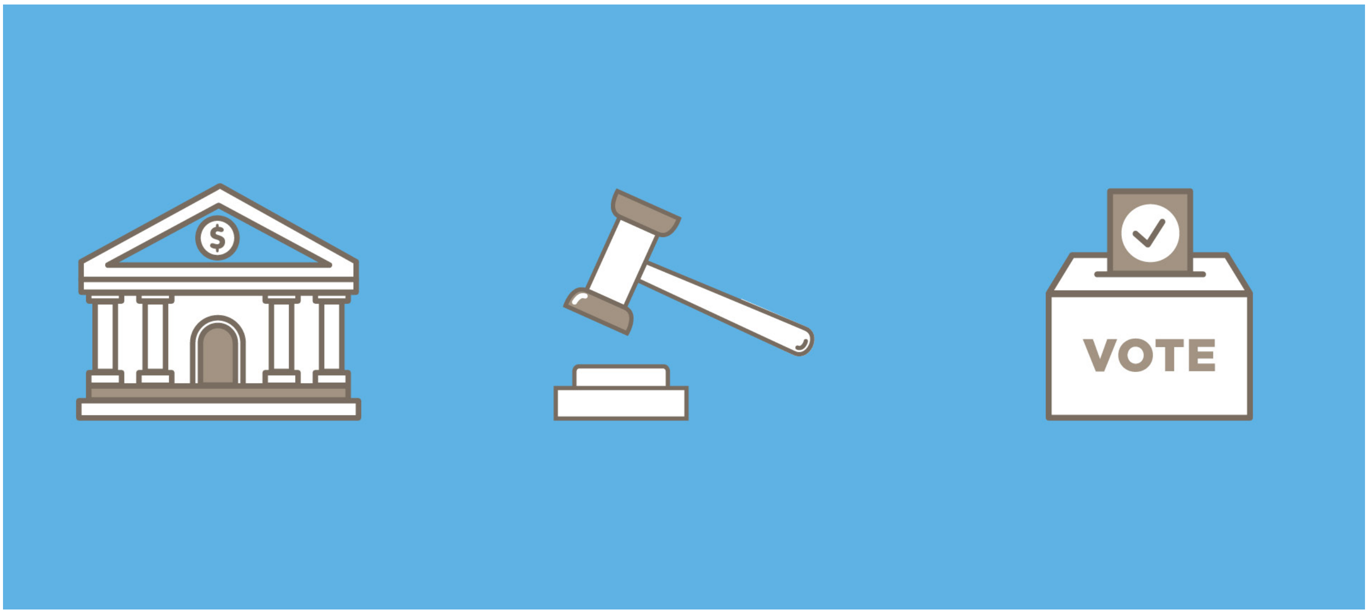

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Ask the Experts: Financial FAQs (Summer 2016)

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Q: I have been hearing about a new "conflict of interest rule" that will affect financial advisors. Can you explain what that's about?

A: On April 6, the U.S. Department of Labor released the final version of its long-awaited regulation intended to eliminate conflicts of interest for those in the financial services industry who advise on retirement assets. This 1,100-page set of regulations — known as the *conflict of interest* rule or *fiduciary rule* — requires anyone advising on retirement assets in an employer-sponsored retirement plan or individual retirement account (IRA) to acknowledge fiduciary status and act exclusively in their clients' best interests. This is important in two ways:

- Retirement plans such as 401(k)s and pensions have long been covered by fiduciary standards laid out in the Employee Retirement Income Security Act of 1974 — better known as ERISA. This new regulation dramatically increases the number of accounts and assets covered with the extension of these same fiduciary standards to IRA accounts.
- *Fiduciary standards* are a higher level of care than the *suitability standards* that brokers have historically been required to uphold. Fiduciary standards require advisors to put their clients' interests first when it comes to fees and investment choices and to act with the care, skill, prudence, and diligence that a prudent

person would exercise based on their clients' circumstances.

The fiduciary rule will be disruptive for advisors with business models dependent on high fees and commissions as they adapt and seek to comply with the new requirements. Nonetheless, we believe this new regulation will benefit a great many investors as their advisors will now be legally and ethically required to work in their best interests. Hopefully, this will foster greater trust and confidence in the advice they receive over time and drive better outcomes for American savers.

As a CAPTRUST client, you need to know that we have always adhered to fiduciary standards. We are proponents of this new regulation. We feel it is a validation of our business model and is the right way to do business. Working in our clients' best interests has always been — and will continue to be — at the heart of what we do.

Q: Are qualified charitable deductions still available for individual retirement accounts?

A: Yes. At the end of 2015, lawmakers approved a permanent measure allowing individuals to make qualified charitable deductions (QCDs) from their individual retirement accounts (IRAs).

This strategy allows an IRA owner over age 70 1/2 to make a charitable contribution directly from his or her IRA. A QCD can come from a SEP or SIMPLE IRA but not from an employer-sponsored retirement plan, such as a 401(k) or 403(b). The distribution must be sent directly from the IRA to a charity that is eligible to receive tax-deductible contributions under Internal Revenue Service rules. The amount of the QCD is excluded from the IRA accountholder's adjusted gross income (AGI) and can satisfy all or part of his or her account's required minimum distribution (RMD).

Lowering (or not increasing) AGI is beneficial in that a taxpayer may:

- Avoid the loss of exemptions, phaseouts, credits, and deductions due to AGI limits;
- Avoid the alternative minimum tax (AMT);
- Avoid increases in premiums for Medicare Parts B and D; and
- Receive a tax benefit — even if he or she takes a standard deduction.

QCDs can also offer tax advantages. A QCD can be a more tax-efficient way to make a charitable contribution of cash than taking an IRA distribution and then making a charitable contribution since, in the latter case, the income and the deduction often don't offset completely.

It is important to note that a charitable gift of appreciated securities from a taxable account may be more tax efficient than making a QCD. And QCDs can't be made to donor-advised funds, private foundations, or charitable gift annuities. However, IRA owners over age 70 1/2 — and who are charitably inclined — may want to consult their financial and tax advisors about the potential tax advantages of a QCD.

Q: How have presidential elections historically affected the stock market?

A: Not surprisingly, researchers have studied the question of how markets have performed during election years from a variety of angles, looking for patterns and actionable trading strategies. Their results have been mixed. To answer this question for ourselves, we looked at how the S&P 500 Index, a broad measure of stock market performance, behaved during each presidential administration going back to 1945, the year Truman assumed the presidency — with a specific focus on election years.

We found that the average annualized return of the S&P 500 during Democratic presidencies was 9.7 percent — compared to 6.7 percent for Republican presidencies. Since stock market returns over the long term are driven by underlying economic growth, this disparity may be partially explained by the 3.7 percent gross domestic product growth during Democratic presidential administrations versus 2.6 percent during Republican administrations.

Meanwhile, the average return for the S&P 500 during election years has been 9.9 percent, although 2016 is more unusual since it is the last year of a two-term president's administration. While this has only occurred five times since World War II — a very small data set — the average S&P 500 return for the eighth year of a president's term has been a loss of 2.1 percent. Some researchers suggest that presidents in their final years are seen as less predictable. Others suggest that the markets simply dislike the uncertainty of open races.

Regardless, it is important to note that stock market returns are the function of myriad economic variables and global influences — not just U.S. presidential elections — so you should be cautious about drawing conclusions. And, of course, the past performance of the S&P 500 Index is not an indicator of future performance of the stock market or any specific security.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948, or schedule an appointment with a retirement counselor today.

