Wealth Planning Newsletter

Fall 2018 Issue

In This Issue

Please contact your Stifel Financial Advisor if you have any questions about the articles or for copies of the other materials mentioned in this newsletter.

Stifel does not provide legal or tax advice. You should consult with your estate planning attorney and tax advisor regarding your particular situation.

Year-End Financial Checklist

Update Your Financial Plan

- ☐ Gather up-to-date, comprehensive, and accurate account information.
- ☐ Assess your goals and objectives.
- ☐ Consider significant life events that have occurred since you last updated your financial plan.
- ☐ Meet with your Stifel Financial Advisor to update your financial plan.

Did You Know?

50% of those individuals who have prepared a financial plan feel like they are on track to meet all of their financial goals. Only 32% of those individuals without a financial plan feel like they are on track.

Source: "Household Financial Planning Survey" conducted in 2012 by the Consumer Federation of America and Certified Financial Planner Board of Standards, Inc.

Consider Year-End Tax Planning Strategies

- ☐ Work with a tax professional to determine whether it would be appropriate to harvest unrealized gains or losses.
- ☐ Discuss with a tax professional whether you could benefit from making a qualified charitable distribution from your IRA.
- ☐ Consider making annual exclusion gifts.

Did You Know?

23.9% of Americans would get an "IRS" tattoo if it meant that they would never have to pay taxes again.
11.24% of Americans would name their child "Taxes" to ensure a tax-free future.

Source: WalletHub's "2018 Taxpayer Survey."

Review Your Retirement Strategy

- ☐ Learn the difference between a traditional and Roth IRA.
- ☐ Determine how the new tax law will impact your income tax bracket.
- ☐ Consider contributing to a Roth IRA if you are in a lower tax bracket for 2018.

Did You Know?

73% of individuals with a Roth IRA have worked with a financial professional to develop a strategy for managing income and assets in retirement.

Source: Investment Company Institute IRA Owners Survey (2016)

Maximize Your Health Benefits

- ☐ Take advantage of free preventive care services.
- ☐ Consider your deductible and out-of-pocket maximum when determining whether to schedule elective/non-emergency procedures this year or next year.
- ☐ Utilize your flexible spending account.
- ☐ Contribute to your health savings account, if eligible.

Did You Know?

If you are enrolled in Medicare, you are not able to contribute to an HSA. However, if you have reached age 65, you can use funds in an existing HSA to pay Medicare premiums (except premiums for a Medicare supplement policy).

Source: IRS Publication 969 (2017)

New Year, New(er) Financial Plan!

In a few short months, many Americans will bid farewell to 2018 with a mumbled rendition of Auld Lang Syne. What do this song and financial planning have in common? The short answer is that both should be performed annually. There is just one small problem: Most people do not actually know the words to Auld Lang Syne. Likewise, most people do not know how to go about updating their financial plan.

Don't let your plan be forgot! Here are a few steps you can take to help ensure a successful financial plan update.

Should auld acquaintance be forgot,
and never brought to mind?
Should auld acquaintance be forgot,
and auld lang syne.

For auld lang syne, my jo,
for auld lang syne.
We'll take a cup o' kindness yet,
for auld lang syne.

– Robert Burns (1788)

Gather comprehensive and accurate account information.

Year-end statements contain detailed information that can promote the accuracy of your plan. Statements that include account holdings, account values, and contribution data improve the integrity of both the asset allocation and the projected calculations in the analysis.

Assess your goals and objectives.

Reviewing the goals included in your financial plan can help keep your financial behaviors on track. Existing goals, decisions, and behaviors can be adjusted to better align with any new goals that you would like to include in the plan moving forward.

Consider significant life events.

Life-changing events can considerably impact your financial plan. By reviewing your plan on an annual basis, you can assess how events such as a birth, death, marriage, or new job may impact your goals and results.

Meet with your Stifel Financial Advisor.

Once you have taken the previous steps, you will be ready to work with your Stifel Financial Advisor to update your financial plan. This update will include the most recent capital market, tax, and inflationary assumptions, ensuring that your plan remains as accurate as possible.

Planning is an ongoing process. Your plan's probability of success will fluctuate over time. Being proactive and regularly updating your financial plan will keep you and your Stifel Financial Advisor at the forefront of your finances while helping you pursue your goals.

Year-End Tax Planning Strategies

If you are not engaging in year-end tax planning, you could be leaving money on the table. Consider the following strategies to identify potential opportunities to lower your 2018 (or 2019) tax bill. Be sure to consult with your Stifel Financial Advisor and a qualified tax professional before implementation.

Tax Gain/Loss Harvesting

Toward the end of the year, review your taxable investment accounts with your Stifel Financial Advisor to determine whether year-to-date sales and purchases result in a capital gain or capital loss. If faced with a gain, consider harvesting unrealized losses. Alternatively, if faced with a loss, consider harvesting unrealized gains. The ability to offset capital gains can be a valuable tool if implemented as part of a holistic tax planning strategy that considers all available tax information, including additional sources of taxable income (or losses) and capital loss carryforward available from the previous tax year.

Required Minimum Distributions (RMDs)

Although RMDs must generally begin by April 1 of the year following the year in which the account owner reaches age 70 ½, the first distribution calendar year is the year in which the account owner reaches age 70 ½. Thus, if you reach age 70 ½ in 2018, you can delay the first required distribution until 2019. However, if you do this, you will have to take a double distribution in 2019 (i.e., the amount required for 2018 plus the amount required for 2019). Failure to take an RMD can result in a penalty of 50% of the RMD amount not withdrawn.

If faced with RMDs, consider a qualified charitable distribution (QCD). A QCD is a direct transfer of funds from your IRA to a qualified charity. Generally, RMDs are considered taxable income. However, your RMD is excluded from income to the extent the QCD strategy is utilized. For example, if your RMD for the year is $10,000 and you make a $7,000 QCD, only $3,000 of your RMD will be taxed.

Postponement of Income and Acceleration of Deductions

Some taxpayers may benefit from postponing income. This strategy may allow those taxpayers to claim deductions, credits, and other tax breaks for 2018 that otherwise may have been phased out if adjusted gross income (AGI) were allowed to exceed certain thresholds. These benefits include child tax credits, higher education tax credits, and deductions for student loan interest. Those taxpayers who anticipate being in a lower tax bracket in 2019 may also benefit from postponing income.

Conversely, some taxpayers may benefit from accelerating income into the current tax year. This strategy could be particularly useful for taxpayers whose 2018 marginal tax rate will be lower than their 2019 marginal tax rate. Additionally, by reducing income for the upcoming tax year, taxpayers may be able to take advantage of additional deductions and/or credits.

Below are some examples of how you may be able to shift income/expenses between tax years:

- Talk to your employer about deferring your 2018 bonus until early 2019.
- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your 2018 deductions even if you do not pay your credit card bill until after the end of the year.
- Apply a bunching strategy to medical expenses. These expenses are only deductible to the extent they exceed 7.5% of your 2018 AGI.
- Consider making charitable gifts. Rather than gifting cash, donate appreciated stock that you have held for more than one year. Take it to the next level by using an advanced charitable giving strategy such as a donor-advised fund, charitable remainder trust, or QCD.

Caution:

The standard deduction amount was nearly doubled by the tax reform bill signed into law by President Trump on December 22, 2017. As a result, many taxpayers who itemized their deductions in 2017 will no longer itemize their deductions in 2018. Be careful not to waste your time postponing or accelerating itemized deductions if you will be taking the standard deduction on your next return. For help determining whether you should anticipate itemizing your deductions, speak with your Stifel Financial Advisor and a qualified tax professional. Additional information is also available in a recent Stifel article entitled, "To Itemize, or Not to Itemize? That Is the Question."

Implement Roth Conversion Strategies

There are a number of benefits for those who convert traditional IRA funds into Roth IRA funds, including:

- Tax-free growth. Roth IRAs are funded with after-tax dollars. Generally, when distributions are taken from a Roth IRA, there is no tax due on the original contributions or any subsequent growth.
- No RMDs. Unlike traditional IRAs, Roth IRAs are not subject to RMDs.
- Reduced traditional IRA RMDs. Converting funds from a traditional IRA to a Roth IRA reduces the traditional IRA balance, which, in turn, reduces the size of RMDs the traditional IRA owner will eventually be forced to take.

Caution:

The amount of the conversion will be considered taxable income just like any other distribution from a traditional IRA. Under previous tax law, taxpayers were allowed to undo or "recharacterize" Roth conversions. Under the current tax law, however, recharacterization is no longer permitted. Any conversion of funds from a traditional IRA to a Roth IRA is final. For this reason, you may consider delaying Roth conversions until the end of the tax year when total taxable income is more easily projected.

Utilize Annual Exclusion Gifts

In 2018, every individual has the ability to make $15,000 gifts to an unlimited number of recipients without any estate or gift tax consequences. You cannot carry over unused annual exclusion gifts from one year to the next. In addition to the estate and gift tax benefits, annual exclusion gifts may save families income taxes when income-producing property is given to family members who are in lower income tax brackets and are not subject to the kiddie tax.

These are just some of the year-end steps that can be taken to reduce your income tax burden. Please contact your Stifel Financial Advisor if you have additional questions about one of the strategies discussed above.

The Retirement Savings Question

"Should I contribute to a traditional IRA or a Roth IRA?" If you are like most aspiring retirees, this question has plagued you for years. Unfortunately, the correct answer is the proverbial, "It depends." It depends on a number of factors that impact your personal financial situation, including the current tax framework.

The Basics

Traditional and Roth IRAs both provide significant tax benefits. The key difference, however, is the timing of those benefits. Contributions to a traditional IRA are tax deductible, whereas contributions to a Roth IRA are not. Conversely, withdrawals from a traditional IRA are fully taxable, whereas withdrawals from a Roth IRA are tax-free. In other words, you avoid taxes when you contribute money to a traditional IRA, and you avoid taxes when you withdraw money from a Roth IRA.

The Impact of Tax Reform

Many Americans suddenly find themselves in a lower tax bracket as a result of recent tax law changes. Because any future tax reform legislation will likely raise these historically low rates, Roth IRAs present a unique opportunity for individuals seeking to maximize the benefit of this favorable tax environment. Consider the following hypothetical scenario.

The Curious Case of Sam Traditional and Sally Roth

Sam Traditional and Sally Roth are 30-year-old co-workers at Santa Land, LLC. Both of them are paid an annual salary of $50,000. Thanks to the new tax law, Sam and Sally find themselves in the 22% tax bracket. This is down from the 25% tax bracket they were in last year. They are both currently single and plan to stay that way due to some unfortunate online dating experiences. After reviewing their financial plans with their Stifel Financial Advisors, they have both determined that they would like to retire at age 65. In order to help facilitate a successful retirement, Sam has decided to open a traditional IRA. Sally has decided to open a Roth IRA. Both Sam and Sally will contribute the maximum allowable amount to their respective retirement accounts each year (i.e., $5,500 until age 50 and $6,500 from age 50 until retirement). Sam will also invest the tax savings he realizes each year into a taxable account. Because Sally will not realize tax savings when contributing to her Roth IRA, she will make no additional investments.

After illustrious 35-year careers at Santa Land, LLC, Sam and Sally decide to retire. While meeting with their Stifel Financial Advisors to review the performance of their respective investments, Sam and Sally both learn that they have averaged a 5% annual rate of return. Furthermore, they learn that due to an unpopular tax hike passed by Congress, they are now in the 25% tax bracket.

This is where the similarities end. The chart below illustrates the value of the assets Sam and Sally have available to pursue their respective retirement spending goals.

	Sam Traditional	Sally Roth
Total Contributions Until Retirement	$207,500	$207,500
Retirement Account Balance Before Taxes Considered	$544,257	$544,257
Value of Investing Annual Tax Savings	$95,301	$0
Taxes Paid on Retirement Account During Retirement	$136,064	$0
After-Taxes Value of Assets Upon Retirement	**$503,494**	**$544,257**

Despite all of their similarities, Sally has $40,763 more than Sam to spend in retirement. This represents the potential value of contributing to a Roth IRA.

Withdrawals prior to age 59 ½ may be subject to a 10% penalty by the IRS. You should consult with your tax advisor regarding your particular situation. The above is for illustrative purposes only and does not reflect actual performance of any particular investment.

Year-End Tips to Maximize Your Health Benefits

As 2018 draws to a close, you will soon be enjoying big holiday meals, traveling to visit family, and searching for that perfect gift. These year-end traditions can leave your wallet and waist feeling stretched. By taking time to consider your health benefits amid this year-end frenzy, you can help alleviate that uncomfortable feeling moving forward.

Take Advantage of Free Preventive Care Services

Verify which preventive care services are free as part of your insurance coverage. If you have not already utilized these services, make an appointment today. From a financial perspective, you have already paid for these services through your premiums. Taking advantage of free preventive care services can ensure that your premiums don't feel like a waste. From a health perspective, preventive care can help you catch issues before they become serious problems.

Consider Your Deductible

Your deductible is how much you must pay before your insurer begins to share the cost. If you have reached your annual deductible for 2018, you may want to consider having certain elective/non-emergency procedures completed before year-end. Remember, however, that you may still have to share the cost of these procedures with your insurer. As a result, be sure to diligently research the cost before scheduling any procedures.

Consider Your Out-of-Pocket Maximum

Your out-of-pocket maximum is the maximum amount you will have to contribute to your health care annually. Once you reach your out-of-pocket maximum, you will be in an ideal position to schedule additional health services. You will have no additional costs for these services. If you have reached your out-of-pocket maximum for 2018, ask your doctor if there are any services he or she would recommend that can be scheduled and billed before the year draws to a close.

Anticipate Upcoming Health Care Costs

If you expect to incur significant health care expenses next year, you may instead want to work with your doctor to schedule elective/non-emergency procedures early in 2019. This will help you satisfy your annual deductible and out-of-pocket maximum as soon as possible. From a financial perspective, one year of high medical expenses and one year of low medical expenses may be more beneficial than two years of average medical expenses where you do not reach your deductible or out-of-pocket maximum in either year.

Utilize Your Flexible Spending Account

The money you save in your flexible spending account (FSA) is "use it or lose it." You set aside pre-tax funds at the beginning of the year and use those funds on qualified expenses throughout the year. Qualified expenses include those arising from medical, dental, and vision services received by you, your spouse, and your dependents. Expenses arising from services received by children who have not reached age 27 by the end of the year may also be considered qualified expenses. Funds remaining in your FSA at the end of the year are generally lost. As a result, if you have funds remaining in your FSAs and do not have upcoming health expenses, consider stocking up on extra glasses, contact lenses, prescriptions, or other basic medical supplies that you may use in the future. You should also assess whether there are any out-of-pocket health care expenses that you have already incurred that could be reimbursed by your FSA.

Contribute to Your Health Savings Account

If you are already maxing out contributions to your retirement accounts, consider contributing to your HSA, if eligible. Individuals covered by a high-deductible health plan (HDHP) are eligible to contribute to a health savings account (HSA). HSAs are triple tax-free accounts. Contributions you make to an HSA are tax deductible (or pre-tax if made through a payroll deduction). Interest earned inside an HSA accumulates tax deferred. Withdrawals made from an HSA are tax-free if used to pay qualified expenses. Furthermore, unlike funds in an FSA, funds in an HSA never expire. Although you can no longer contribute to an HSA if you are not in a HDHP, funds in an existing HSA will remain available for your use.

With the year-end rush quickly approaching, remember to take some time to work on your health and your finances. Hopefully these tips will help you get next year off to a wealthier and healthier start.

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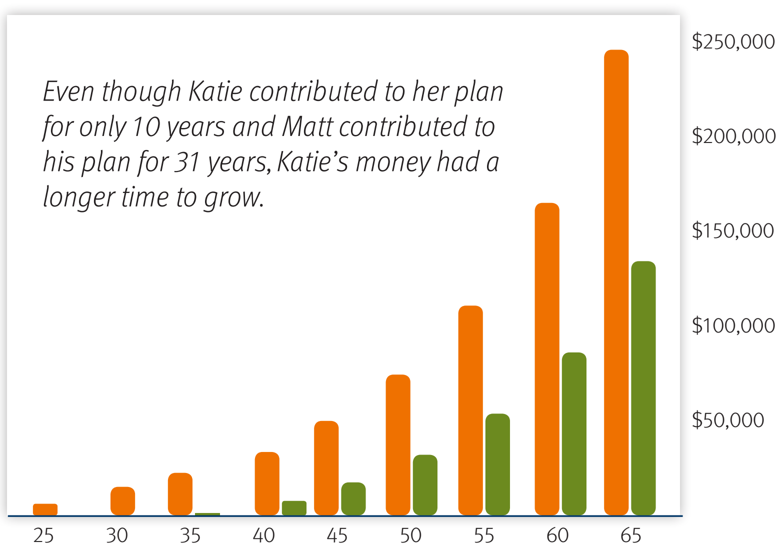
You are never too young to think about retirement.

Katie

Katie started saving $83 per month at age 21. At age 30 she stopped contributing. She left the funds in the plan until age 65.

Matt

Matt started saving $83 per month at age 35. He continued to contribute the same amount for the next 30 years.



** This is a hypothetical illustration only, assuming an 8% annual return compounded monthly, and is not indicative of the performance of any particular investment.*