PARTNERS
WEALTH MANAGEMENT
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Plan For Retirement At Different Stages Of Life

No matter how old you are, retirement planning can be crucial to your overall financial health. However, your current stage of life can make a big difference in how you plan for retirement. Here are some general guidelines:

The early years: If you're just starting your career, chances are you'll have other financial priorities besides retirement savings, such as paying off college loans, your monthly rent, and car payments. But that doesn't mean you should move retirement planning completely off your agenda. For instance, if your company offers a 401(k) plan, try to defer as much salary as possible, especially if your employer will match some of your contributions.

While it may be hard to see from this vantage point, the long-term benefits of tax-deferred compounding within a retirement account such as a 401(k) or an IRA can be substantial. Suppose you contribute $10,000 a year to your 401(k), including matching contributions, beginning with the first year you enter the workforce. Then assume you earn a 7% annual return on your investments in the account. After 40 years you will have accumulated $2,136,096 without paying a penny of tax! (You will be taxed when you withdraw that money during retirement.)

Marriage and family: For many people, the next stage of life involves getting married and starting a family. On top of those financial pressures, you may buy a house and then replace it later with a bigger place. Suffice to say, your regular salary could be stretched thin, plus you have to think about paying for the college education of your children.

The trick at this stage is to stay the course as well as you can. Even if you and your spouse both have been working, one now may take some time off or cut back to part-time to help raise the kids. But you still can find a way to save money for retirement. For example, if you've both been contributing a total of $10,000 a year to a 401(k) and one of you stops working full-time, the other might try to boost 401(k) contributions to make up part of the difference.

Peak earning years: If you're a working couple, the next stage of life might offer a little more flexibility. Although you'll probably be paying for college, the mortgage may be paid off, or close to it, and your salary typically still will be rising. It only makes sense that you should be able to save more for retirement when you're earning the most.

Because even the best-laid plans can go astray, however, you now may need to make up for some lean years when other financial concerns took precedence. For example, if you failed to reach your target for annual 401(k)

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Comfortable & Confident

Are you confident that the decisions you are making today will allow for a comfortable tomorrow? Although it's true, the future is unknown; we have the ability to position ourselves so that we may be better suited to weather future storms. There is no time like the present to start planning for your future.

Not sure if you are on track to meet your goals? Wondering if there is anything else you could be doing today to mitigate life's potential curve balls? Uncertain how best to invest an inheritance? Comprehensive financial planning may help shed some light on particular areas of exposure as well as opportunities for your unique situation. Perhaps you feel like you have done everything you possibly can, to date, to ensure your financial well-being. Have you ever thought the steps you are taking are good but wondering if they could be better? Wouldn't it be nice to have confirmation?

Going through any planning process takes time, time to gather all the personal information, time to think about your goals and objectives, time to dream a little to see if those dreams can become reality. We believe it would be time well spent because your future is worth the effort.

The best decisions we can make are informed ones. We would like the opportunity to arm you with the knowledge needed to make the best decisions for you, your family and your future. Your comfort and confidence is important to us.

John

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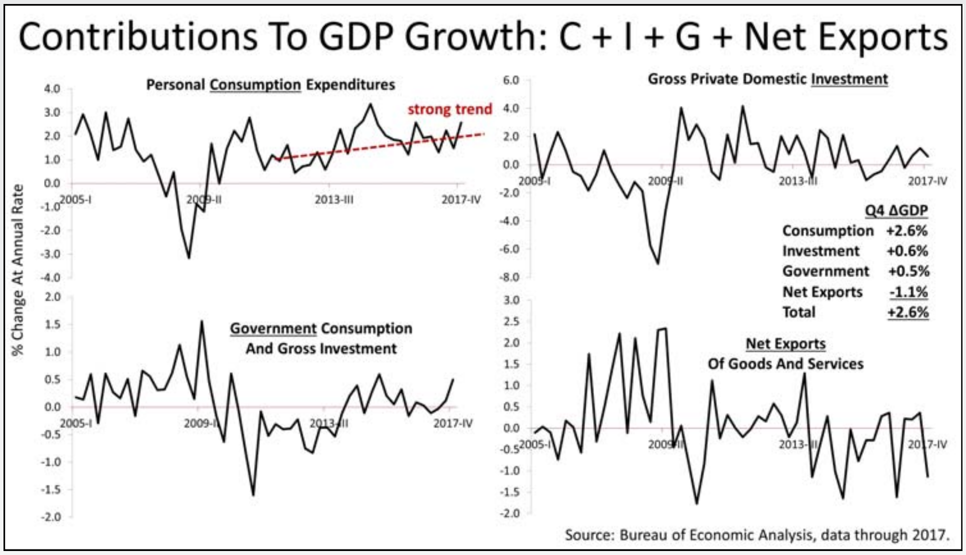
A Bright Outlook For Consumer Spending

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.

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 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 the key 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. ●

Ask About Personal Residence Trusts

By using a qualified personal residence trust (QPRT), you might be able to sidestep potential estate tax pitfalls while transferring a home to family members. You can continue to live in the home for a term of years, after which ownership passes from the trust to the designated beneficiaries. Your gift of the home to the trust is taxable, but rather than being based on the home's value when it goes into the trust, that value is reduced by the amount of your "retained interest," which is calculated according to a complicated formula based on interest rates, the term of the trust, and other factors.

But this unique estate planning technique is often misunderstood. Here are answers to several common questions about QPRTs.

Q. What are the estate and gift tax consequences?

A. When your home goes into a QPRT, it comes out of your taxable estate. Although the transfer of the remainder interest—the home's value minus your retained interest—is subject to federal gift tax, the resulting tax from this future gift tends to be low, especially while interest rates remain depressed. The IRS relies on the Section 7520 rate, which is updated monthly, to calculate the tax.

Q. What happens if I die before the end of the trust term?

A. Then the home goes back into your taxable estate. This defeats the purpose of the trust, but your family is no worse off than before the trust was created.

Q. Do I have to transfer my principal residence?

A. That's normally the home used in a QPRT, but it can also be set up for a second home. In fact, you can have multiple personal residence trusts.

Q. How long should the trust term last?

A. There's no set period of time. Note that the longer the term, the smaller the value of the remainder interest that's subject to taxes. But a longer term also

2018 Estate Tax Changes And What May Be Ahead

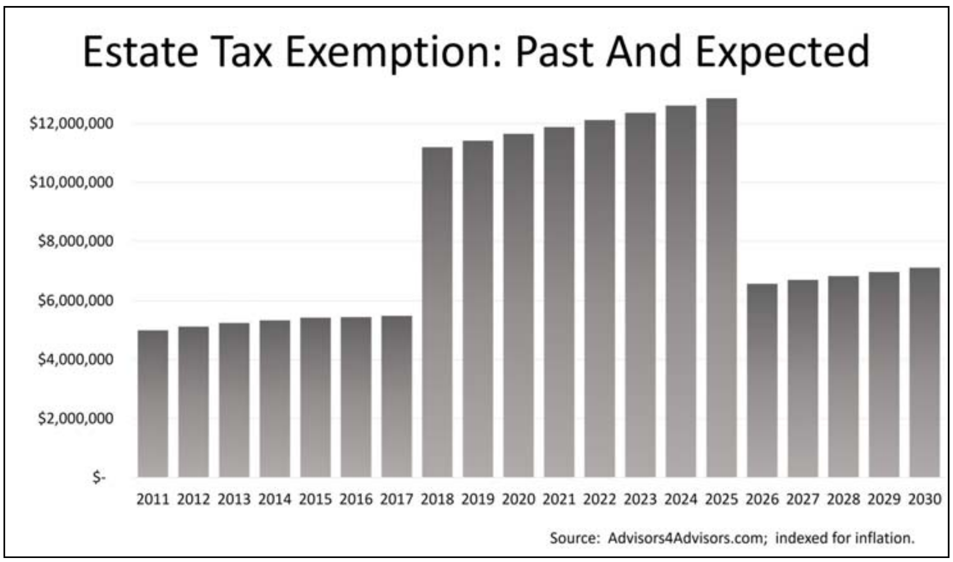
The tax code overhaul brought a lot of changes, but for the estate tax, the most far-reaching result was what didn't happen. Chiefly, you didn't lose the capital gains break on inherited assets when they are sold.

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 values your 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.

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increases the chance that you'll die before it ends and the home will be returned to your estate.

Q. Can I sell the home during the trust term?

A. You can, but you'll have to reinvest the proceeds in another home that will be owned by the QPRT and subject to the same trust provisions.

Q. Who pays for the upkeep of the home?

A. As long as you still live there, you do, for instance, you might pay the costs of monthly maintenance and repair, insurance, and property taxes to the trustee. But you get to deduct qualified expenses on your tax return.

Q. Can I back out of the deal?

A. No, the trust is irrevocable. However, if you want to stay in the home after the trust term, you can set up a rental agreement with the beneficiaries. They will have to pay income tax on the rent they receive.

Q. Are there any other drawbacks?

A. There are costs associated with a QPRT, including attorneys' fees, appraisal fees, and titling expenses. And you can't take out a mortgage on a home that has been transferred to a QPRT. (An existing mortgage is permitted but it complicates matters.) ●

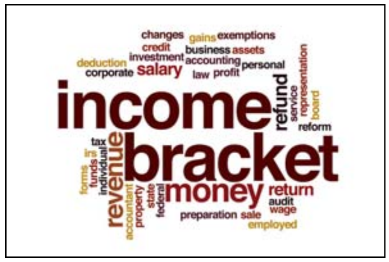
New Deduction Rules For Business Owners

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 from being deemed as 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. For example, on a shopping mall worth $5 million, 2.5% of its value is $125,000. That's quite a deduction. ●

Plan For Retirement

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contributions while one of you was out of the workforce, hiking contributions could help make up lost ground. Even though deferrals to a 401(k) are limited by law ($18,000 for 2017), once you turn 50 you're allowed to make extra annual catch–up contributions ($6,000 for 2017). These also could be years when you move part of your portfolio into slightly riskier investments in the hope of earning higher returns.

Approaching retirement: Once you're in the home stretch, don't hold back. Making maximum contributions to your 401(k) now only makes sense. This is also the time to review your overall financial situation with an eye toward retirement.

For instance, you can tweak plans for sustaining a comfortable retirement, based on the health status of your family, whether you'll be downsizing to a smaller home, the income tax ramifications of your investments, your retirement accounts, and your estate plan. Furthermore, you might consider adjusting your portfolio to emphasize asset protection as well as growth.

Now also would be a good time to get familiar with the rules for required minimum distributions (RMDs). Generally, you have to start taking RMDs from your 401(k) and IRAs after you turn age 70½.

Finally, think about other possible financial moves, such as converting some or all of your IRA funds into a Roth IRA, whose future payouts would be tax-free—you'll be taxed now on the amount you convert. Also try to prepare for current or future financial or health problems affecting your lives. Of course, family-related events such as divorces, weddings, births, and deaths also may have an impact on your retirement picture.

What's your stage right now? With professional assistance, you can develop a plan tailor-made for you and your family. ●

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