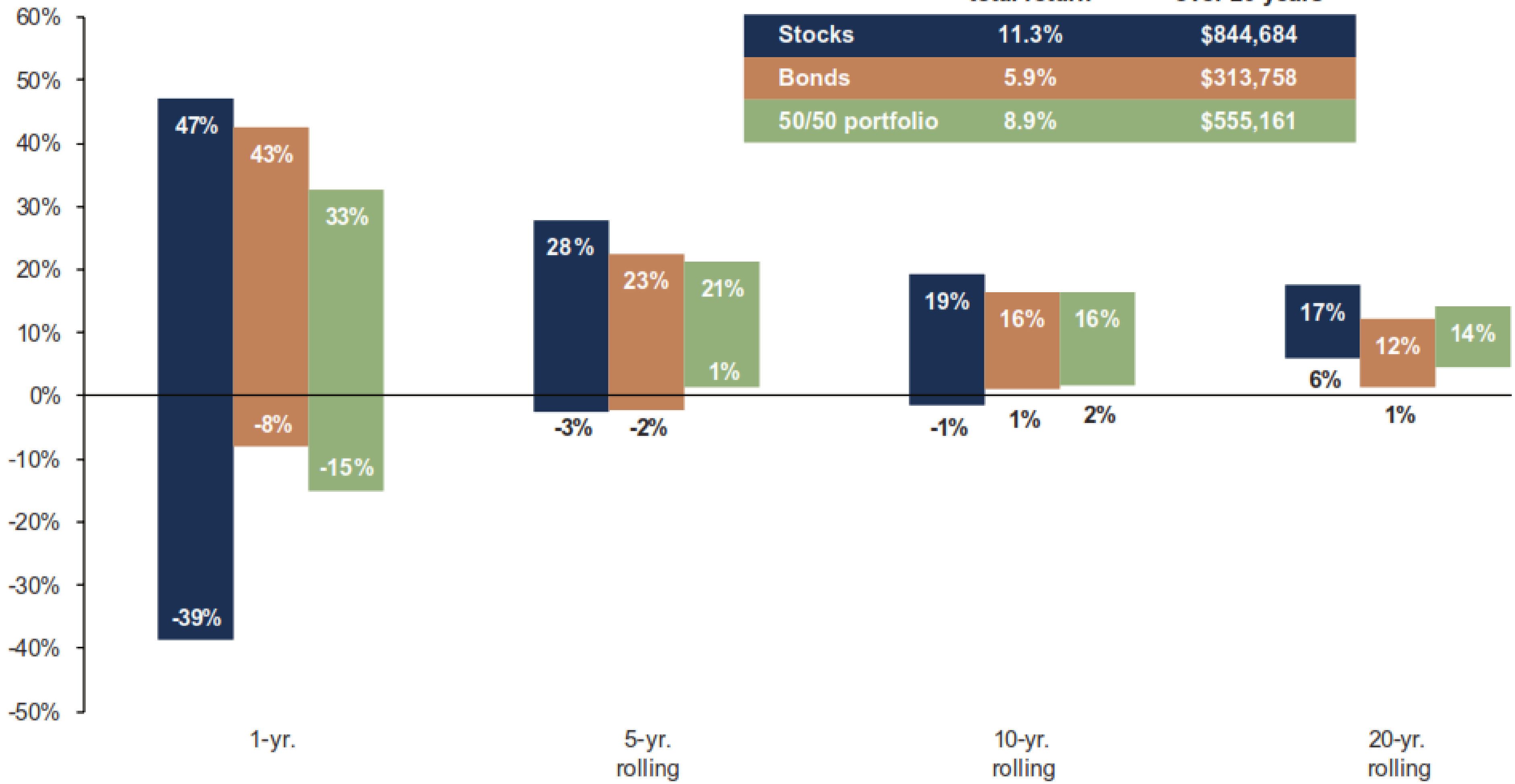
Source: FactSet, MSCI, Standard & Poor's, J.P.Morgan Asset Management. Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2019, over which time period the average annual return was 8.9%. *Guide to the Markets – U.S.* Data are as of March 31, 2020.

TIME, DIVERSIFICATION AND VOLATILITY

Range of stock, bonds and blended total returns

Annual total returns, 1950-2019

	Annual avg. total return	Growth of $100,000 over 20 years
Stocks	11.3%	$844,684
Bonds	5.9%	$313,758
50/50 portfolio	8.9%	$555,161

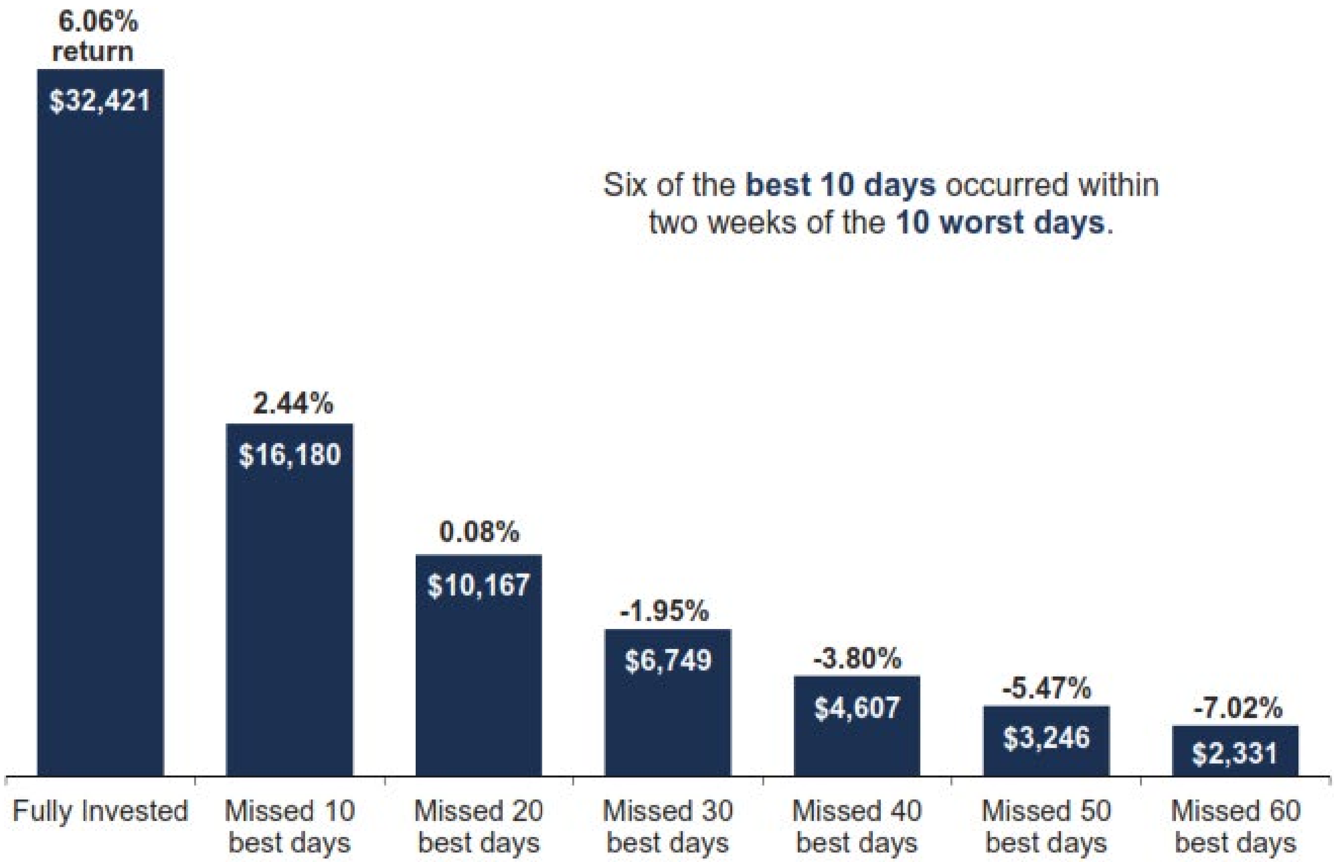


Source: Barclays, Bloomberg, FactSet, Federal Reserve, Robert Shiller, Strategas/Ibbotson, J.P. Morgan Asset Management. Returns shown are based on calendar year returns from 1950 to 2019. Stocks represent the S&P 500 Shiller Composite and Bonds represent Strategas/Ibbotson for periods from 1950 to 2010 and Bloomberg Barclays Aggregate thereafter. Growth of $100,000 is based on annual average total returns from 1950 to 2019. *Guide to the Markets – U.S.* Data are as of March 31, 2020.

STAYING INVESTED MATTERS

Returns of the S&P 500

Performance of a $10,000 investment between Jan. 3, 2000, and Dec. 31, 2019

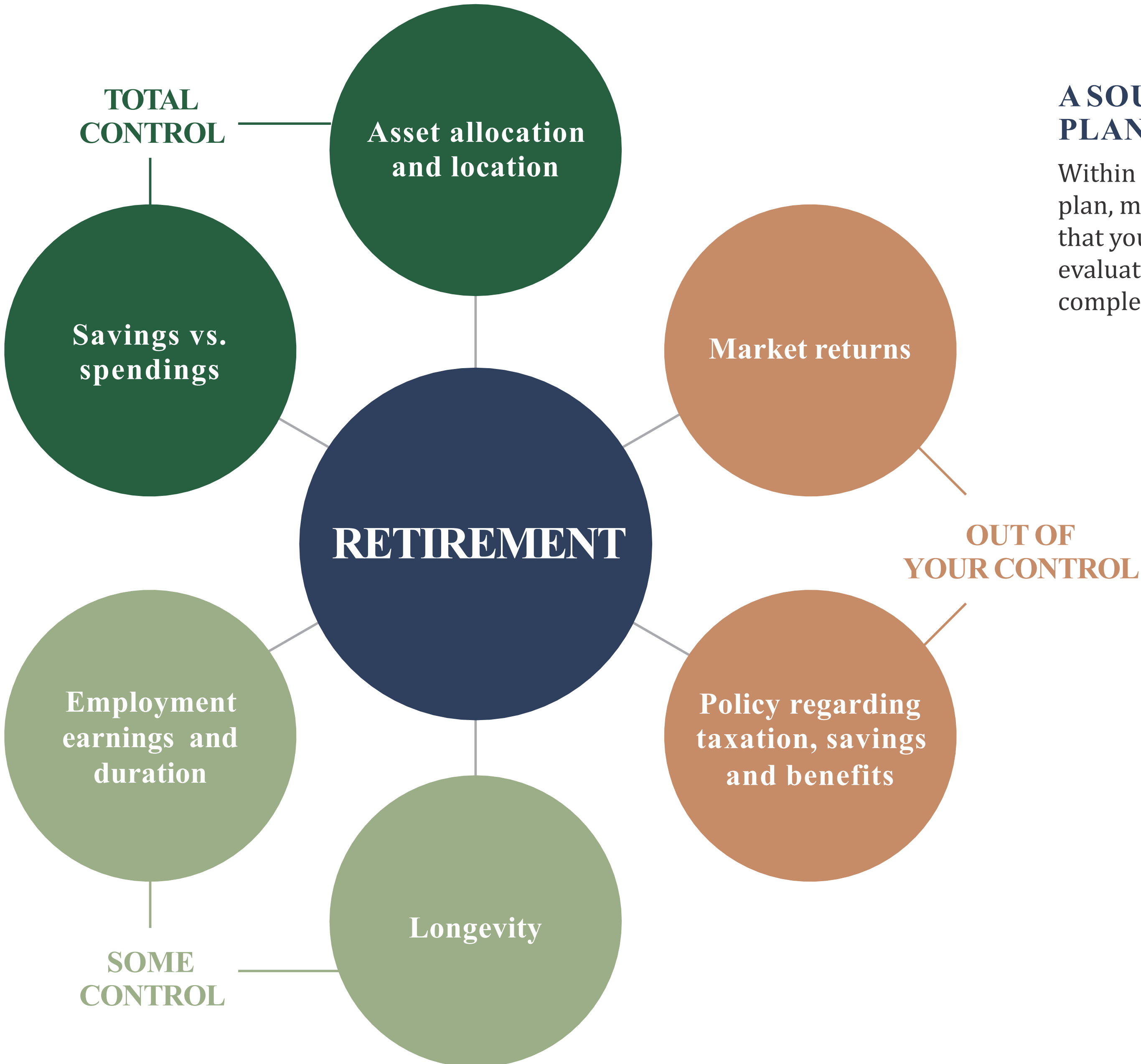


PLAN TO STAY INVESTED

Trying to time the market is extremely difficult. Market lows often result in emotional decision making. Investing for the long-term while managing volatility can result in a better outcome.

Source: J.P. Morgan Asset Management analysis using data from Bloomberg. Returns are based on the S&P 500 Total Return Index, an unmanaged capitalization-weighted index that measures the performance of 500 large capitalization domestic stocks representing all major industries. Indices do not include fees or operating expenses and are not available for actual investment. The hypothetical performance calculations are shown for illustrative purposes only and are not meant to be representative of actual results while investing over the time periods shown. The hypothetical performance calculations for the respective strategies are shown gross of fees. If fees were included, returns would be lower. Hypothetical performance returns reflect the reinvestment of all dividends. The hypothetical performance results have certain inherent limitations. Unlike an actual performance record, they do not reflect actual trading, liquidity constraints, fees and other costs. Also, since the trades have not actually been executed, the results may have under-or overcompensated for the impact of certain market factors such as lack of liquidity. Simulated trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. Returns will fluctuate and an investment upon redemption may be worth more or less than its original value. Past performance is not indicative of future returns. An individual cannot invest directly in an index. Data as of Dec. 31, 2019.

THE RETIREMENT EQUATION



A SOUND RETIREMENT PLAN

Within your comprehensive retirement plan, make the most of the things that you can control but be sure to evaluate factors that are somewhat or completely out of your control.

Source: The Importance of Being Earnest, J.P. Morgan Asset Management, 2013.

WHERE DO WE STAND?
CAPITAL MARKET FACTORS EXPLAINED

Economic Growth

For the first time in history, we are entering what will be a steep recession and we will know it with near certainty before it technically arrives. This pre-packaged recession is a different dynamic than we've ever had in our nation's history.

Monetary Policy

Since the COVID-19 crisis emerged, the Federal Reserve has fired cannon after cannon and has truly become the mass buyer of last resort in an unprecedented manner. It is clear the Fed is prepared to take any and every action it can.

Fiscal

Trillions of dollars of spending that was not anticipated a few weeks ago will now occur. Furthermore, trillions in lost tax receipts will be lost as revenues to the Treasury will shrink meaningfully. We believe we will have massive budget deficits not seen since perhaps World War II, and this crisis will alter the path of debts and deficits for decades.

Inflation

Near-term, demand destruction and massive unemployment increases will keep inflation modest. However, necessary fiscal and monetary policy enacted to combat COVID-19 is likely planting the seed for higher future inflation levels.

Currency

Given the extreme uncertainty, it is likely the U.S. dollar will continue to serve as a global safe haven.

HISTORICALLY, POLITICS DON'T MATTER TO MARKETS

Annualized equity returns

Democratic President

9.2%

Republican President

9.1%

Divided Government

10.0%

Unified Government

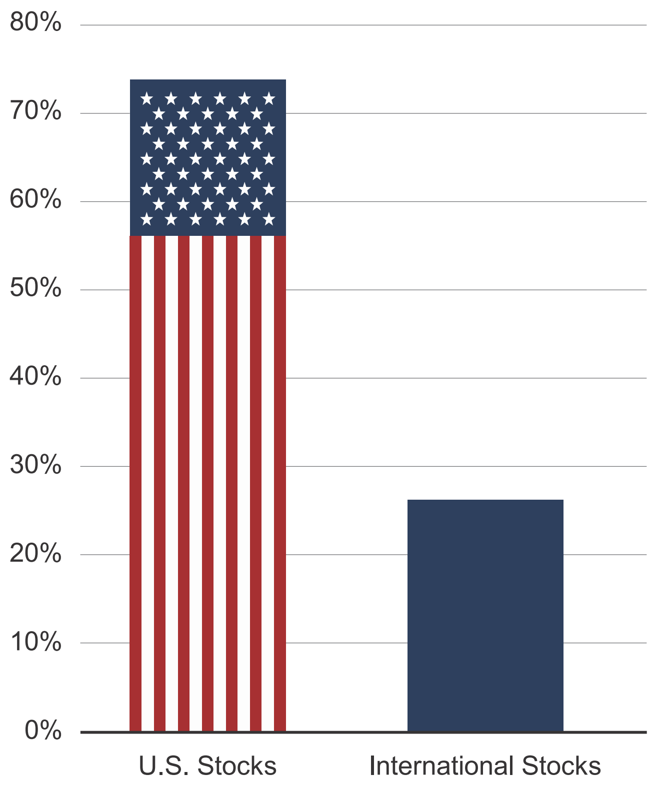
8.2%

Source: Bloomberg and AB. Past performance does not guarantee future results. Left display: returns reflect annualized returns for each presidential term dating back to 1937, based on the Dow Jones Industrial Average. Right display: returns reflect annualized returns for each congressional term dating back to 1937, based on the Dow Jones Industrial Average. As of Dec. 31, 2019.

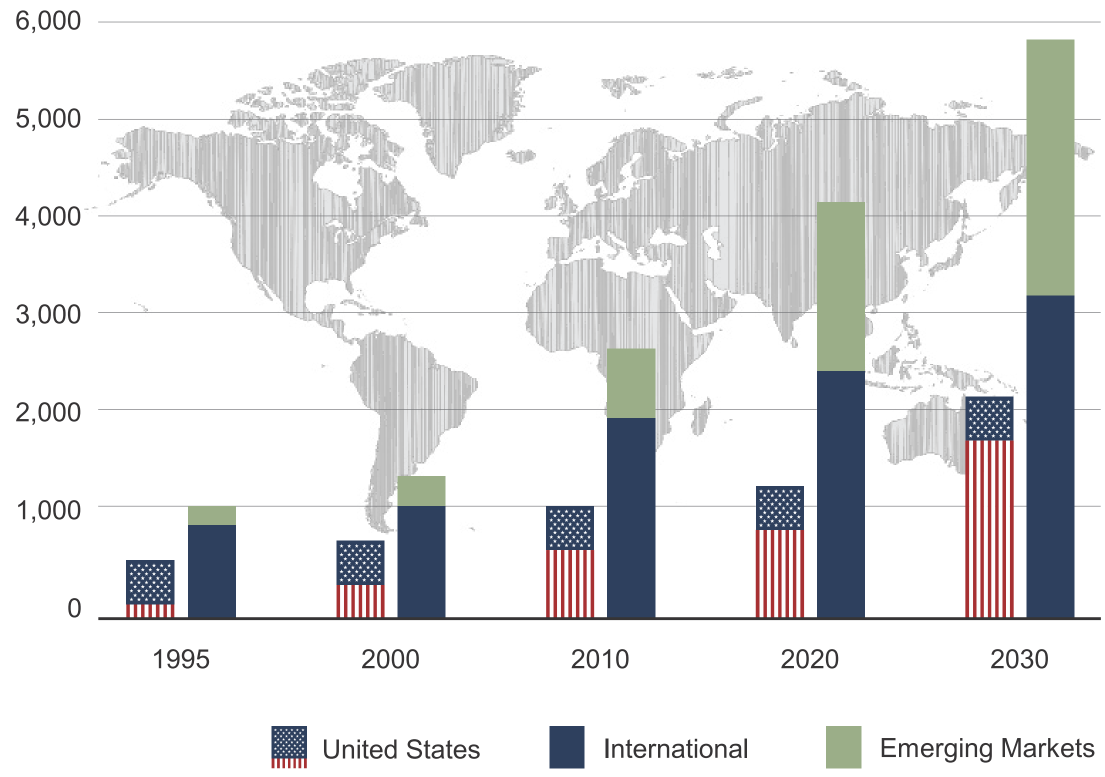
OPPORTUNITY IN INTERNATIONAL STOCKS

Imbalance: the home bias

Typical U.S. investor portfolio



Stocks with a market cap over $1 billion

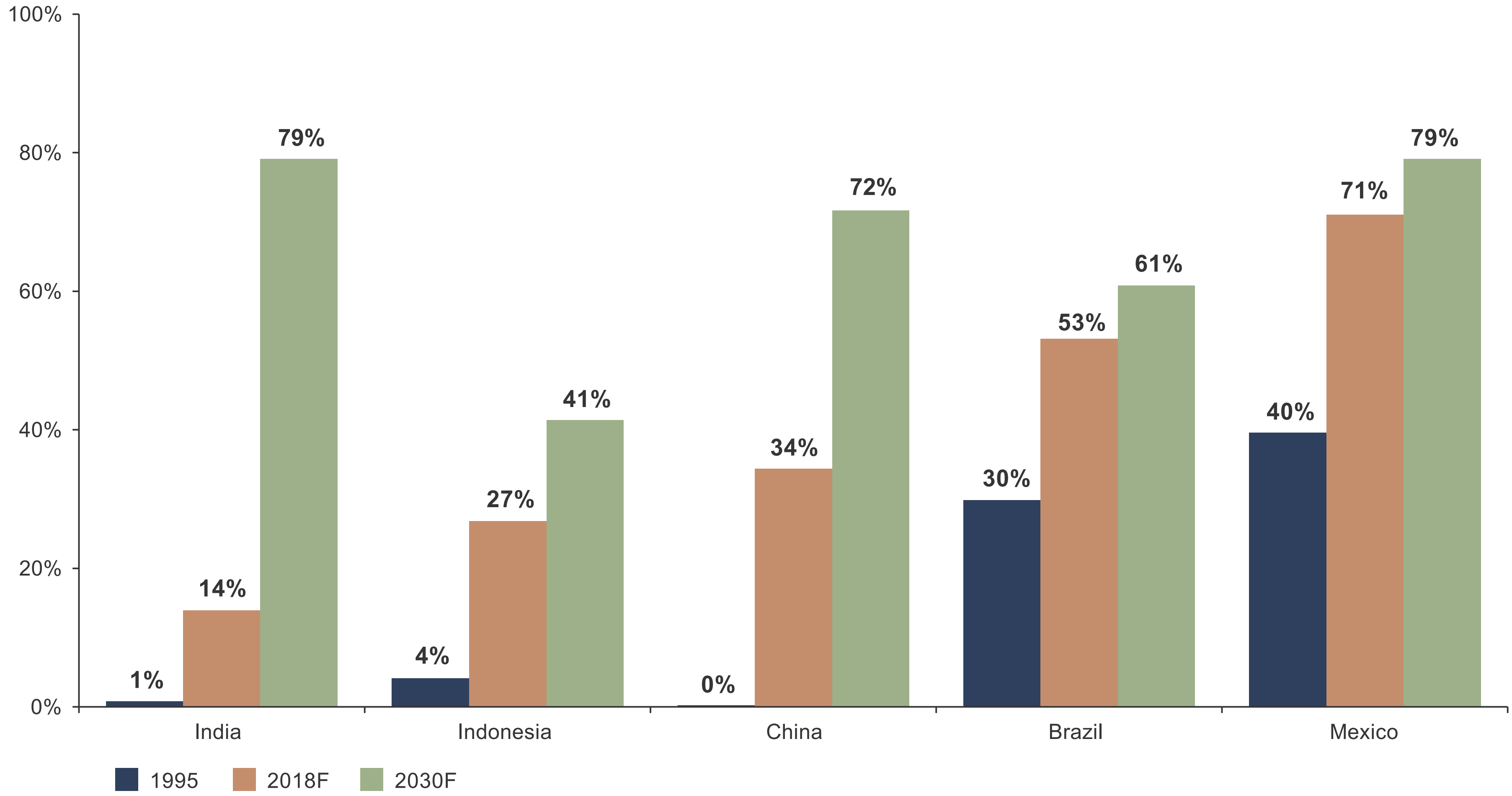


Sources: Investment Company Institute Factbook, Bloomberg L.P., Dec. 31, 2018. Does not include target date funds or funds of funds. Global funds are classified as international. Chart is for illustrative purposes only.

EMERGING MARKETS – WEALTHIER CONSUMERS

Growth of the middle class

Percent of total population



Source: J.P. Morgan Asset Management; Brookings Institute. "Growth differential" is consensus estimates for EM growth in the next 12 months minus consensus estimates for DM growth in the next 12 months, provided by Consensus Economics. Middle class is defined as $3,600-$36,000 annual per capita income in purchasing power parity terms. Historical and forecast figures come from the Brookings Development, Aid and Governance Indicators. *Guide to the Markets – U.S.* Data are as of March 31, 2020.

THEMES FOR THE REMAINDER OF 2020

Stay the course. Since we cannot time markets, we think investors should stick to their long-term strategic allocations.

Tune out the noise.

Block out financial news, if needed, to avoid emotional decisions.

Revisit your financial plan.

If you're losing sleep over market headlines, now is the time to revisit your financial plan and be reminded of your long-term goals.

Set realistic expectations.

With equity and bond markets posting relatively high returns over the past few years, it's reasonable to expect lower performance in the future.

Control what you can – savings and expenses.

What happens in the market is outside of our control. But we can control what we're saving and spending. Now is the time to review what you're saving to your retirement plan, IRAs, college savings plan and other savings goals.

Stay diversified.

Don't put all of your eggs in one basket. It's critical to remember the principle of diversification in a down market. Even if it hurts at the time, you'll thank yourself later.

All things Roth

ROTH CONVERSIONS

No income or age limits!

- Pay applicable taxes on the Balance NOW
- No 10% penalty is paid at the time of conversion (even if you are under 59 ½!)
- However…early penalty distributions do apply to distributions from the Roth later if you don't have a QUALIFYING REASON.
- Early penalty possibilities go away after your Roth account satisfies the 5 year CONVERSION clock.
- Roth account grows tax free

Roth Conversions - why now?

- Lower Market Values to be taxed on
- Potentially lower tax brackets this year compared to future years
- No RMDs for 2020 (less taxable income this year!)
- Stretch out IRA eliminated for most beneficiaries, so inherited Roth's are much more valuable to your heirs.

Conversion Income – Consult your CPA first!

Converted amounts are added to ordinary income affecting

- Deductions
- Phase outs
- Financial Aid
- Medicare Part B premiums
- And maybe more…

- You <u>cannot</u> convert RMDs.
- RMDs must be taken <u>before</u> a Conversion takes place for a year.
- Conversions cannot be reversed!

Back Door Roth Contribution

Step 1	Step 2	Step 3	Step 4	Step 5
Confirm that you will not have any Traditional, SEP, or Simple IRA balances on 12/31 of this year.	Make a Non-Deductible Traditional IRA contribution	Convert the IRA to a Roth IRA	Be sure NOT to roll any assets into an IRA before year end.	Report all these transactions on a Form 8606 for taxes.

Back Door Roth Contribution

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If you are under the age of 59 ½, **watch out for the 5 Year Conversion Clock on EACH Conversion!**

Distributions of conversion money ARE subject to the 10% penalty if withdrawn in the first five years after conversion.

The PERFECT Back Door Roth Candidate

Clients who have <u>No Other IRAs</u> as of year-end in the same year as the conversion

AND….that do not intend to roll any money into an IRA before year end

AND…can afford to pay the tax bill (if any) outside of the IRA

AND….Are over the age of 59 ½

OR…are under the age of 59 ½, but won't need the money in the next 5 years.

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