

SERVING THOSE WHO SERVE

Quarterly Newsletter

June 2019

America's Favorite Federal Agencies

A recent Gallup poll was orchestrated in an attempt to gauge Americans' opinions of several Federal Government agencies. While the list has grown and been altered since the first such study was conducted in 2003, the main constant has been the top of the list: America's most favorable agency is the United States Postal Service (USPS). 74% of respondents viewed USPS as performing an excellent or good job, and only

8% described the public mail service as operating poorly.

Even though the National



Aeronautics and Space Administration (NASA) received less "poor" ratings (only 5%), the "excellent/good" rating reached just 60% for the space-focused organization. The Secret Service, Centers for Disease Control and Prevention (CDC), and the Central Intelligence Agency (CIA) were also in the top 5 of the highest scores. While the study is not conducted annually, this is the first time since its inception 16 years ago that an agency besides USPS got higher than 68%- the Secret Service received an "excellent/good" score from 69% of those asked, up 6% from 2017. The agency wasn't included on the list until 2014, when just 43% answered positively. The change in opinion suggests a 2012 prostitution

scandal involving Secret Service agents has been largely forgotten by the public. Of the 13 governmental bodies surveyed in the poll, there were 3 that earned more negative marks than positive ones. The agency for

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Health & Wellbeing:

Doctors & Decision Fatigue

A new study conducted by researchers at the University of Pennsylvania revealed startling facts related to physicians and what has been coined 'decision fatigue.' Orders for cancer screenings and flu shots experienced sharp declines throughout the day. For instance, the study discovered

that one physician ordered labs to screen eligible patients for breast cancer during 64% of such appointments between 8 am and 9 am.

Later that same day, the very doctor ordered the cancer screenings in just 48% of those appointments. The culprit, decision fatigue, impacts professions where consequential decisions are a common occurrence.

The results suggest that choosing between a morning and afternoon doctor appointment could really become a life-or-death decision.



Famous Fed:

Food Network's *Ina Garten*

Before publishing several successful cookbooks and hosting a show on Food Network, Ina Garten worked in the White House for Presidents Gerald Ford and Jimmy Carter. She started as an aide, but was a budget analyst for the Office of Budget & Management when she left the government.



History Tidbit:

On February 26th, 1946, the first Council of Economic Advisers formed under the authority of "The Employment Act of 1946," for President Harry Truman



featured article by Ed Zurndorfer

Four Important Lessons on Roth IRA Conversions **Resulting from the New Tax Law**

The 2019 tax season that concluded a few weeks ago, in which 2018 Federal income tax returns were prepared and filed, was the first tax season that occurred after passage of the Tax Cuts and Jobs Act of 2017 (TCJA). TCJA's passage resulted in numerous individual tax law changes, one of which was in the area of Roth IRA conversions. This column discusses four lessons related to Roth IRA conversions taking place during 2018 that many Federal employees and Uniformed Services members and their tax advisors learned and that all individuals who are considering funding their Roth IRAs in 2019 should keep in mind. **1. Re-characterizations on Roth IRA conversions are no longer permitted, but re-characterizations on Roth IRA contributions are still permitted.** Starting Jan. 1, 2010, any individual - no matter the individual's income, age, or filing

status - can convert an existing traditional IRA to a Roth IRA. Although the traditional IRA owner has to pay income tax on the conversion, for many traditional IRA owners who are ineligible to *contribute* to a Roth IRA (because their incomes exceeded the limit for contributing to a Roth IRA), a Roth IRA conversion is an alternative means of obtaining a Roth IRA. But if after converting, the traditional IRA owner decides that the Roth IRA conversion was not a wise move for a variety of reasons (for example, the owner could not afford to pay the taxes due on the conversion or the value of the IRA converted was decreasing and the owner was paying taxes on something that had decreased in value), then the owner can "re-characterize" the conversion. "Re-characterization" simply means that the conversion is "undone" and, provided the re-

characterization was performed before the owner filed his or her income taxes for the year the IRA was converted, the owner will owe no taxes. *But TCJA eliminated the re-characterization option, effective with all conversions performed after Dec. 31, 2017.*

Unfortunately, many individuals did not get the information concerning the repeal of Roth IRA conversions and re-characterizations. Employees and Uniformed Service members should be aware that under TCJA, effective Jan. 1, 2018 once a conversion is performed, it is permanent and cannot be “undone”. Nevertheless, if an individual *contributes* to a Roth IRA and discovers later in the year that his or her income is too large for that year to allow for a Roth IRA *contribution*, then the individual is still permitted under the TCJA to re-characterize the Roth IRA *contribution* as a nondeductible, traditional IRA contribution. The individual has until the filing deadline he or she files their Federal income tax return for that year. In making a nondeductible IRA contribution, the individual needs to file **IRS Form 8606 (Nondeductible IRAs)** with his or her federal tax return.

2. Does a Roth IRA conversion make sense given the lower Federal individual tax rates under TCJA? Some individuals were pleasantly surprised when they converted their traditional IRAs during 2018 and paid lower than expected Federal income tax. This was a result of generally lower individual tax rates under TCJA. But since Roth IRA conversions are permanent, individuals and their tax advisors are encouraged to make projections of income in 2019 to ensure that if they make a Roth IRA conversion during 2019, that the 2019, that the additional income resulting from a Roth IRA conversion does not push them into a 30 percent or higher tax bracket. Tax professionals can advise individuals how much they can “safely” convert without ending up paying more taxes. Individuals also need to consider the effect of Roth IRA conversions on their state and local tax liability if they convert.

3. Under TCJA, several “big” tax deductions were limited or lost, and this could affect the tax liability resulting from a Roth IRA conversion. As mentioned previously, a Roth IRA conversion will likely result in additional taxable income in the year of conversion. The amount of taxable income will be determined by the size of the traditional IRA being converted (the larger the size of the traditional IRA, more assets to be converted and more gross income) and by offsetting deductions that reduce the gross income. These offsetting deductions include state and local income taxes and real estate taxes, as well as deductions for investment fees for individuals who itemize (file Schedule A on their federal income taxes). But under the TCJA, some individuals lost a portion of their state and local income taxes and real estate taxes (limited to a total of \$10,000) and investment fees that are no longer deductible. In the place of reduced itemized deductions was a larger standard deduction for all filing categories. Even with a larger standard deduction, for many individuals the deductions lost far exceed what they received in return through the increased standard deduction. The overall result is that some individual Roth IRA owners who perform conversions under TCJA will pay more taxes compared to Roth IRA owners who performed Roth IRA conversions pre-TCJA, even with the decrease of individual tax rates under TCJA.

4. “Back-door” Roth IRA conversions are still possible under TCJA. One strategy that has been frequently used since 2010 by individuals whose income was too large to allow Roth IRA contributions is a “back-door” Roth conversion process. With a “back-door” Roth IRA, an individual contributes to a nondeductible traditional IRA (limited to individuals under age 70 with earned income) and then immediately converts the nondeductible traditional IRA to a Roth IRA, resulting in little, if any, tax liability. With the TCJA, Congress and the IRS have confirmed this is an allowable strategy. With these four lessons in mind and the TCJA in effect through 2025, hopefully Federal employees and Uniformed Services members can obtain their Roth IRAs over the next few years in some manner and in so doing, pay the least amount of Federal and state income taxes.

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Veterans Affairs (VA), the Food and Drug Administration (FDA), and the Environmental Protection Agency (EPA) were the members of more dubious designations. Like USPS at the opposite end of the spectrum, the VA has been a constant at the bottom of the list. The lowest the VA ever scored in “excellent/good” tallies was 29% amidst reports that long waits at VA hospitals were costing some Veterans their lives. The most recent survey demonstrated a 10% increase since then as the VA was at 39% in “excellent/good” performance for 2019, but that still was the lowest of the group. The Federal Emergency Management Agency (FEMA), Federal Bureau of Investigation (FBI), Internal Revenue Service (IRS), Department of Homeland Security (DHS), and the Federal Reserve Board all represent the middle of the pack. Still, these agencies each had an answer ratio boasting more “excellent/good” responses than “fair” or “poor” ones. While at one point in history the IRS received ratings as low as 27%, it experienced an up-tick of 5% in likability between 2017 and 2019, going from 45% to 50% of Americans viewing it as “excellent/good.” The catalyst for such a trend was most likely the new tax laws to go into effect in 2018. FEMA saw a small drop, most likely due to the response to Hurricane Maria in Puerto Rico. Besides those instances, though, the data didn’t demonstrate any other notable shifts in opinion since 2017, but a lot of changes happened with the switching of presidential administrations. The Gallup poll done in 2014 depicted significant differences when compared to the most recent results. 8 of the 13 agencies involved saw a jump in approval as Republican respondents improved their opinion of Federal agencies now that a Democrat is no longer in charge of the executive branch. The overall average rating for “excellent/good” scores spiked 8%- going from 47% to 55%. The CDC experienced the largest improvement, but that could be at least somewhat attributed to how the agency reacted to the Ebola outbreak of 2014. When commenting on the

performance of FEMA and the FBI, the biggest gaps between Democrat and Republican opinion can be seen in the data. 64% of Republicans thought FEMA was doing a good job, but only 38% of Democrats agreed. That’s a 26 point difference. Conversely, 66% of Democrats viewed the FBI positively with just 46% of Republicans sharing their sentiment. Still, as a whole, the country’s perception of the Federal Government appears to be trending upwards when compared to the 2014 survey.



Proposed Bill for Retirement Savings

Republican Senator Rob Portman of Ohio and Democrat Senator Ben Cardin of Maryland introduced a bill they co-sponsored together. The aim of the bill is to help Americans become more capable in saving for retirement. Catch-up contributions to retirement accounts, which would supposedly include the TSP and similar 401k plans, would increase to \$10,000. For 2019, the catch-up amount was \$6,000, which means any retirement plan participant or IRA account holder over the age of 50 can contribute an extra \$6,000 into their savings. As the IRS limit is set at \$19,000 for 2019, someone over the age of 50 can put up to \$25,000 total into these types of accounts. If the proposed legislation was currently law, that dollar figure increases to \$29,000. The bill also takes aim at adjusting the age when Required Minimum Distributions would take effect. Currently, the age is 70 and a half. If *The Retirement Security and Savings Act* passes, the RMD age would increase to age 75 by the year 2030.

Until Next Time,

BENEFITS BEN



Fun Fact:

May 29th is "Put a Pillow on Your Fridge Day"

AGENCY SPOTLIGHT:

Indian Health Service

Acronym: IHS
Established: 1955
Located: Rockville, MD
of Employees: 15,000

Leading Director: Michael D. Weahkee

Mission:

"To raise the physical, mental, social, and spiritual health of American Indians and Alaska Natives to the highest level."

source: ihs.gov



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STWS Founder, Dan Sipe

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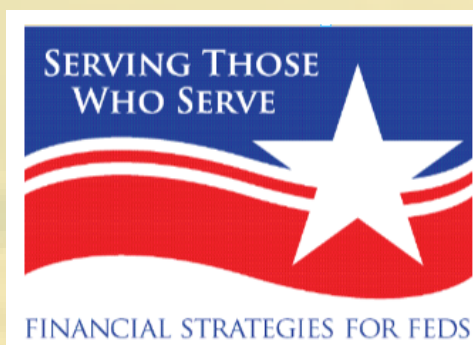
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The FEDZONE Articles are written by Edward A. Zurndorfer, who is a retiree of the Federal government. He is an IRS Enrolled Agent, Certified Financial Planner, Chartered Life Underwriter, Chartered Financial Consultant and Certified Employee Benefits Specialist. He is the owner of EZ Accounting and Financial Services, an accounting, tax consulting and preparation, financial and Federal employee benefits consulting firm located in Silver Spring, MD. is also a seminar speaker at Federal agencies located throughout the country presenting Federal employee retirement, TSP, and Social Security benefits and financial and tax planning issues for Federal employees. He is a columnist for the Federal Employees News Digest, Inc. (FEND) bi-weekly newsletter, and the author of numerous Federal employee benefits publications for FEND. Raymond James is not affiliated with and does not endorse the opinions or services of FEDZONE or Edward A. Zurndorfer.