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Countdown To Retirement: Seven Steps To Get Ready

Are you among the millions of Baby Boomers counting down the days to retirement? Before you move into the next stage of life, it's important to get all of your financial ducks in line. To prepare yourself, consider these seven practical suggestions.

1. Rebuild the budget. You've probably been living on a monthly budget that takes into account your usual expenditures and income. But that's about to change in a big way. For example, once you stop working, your expenses for a business wardrobe and commuting will also end, but so will the regular paychecks you've been living on.

Come up with a new plan. Identify what you expect to have coming in and going out. Remember that you won't be able to rely on 401(k) deferrals to reduce your taxable income after retirement, but you should still keep saving.

2. Zone in on a homestead. You could be planning to pull up stakes and move to a smaller home, perhaps downsizing from the place where your kids grew up and you might hope to end up in a warmer climate or in a less expensive area (or both). Or perhaps you're contemplating a move to a retirement community. But this kind of upheaval isn't for everyone, and you just might decide to stay put. In any event, your choice will affect numerous other aspects of retirement.

Also, don't assume that you and your spouse share the same vision. If you haven't talked about it yet, bring up the subject before you call it quits.

3. Review your investments. As you head into the home stretch before retirement, compile a list all of the investment assets you own, including amounts parked in taxable accounts, bank savings or checking accounts, and tax-favored retirement accounts such as 401(k)s and IRAs. Consider whether you will want to keep retirement plan assets where they are when you retire or consolidate them into other accounts. Similarly, consider the best use of life insurance policies.

One thing to think about is whether to convert a portion of your traditional IRAs to a Roth IRA. Although the conversion is taxable, your future withdrawals from the account will normally be tax-free. Check with a professional to crunch the numbers.

4. Settle on Social Security. If you retire before full retirement age (FRA)—age 66 for most Baby Boomers—you'll receive less in monthly Social Security benefits. You can apply for benefits as early as age 62. Waiting until after you reach FRA, on the other hand, can result in bigger monthly benefits. The longer you wait, until you turn 70, the larger your benefit checks will be.

But if you and your spouse will both receive Social Security payments, there

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Good Riddance To The Alternative Minimum Tax

Perhaps the most despised federal levy is the alternative minimum tax, which Congress passed in 1969 to prevent the loophole-savvy ultra-wealthy from shortchanging Uncle Sam.

Over the years, AMT's reach expanded to include households with more than $200,000 in AGI (adjusted gross income) annually and two-earner couples with children in high-tax states.

Under the new tax law, starting in 2018, the AMT's damage radius is reduced considerably. This alternative tax calculation still requires some individuals to calculate their tax bill twice — under regular rules and then the AMT's, and pay the higher sum. In 2018, though, a fraction of tax-filers will fall into the clutches of the dreaded AMT.

With the tax code rewritten, only about 200,000 tax filers are expected to be required to pay the AMT in 2018, way down from the 5.25 million, according to the Tax Policy Center.

Congress increased income exempt from the AMT calculation. This expands to $109,400 for joint filers, up from $84,500, and to $70,300 for individuals, up from $54,300.

The happy outcome is that the changes permit many more households making more than $200,000 to bid the AMT a not-so-fond farewell.

Brooke Wano, CFP®, CLU®
Financial Advisor

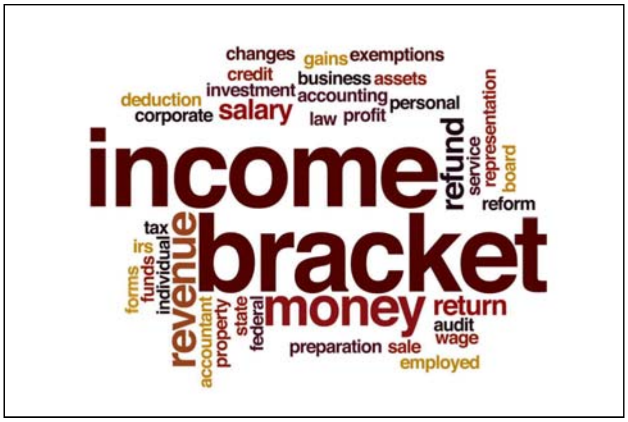
New Deduction Rules For Business Owners

If you are a small business owner, Washington, D.C. has changed tax rules to lower your burden but the new rules are fairly complex. Many small businesses, and some that aren't so small, are "pass-through companies," tax-jargon that means the entity's net income isn't taxed at the corporate level but flows straight to their owners' personal returns. That income is taxed at personal income tax rates, as opposed to corporate rates that are generally lower.

The new tax law, though, has a valuable deduction that evens things out for pass-throughs, although the accounting gymnastics make this anything other than simple. "The size of the deduction varies, depending on the nature of the business activity and the total income of its owner," says Howard Gleckman, a senior fellow at the Tax Policy Center. "It may also depend on how much the business pays its employees and how much property it owns."

Under the new tax law, the top personal rate drops to 37% from 39.6%, with similar reductions in brackets below the highest level. Yet most U.S. businesses are classified as C corporations, which means these companies are taxed separately from their owners. The new tax law lowers the federal tax for C corps to 21% from 35%.

To balance out the difference, Congress allowed pass-throughs — limited liability companies (LLCs), S corps, partnerships and the like — a 20% deduction on their net income. The effect, for those in the top tax bracket, is to lower an owner's rate to 29.6% from 37%. True, 29.6% is higher than 21%, but owners of C corps, meaning shareholders, pay a tax on dividends they receive, usually 15%. So that comes closer to parity with the pass-throughs.



To prevent those part-time jobs into pass-through entities, lawmakers limited the new rules. So, you can't suddenly claim you are a consultant and create a sole proprietorship with the intent of grabbing a tax break.

Owners of service businesses — doctors, lawyers, and consultants — are limited in what they can deduct. Service businesses, according to the tax law, may count as their principal asset the "reputation or skill" of the owners and employees, while manufacturers may not.

In addition, Congress inserted income limits on the deductions that affect all pass-throughs, whether or not they're a service business. The 20% deduction is confined to income of \$157,500 for single-filers and \$315,000 for married couples. For service businesses, the deduction is phased out progressively in excess of those levels and eliminated entirely when total taxable income is \$207,500 for singles or \$415,000 for couples filing jointly.

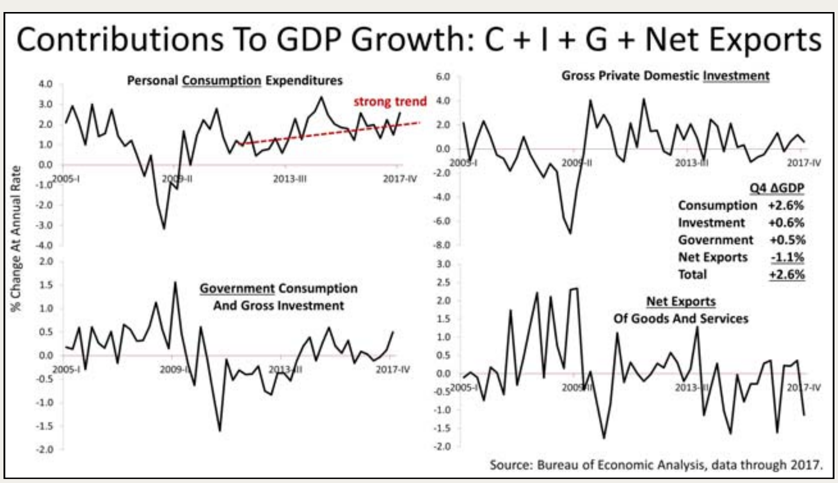
For other types of businesses, the deductions over those thresholds are limited to the greater of 50% of paid wages or 25% of wages plus 2.5% of the business' tangible depreciable property.

The pass-through rules are a big boon for real estate operators, whose properties usually each are LLCs. Further, if every property in a real estate owner's portfolio, say an office building or a shopping mall, is worth a large amount, the deductions can be sizable. We are happy to work with you and your CPA to answer any additional questions about the new tax changes. ●

A Bright Outlook For Consumer Spending

Investing prudently requires understanding economic fundamentals. Here's some insight into current economic conditions and the kind of ongoing analysis required to manage wealth prudently for the long term over up and down economic cycles.

The economy is measured quarterly in terms of gross domestic product (GDP), which is the sum of four factors: consumption, investment, government and net exports. Consumer spending is by far most important, accounting for 69% of U.S. economic activity. The key to strong economic growth, then, is a strong American consumer.



Source: Bureau of Economic Analysis, data through 2017.

In the final quarter of 2017, net exports were a drag on GDP growth. However, net exports are volatile month-to-month and its dips have been followed repeatedly by surges over the past two cycles of the economic expansion and recession that occurred since

2018 Estate Tax Changes And What May Be Ahead

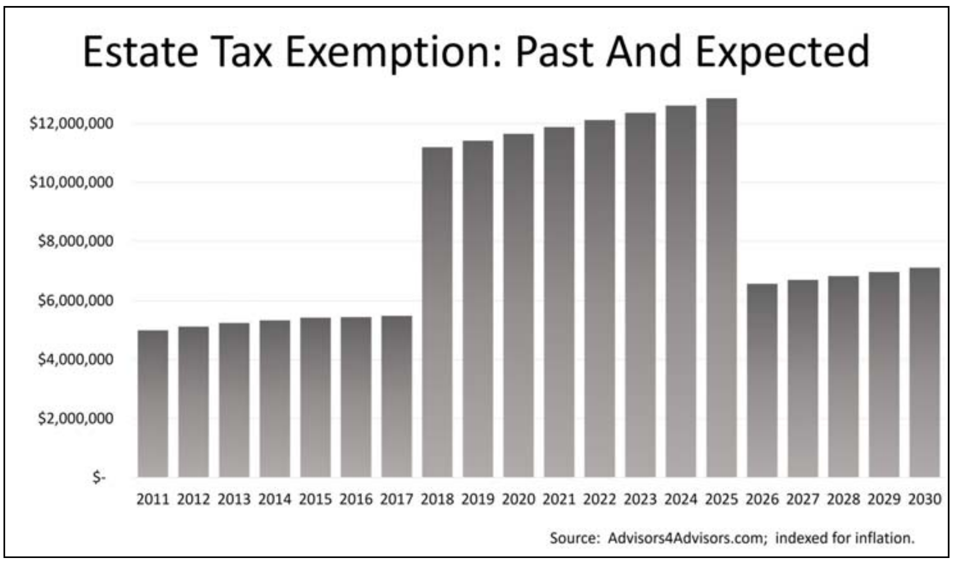
The tax code overhaul brought a lot of changes, but for the estate tax, the most far-reaching result was what didn't happen. Chiefly, you didn't lose the capital gains break on inherited assets when they are sold.

For tax purposes, the value of an asset, when sold, rises to its current market-value even though it was originally purchased at a lower price. The result is a lighter tax when an heir sells off stocks or other holdings that were part of the bequest.

For a narrow slice of the population, one weighty thing did happen with tax reform: Very wealthy households received a better deal on how much of their estate is taxable. Their fondest wish did not come true, to be sure, and the new tax law did not kill what is derisively called "the death tax." However, Uncle Sam's claim on inherited mega-money has been shrunk by the new law. Starting in 2018, the exemption for estate tax nearly doubles. The amount that can be passed along to heirs tax-free rises in 2018 to $11.2 million from $5.5 million for individuals, and to $22.4 million, from $11 million, for couples.

Above the new thresholds, the Internal Revenue Service expects to collect 40%. However, an important and favorable new wrinkle increases the exclusion annually by the rate of inflation.

The good news — and bad — is that through the end of 2025 is a great time to die, but Congress could modify the just-enacted rules as soon as 2019, particularly with recent changes in the political climate. Left unchanged, this new part of the tax code is set to expire in 2026.



The number of estates that will pay any tax, according to the Tax Policy Center, is expected to drop from 5,300 in 2017 to 1,700 in 2018.

For heirs, the most important developments are what the House and Senate left alone. Those relate to capital gains and how surviving spouses can structure their own estates, a concept called portability:

Capital gains. The technical term for this untouched provision is a "step-up in basis." Let's say your father dies and you inherit Apple stock that he bought at $8 per share in 1983, a little after it went public. Today, Apple stock changes hands for around $172. That kind of appreciation usually means a whopping capital gains bill, should you unload the shares to fund, say, buying a new home. In other words, a 15% tax bite on the price escalation of $164 for each of the shares. Thanks to the step-up, the IRS now values your basis of Apple shares at $172, rather than the earlier $8 per share.

Portability. This is a helpful tax benefit for married couples, which Congress also let stand as is. It permits a surviving spouse to receive the unused part of the estate-tax exemption of the dead spouse. Example: Dick and Jane have an estate worth millions. Dick dies and leaves $3 million of it to his children. Remember that the exemption for one person is $11.2 million. Under the law, Jane can use the leftover $8.2 million for her estate planning. That's a big deal to her beneficiaries.

Please give us a call to discuss an estate planning strategy that fits your situation. ●

January 2002.

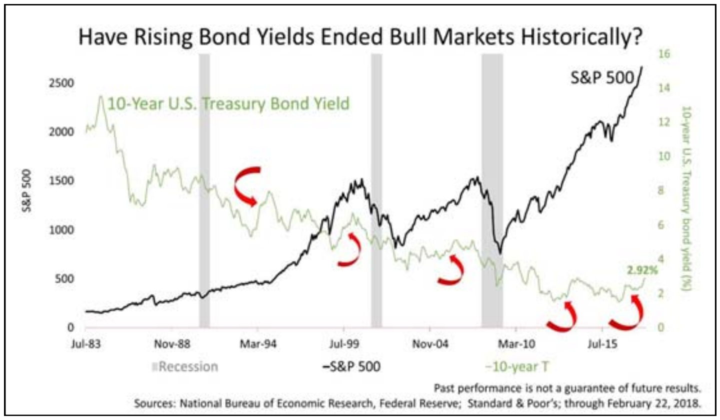
Government spending, which includes state and municipal expenditures, has been on the rebound after suffering years of cutbacks in The Great Recession and its aftermath. With real incomes rising since the financial crisis, tax receipts have risen and state and local government spending grew, which has been a positive factor in GDP growth in recent years.

However, business investment and government spending are together not even half as important a factor in growth of the U.S. economy as consumers. If consumers keep spending, the good times for the U.S. could keep on rolling, and there is some reason for optimism on that score.

Consumer strength rose in closing out the year, according to the most recent data, extending the strong growth trend line (in red) experienced in recent years. In addition, in February, a lower rate of withholding federal taxes on employee paychecks kicked in, and that is putting more money in consumers' pockets to spend. That could show up in GDP growth figures to be released in early April 2018.

Economic growth shows up in profits of companies and is a determinant in the value of stocks. Profit expectations at the Standard & Poor's 500 companies grew sharply in the opening quarter of 2018, according to independent economist Fritz Meyer, and the outlook for consumer strength was bright despite an 11.8% correction. ●

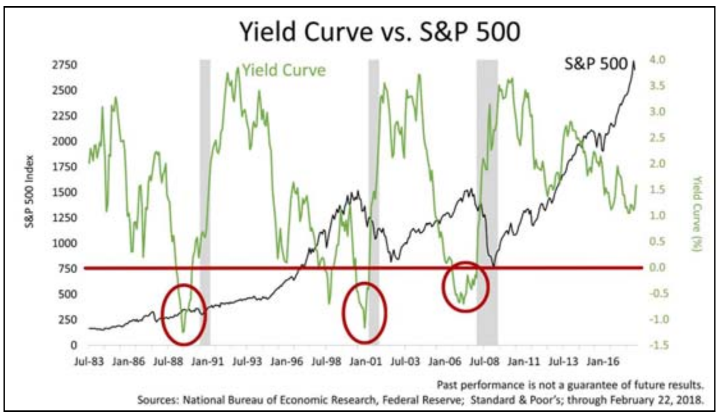
Understanding Economic Fundamentals



Past performance is not a guarantee of future results.
Sources: National Bureau of Economic Research, Federal Reserve; Standard & Poor's; through February 22, 2018.

At 105-months-old, this is the second-longest economic cycle in post-World War II America. For the last couple of years, a new phase of the expansion marked by rising interest rates began. Shifting fundamentals underpinning the economy can cause jitters in investment markets or spark changes in sentiment. In fact, the most recent correction — a loss of about 12% — was caused by fears of rising interest rates and inflation. So, let's set the record straight.

While no one can predict the stock market, what we do know is that history shows rising rates are not bad for stocks. Actually, rising bond yields have often coincided with bull markets in stocks. The red arrows point to five periods since the 1990s when the yield on the 10-year U.S. Treasury bond rose sharply and stock prices rose at the same time.



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Sources: National Bureau of Economic Research, Federal Reserve; Standard & Poor's; through February 22, 2018.

A more reliable economic and financial indicator is the yield curve — the difference between long-term bond yields and short-term interest rates. When the difference between the yield on 10-year U.S. Treasury Bond and the 30-Day U.S. Treasury Bill is more than zero, an expansion is typical. However, when the yield curve is inverted — when a 30-Day Treasury yields more than a 10-year Treasury — that has been bad for the economy and stocks. Before each of the last three recessions, the yield curve went into negative territory.

Currently, the yield curve isn't near inversion. It's not signaling an end to the eight-and-a-half-year expansion and bull market. This 105-month old economic expansion is approaching the length of the longest expansion, the 120-month cycle in the 1990s. Of course, indicators are not a guarantee and must be considered in the context of history and your personal situation. But the yield curve is a key to watch as this expansion nears the 120-month longest-ever cycle in the 1990s. Please give us a call to discuss our views on the markets. ●

Countdown To Retirement

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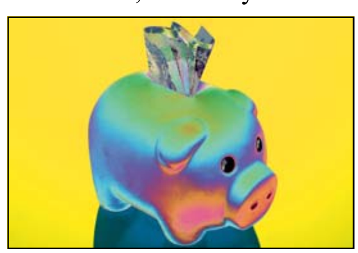
will be other factors to consider. For instance, a higher-earning spouse might wait longer to claim benefits to provide greater protection for a surviving spouse if the higher-earning spouse dies first.

5. Learn all about Medicare. Usually, retirees opt to be covered by Medicare once they become eligible at age 65. But you will have a number of options to consider, so it's best to familiarize yourself with the key elements of Medicare before then. Estimating your future out-of-pocket costs, including premiums, deductibles, and prescription drug costs will help you decide which Medicare benefits to opt for and whether you'll need to supplement Medicare with coverage from a private insurance plan. Try to investigate all of the possibilities before the time comes to make your decisions.

6. Develop a draw-down strategy. Control the distribution of funds in your retirement by deciding which accounts you want to tap first. Although everyone's circumstances are different, often the best plan is to withdraw funds from your taxable accounts first (because you'll owe only capital gains taxes, which are usually much lower than taxes on distributions from 401(k)s and traditional IRAs), then from those other tax-deferred accounts, and finally from your Roth IRAs. This sequence enables you to benefit from tax-free compounding of investment income within a Roth for as long as possible.



But taxes aren't the only consideration. You may have other reasons for withdrawing funds from some accounts and holding onto others.

7. Meet with your financial advisor. As you can see, you'll be facing some difficult decisions during your countdown to retirement, and the financial consequences can be significant. But you don't have to do it all by yourself.

Schedule a meeting with one of us at FSA to assess and review your situation well before your expected retirement. The countdown to retirement won't be as nerve-wracking if you're well prepared. ●