Financial Services Advisory
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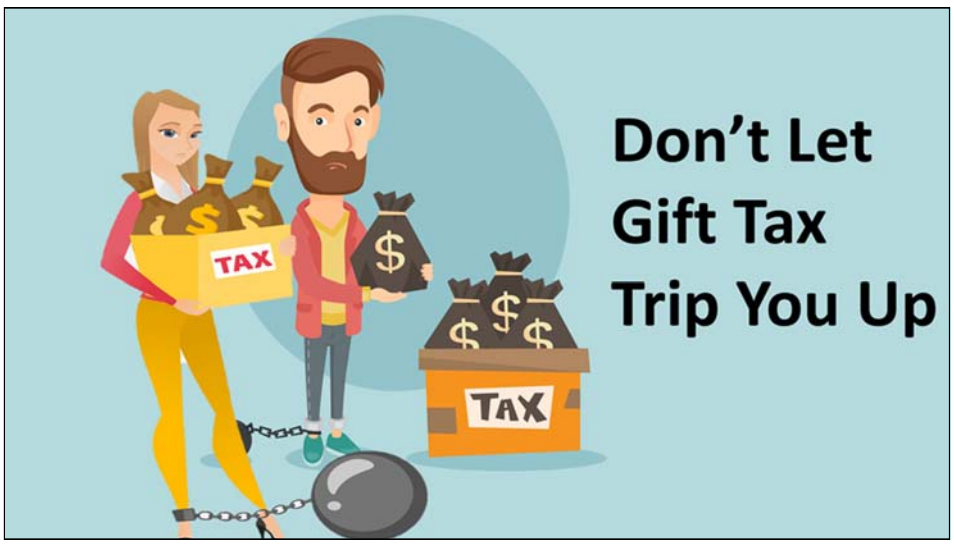
Fourth Quarter 2019 www.FSAinvest.com (800) 235-4567

How to Give Gifts and Not Trip on the Gift Tax

It may be better to give than to receive, as the old saying goes, but it's also best to avoid the taxes on your generosity. What's also smart is knowing when you have to file a tax form as a gift giver.

You can give one person up to $15,000 yearly without incurring any taxes. In fact, you can give multiple people a gift of up to that amount, and they don't even have to be related to you — your son, your daughter, your best friend, your manicurist, whoever.



And a gift need not be cash. It could be stock or real estate or cars.

What's more, the limit is per person, not per couple. Your spouse could give that lucky soul the same amount, doubling your household's giving, and you're personally still staying under the yearly $15,000 ceiling. Note that only you, the giver, are on the hook to pay any tax and not the recipient.

The tax stops people from giving all their money and property away during their lifetimes to skirt the estate tax when they die. The good news is that — with a little planning — you don't have to pay the gift tax right away and maybe never.

In addition to the $15,000 per recipient annual limit, there's a lifetime exclusion amount, $11.58 million in 2020 — this covers *all* your lifetime giving to everybody. With the lifetime exclusion, your estate pays what you gave in excess of that cap.

The lifetime exclusion allows people more freedom to give big gifts. Example: You give your sister $40,000 this year. The extra $25,000 ($40,000 gift minus the $15,000 annual exclusion) is considered taxable. Instead of paying that tax now, you count it against the $11.58 million lifetime number. After subtracting that $25,000 from the lifetime exclusion,

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Say Goodbye To Stretch IRAs and Get a New Plan

Bid adieu to stretch IRAs! A new tax law was passed at the end of 2019 that removed this strategy for passing on your IRAs to the next generation while minimizing the amount that goes to Uncle Sam.

If you previously planned to enable your IRA beneficiaries — this does not include your spouse — to inherit your IRA and stretch out distributions over their lifetime, your plan for minimizing the tax impact to heirs has been greatly reduced.

To be clear, if you die after 2019 and your children are your IRA beneficiaries, you'll need to rethink your plan for minimizing their tax payments. The new law requires your IRA to be distributed by your heirs over 10 years instead of their actuarial life expectancy.

For example, if you previously set up a conduit trust for your IRA beneficiaries, it is important to amend your plan, or your beneficiaries may face an unexpected tax bill and sudden cash drain.

Exceptions are carved out in the new law for the disabled and minors as well as surviving spouses. However, the new tax bill makes it wise for more individuals to convert to a Roth IRA and employ other tax planning strategies that require individual advice to minimize your taxes in passing IRA accounts to the next generation.

Kim Scott, CFP®
Director of Financial Planning

Europe's Growth Problem and Your Portfolio

Aging populations are reshaping the world's largest economies; it's caused a global savings glut and is driving current U.S. financial economic conditions.

The demographic trends are behind the U.S. yield curve inversion and stock market volatility but rarely make headlines in the financial press.

Here are the facts.

Germany's working age population is shrinking, as is all of Europe's, Japan's and China's, too.

In contrast, the U.S. working age population is expected to grow in the years ahead.

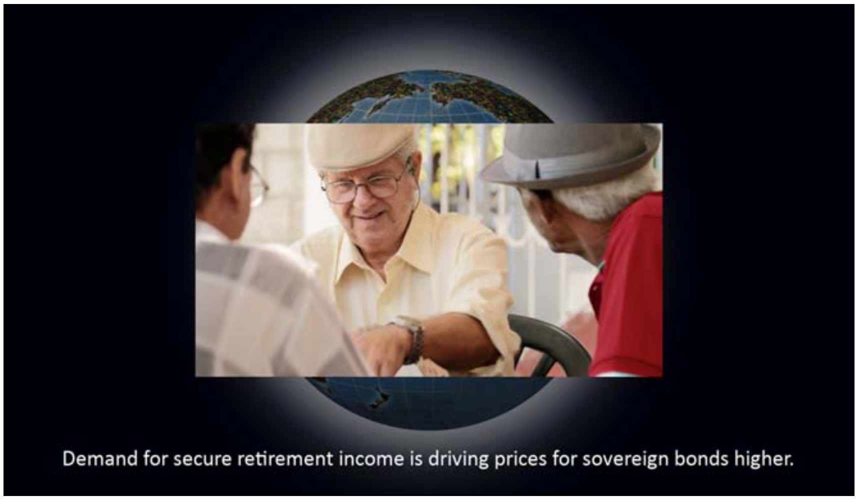
With the world's largest economies home to a growing population of retirees, demand for secure retirement income is driving prices for sovereign bonds higher.

The glut of savings from income-starved retirees is chasing the certainty of government guaranteed bonds, driving prices higher and yields down.

Exacerbating the bond market problem, Germany, the world's second largest supplier of sovereign bonds after the U.S., has been issuing *fewer* bonds to avoid burdening its growing population of retirees with paying down government debt.

Shrinking the supply adds to the upward pressure on sovereign debt prices and depresses yields.

In addition, rising likelihood of a recession in Germany has forced its central bank to keep interest rates low to stimulate growth.



Demand for secure retirement income is driving prices for sovereign bonds higher.

This confluence of the demographic and economic slowdown has boosted demand for U.S. Treasury bonds, driving prices on long-term bonds higher and yields lower.

In parts of 2019, the three-month T-bill yielded more than the 10-year Treasury bond yielded, thus causing the yield curve to invert. This happened multiple times in 2019.

For the past several decades, yield curve inversions were rare and usually were followed within 18 months by a recession.

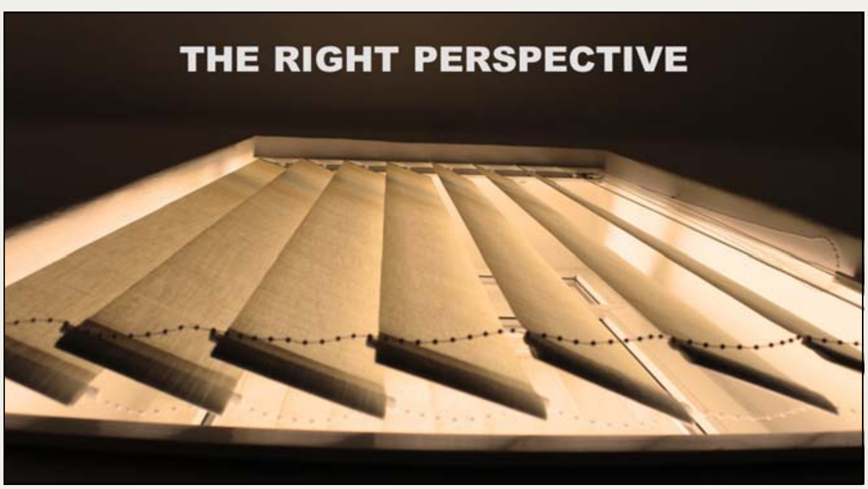
So, the current inversion has spread fears of a U.S. recession and caused increased volatility in the stock market in recent months.

Retirement income investors may want to consider how lower yields on fixed income allocations in their portfolios might affect them in the years ahead because the change in supply and demand for sovereign debt is being driven by long term demographics.

Significantly, the yield curve inversion is caused by bond market supply and demand and not U.S. economic fundamentals.

The baby-boomers continued to have children to supply the foregoing generation. A strong following generation makes the growth path of the U.S. comparatively favorable to the other major world economies. ●

The Fed Just Cut Rates Again; What's It Mean to You?



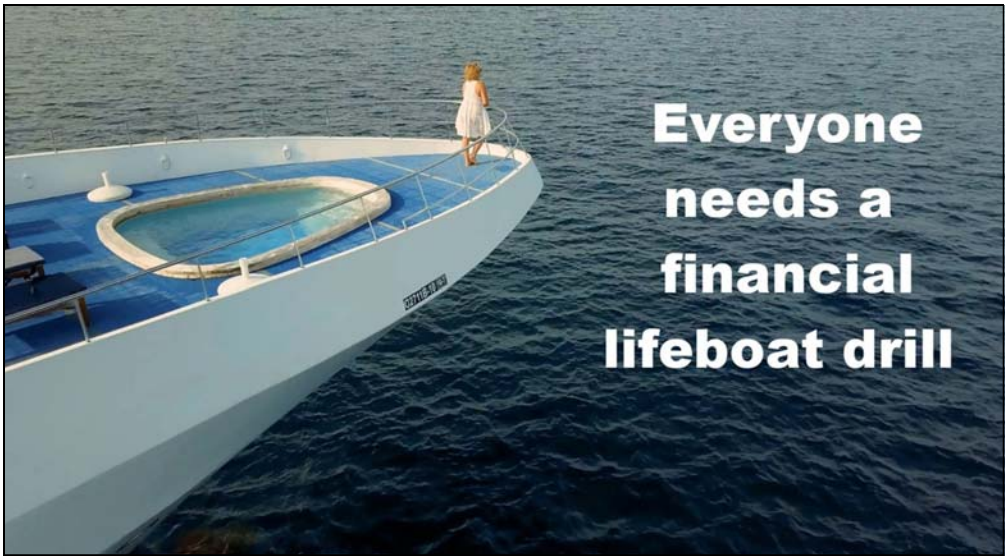
The Fed cut rates on October 30 for the third time in 2019. What's it mean to your long-term financial plan?

The rate cut is a reversal in policy and not what the Fed had expected to do, which is worrisome because the Fed has caused every recession in modern U.S. history by making a policy mistake. However, admitting its previous financial plan had been wrong, the Fed's abandonment of its earlier forecast, that inflation was a danger, is encouraging.

Federal Reserve policy has grown far more responsive to economic fundamentals and market sentiment. Former Fed Chair Ben Bernanke, who had studied financial crises for decades before becoming the nation's top central banker, was the right person to guide the economy when the global

Financial Lifeboat Drill for Mustering in Emergencies

Put yourself through this brief lifeboat drill to prepare for things suddenly going wrong. Everything may be fine right now in the eleventh year of the economic expansion. That's a sensible time to test your ability to muster the resources to respond to a range of emergency scenarios.



1. Cash/Liquidity. In case you lose your job, lose your health, or are befallen by life's myriad of mishaps, can you pay the bills for at least six months? Any non-retirement accounts we manage for you can be included in your total liquidity number in addition to any bank/savings accounts.

2. Investments. If the stock market were to fall over the next year or two, do your investment accounts have an exit strategy? Your accounts at FSA will have our safety nets in place to protect your portfolio against a significant sustained downturn. It might be a good time to understand the strategy in your other accounts.

3. Family risk. Will your children be able to afford college, will your spouse be able to maintain your family's current lifestyle, and will your other loved ones have the financial wherewithal to carry on if you die? Insurance — specifically no-frills term insurance — is meant to manage the worst of all risks families face.

4. Beneficiary designations. Life changes families. Divorce, death, health, and family financial dynamics change over time, making it necessary to reexamine beneficiaries listed on your retirement and other accounts.

5. Retirement income plan. Retirement income planning is being transformed by U.S. demographic trends and changes to the U.S. Tax Code. A retirement income plan done before the 2018 tax law changes, or that is not in tune with the demographic trends affecting income investing, should be updated. For a successful retirement income plan, you must always be willing to adapt.

6. Medical proxy. If you are unable to make your own medical decisions, give the power to make medical decisions for you to someone you trust.

7. Final details. Specify preferences about your funeral, and leave a list of all your accounts, assets, loans, important legal documents, and advisors delegated to carry out your final instructions. Include how you want certain personal possessions and family heirlooms treated. If you have social media accounts, you can let someone know what to do, or there are apps that write or make recordings of final thoughts for loved ones.

A financial lifeboat drill is a pithy concept, belying its seriousness, and it requires answering hard questions about your personal financial, tax, and family situation. It would be our privilege to help. ●

financial crisis occurred in 2008. He implemented policies never before tried in a major world economy. His successor, Janet Yellen, a labor economist, who fatefully had spent her professional life studying how to increase employment, continued Mr. Bernanke's quantitative easing plan and deftly extended the expansion.

Although opinions about the direction of interest rates or stock prices in the next year or two will always vary, it is clear that the Federal Reserve has made progress in achieving its dual mandate to promote employment and control inflation. The Fed — led by Jerome Powell and backed by a deep team of the world's best minds — has abandoned its long-held forecast for a 2% inflation rate — and in admitting its mistake to raise rates on December 14, 2018, its change of policy should be viewed in the context of the Fed's progress. The third interest-rate cut of 2019 signaled that the Fed is no longer worried about inflation and determined to defend the 10½-year long expansion in 2020 and beyond, even if it means admitting it made a mistake and is changing course.

Amid the cacophony of modern-day living, don't lose sight of the unceasing progress in the world, and always try to frame your long-term investment perspective from this easily overlooked trend of civilization. ●

Do Robo Advisors Have Glitches?

Robots already do serious work in manufacturing, construction, and an increasing number of other fields. And now "robo advisors" are invading financial services. Within the next decade, these automated portfolio managers are expected to be handling trillions of dollars in assets.

But are robo advisors an upgrade over their human counterparts? The jury is still out on that question, so let's take a closer look.

How do robo advisors work? It's not like R2-D2 sets up a face-to-face meeting at his office and devises a financial plan for your future. Instead, you input critical data—including your age, risk tolerance, assets, and goals—into a software package, which then spits out an investment "asset allocation" based on an algorithm. So, the technology does all of the grunt work.

Typically, the allocation will rely heavily on exchange-traded funds (ETFs) holding a mix of domestic and international stocks and bonds. Although robo advisors vary, normally the algorithms that determine which ETFs to hold are based on modern portfolio theory or a version of it.

Although you may be attracted by the idea of a portfolio automatically tailored to your needs, robo advisors have certain shortcomings. For one thing, they haven't been sufficiently tested during a range of market conditions such as the sustained downturn that began in 2008-2009.

In addition, there's the fact that a faceless, mechanical robo advisor won't react in the same way as a human advisor. Who is responsible if your investments go south? Will there be a safety net? When the market has a downturn, you cannot call the robo advisor. In some cases, there is an 800 number you can call, but the software still drives the final decisions.

Furthermore, a robo advisor operates in a virtual vacuum. It doesn't have a complete financial picture or know you personally. If there's a call center for a particular robo advisor, you'll likely speak to a different person every time you call. In other words, the methodology behind these technological marvels won't take into account all of the factors influencing your life.

Finally, proponents of robo advisors claim that they are less expensive than human advisors, but that's not always the case. In any event, you may find that the services of a trusted personal advisor are well worth the cost in the long run. Despite the latest technological advancements, humans can still play a valuable role in guiding your investment decisions. ●

How To Give Gifts And Not Trip

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you have $11.555 million still to go.

It's rare for most Americans to go over the $11.58 million lifetime giving limit. But if you're well-heeled and very generous — your daughter's destination wedding in Corsica costs a bundle — then you could get hit with gift taxes ranging from 18% - 40% unless you utilize your lifetime exclusion.

About filing with the IRS: Every year you go over the $15,000 exclusion level, you need to file a Form 709. That way, the government can track who is on the road to reaching the lifetime $11.58 million exclusion.

Some things may not seem to be gifts but are, and you're required to file the form, like that large sum you blew on your daughter's costly nuptials. Or that $100,000 you just plugged into your grandchild's 529 college saving plan, which means $85,000 of it is potentially taxable. And if you make an interest-free loan to a friend, the IRS sees it as a gift, too.

Some gifts are tax-free, provided that you give them the right way, such as gifts for medical or educational expenses. Should you pay someone else's hospital bill, don't give the money to the patient, who then settles the medical tab themselves. You pay the hospital directly. Ditto for education. Instead of giving the money to the student, write the check to the school. Giving to your spouse or a charity is also totally free from the gift tax.

One sure thing about gifts is that they make people happy. Staying within the rules makes the tax man happy, too. It's best to consult a qualified tax professional about this topic, and we are here to help. ●

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