STIFEL

Wealth Planning Newsletter

Spring 2019 Issue

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Please contact us 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.

Spring Cleaning To-Do List

Clean Up Your Spending

- ☐ Schedule a meeting with your Stifel Financial Advisor.
- ☐ Plan for unpredictable expenses.
- ☐ Review your budget.
- ☐ Invest in your future.
- ☐ Notify yourself when your spending exceeds your budget.
- ☐ Give separate expenses separate accounts.

Did You Know?

Only 46% of Americans have a rainy day fund, while 18% of Americans report spending more than their income.

Source: *FINRA's 2016 National Financial Capability Study.*

Spring Free From Debt

- ☐ Develop a plan to pay off your high-interest loans.
- ☐ Discuss the tax consequences of your interest payments with a qualified tax professional.
- ☐ Assess your repayment options as part of a comprehensive review of your finances with your Stifel Financial Advisor.

Did You Know?

The average balance on existing mortgages in the United States is $148,600. The average balance on new mortgages is $260,386.

Source: "Survey of Consumer Expectations Housing Survey – 2018," Creditor Quality and Inclusion, from the Federal Reserve Bank of New York; Home Mortgage Disclosure Act, Consumer Financial Protection Bureau, "Average Loan Amount, 1-4 family dwelling, 2017."

Know What to Throw Away and Know What to Keep

- ☐ Take an inventory of all important financial documents in your possession.
- ☐ Shred any financial documents that are no longer relevant or needed for tax purposes.
- ☐ Complete our *Final Thoughts and Information for Loved Ones* to help your family locate important documents and information after you are gone.

Tidy Up Your Taxes to Avoid the Underpayment Penalty

- ☐ Discuss with a qualified tax professional how the Tax Cuts and Jobs Act of 2017 impacts your tax situation.
- ☐ Review your W-4 tax withholdings and make any adjustments needed to avoid the underpayment penalty in upcoming years.

Reward Yourself With a Summer Vacation

- ☐ Plan ahead and strategically book your airfare when prices drop.
- ☐ Consider all of your lodging options, including hotel alternatives, such as Airbnb.

Did You Know?

Lodging costs make up about 26% of total travel expenditures for domestic trips and 21% for international trips. Transportation costs make up about 27% of total travel expenditures for domestic trips and 54.3% for international trips.

Source: "Average Cost of a Vacation," Value Penguin

SPRING Cleaning for Your Spending

A Plan for Improving Your Finances

Spring is more than just a great time to clean out your closet. It is also a great time to clean up your spending and improve your finances. Depending on how much clutter you find when looking into your financial closet, the thought of spring cleaning may seem daunting. Consider implementing our SPRING cleaning plan to help make things more manageable.

Schedule a meeting with your Stifel Financial Advisor.

Your Stifel Financial Advisor will help you identify, prioritize, and pursue your short-term and long-term spending goals. By working with your Stifel Financial Advisor, you will also gain access to resources that can help you better manage your financial well-being.

Plan for unpredictable expenses.

Certain expenses, such as utility bills and mortgage payments, occur in regular intervals. Others, such as vehicle repairs and medical bills, are much less predictable. These unpredictable expenses can cause significant financial strain if they are not incorporated into your budget. By fully funding a separate account to be used exclusively for unpredictable expenses, you will be prepared to handle these expenses when they arise.

Review your budget.

Your budget is the foundation of your financial well-being. It facilitates organized and efficient spending, while holding you accountable for your spending decisions. You should periodically review your budget and make appropriate adjustments. You should also compare your current budget to past budgets in order to identify spending patterns.

Wealth Planning Tip

Remember to include some fun in your budget. A budget without fun is like a diet without a cheat day – difficult to maintain.

Invest in your future.

Before you pay others, you should remember to pay yourself. By saving now and investing for your future, you will enhance your ability to retire on your own terms. Consider automating contributions from each paycheck to a retirement account to ensure that you meet your savings goals. Furthermore, if you receive a raise or bonus, consider increasing your savings before you increase your spending.

Notify yourself when your spending exceeds your budget.

Swiping a credit card can be a thoughtless process. Set up alerts for each charge that exceeds a certain amount. This will promote spending awareness and responsible credit card use.

Give separate expenses separate accounts.

Allocate the money needed for various expenses among multiple accounts. This will help you organize your spending while keeping your budget on track. Establish one account for known expenses, one account for unpredictable expenses, and one account for discretionary spending. Challenge yourself by funding your discretionary account with the maximum amount you hope to spend on discretionary items. Then, resist the urge to add to the account as it becomes depleted.

Spring Free From Mortgage Debt?

Things to Consider Before Paying Off Your Mortgage

If you own a home, chances are you have a mortgage. And if you have a mortgage, chances are you have thought about paying it off early. While this may seem like an attractive option, is it truly the best decision for your financial future? The answer may not be as simple as you think. Before deciding whether to pay off your mortgage, there are a number of things you should consider.

Do you have other high-interest consumer debt?

Debt can take a variety of forms. Personal loans and credit card debt are typically unsecured. On the other hand, your mortgage debt is secured by your home. Lenders incur more risk when a loan is unsecured. This heightened level of risk is typically passed on to the borrower in the form of higher interest rates. Before paying off your mortgage, you should first consider paying off your high-interest loans.

What are the tax consequences of your mortgage?

The Tax Cuts and Jobs Act of 2017 drastically changed the income tax landscape. Due to the increased standard deduction, many individuals who had itemized deductions in the past will no longer benefit from doing so. These individuals will not enjoy the tax benefits of making regular mortgage interest payments. Alternatively, individuals who still plan on itemizing deductions may rely on the mortgage interest deduction. You should discuss the tax impact of your mortgage with a qualified tax professional.

Will making a large mortgage payment create financial stress?

Your budget helps you organize your finances so that you are prepared to handle unexpected expenses. If you have not budgeted for a large mortgage payment, you should first consider whether such a payment would deplete your emergency fund and create stress when unexpected expenses arise. You should then consider whether a large mortgage payment would negatively impact your ability to achieve your short-term and long-term goals.

Would you be better suited to invest the funds you would put toward your mortgage?

For some, investing is an exciting opportunity. For others, investing seems quite risky. Your personal risk tolerance will impact your proclivity to invest. Aggressive investors should consider the opportunity cost of paying off their mortgage. Every dollar put toward your mortgage is a dollar not participating in the potential gains of the market. On the other hand, conservative investors may be averse to the potential volatility of the market. They are better suited for conservative investments with lower risk and more modest growth. As a result, conservative investors may benefit from paying off their mortgage and increasing equity in their homes.

What is your current mortgage interest rate?

Mortgages can take a variety of forms. Some offer fixed interest rates, while others offer variable interest rates. In a rising interest rate environment, fixed rates may offer stability and an incentive to maintain the mortgage while participating in other investments. On the other hand, variable rates may lead to increased monthly mortgage payments and decreased savings. This may create an incentive to pay off the mortgage.

The best way to ensure that you are making the proper decision for you and your family is to conduct a comprehensive review of your finances with your Stifel Financial Advisor.

Don't Gamble With Document Retention

Know What to Throw Away and Know What to Keep

When Kenny Rogers released the iconic chart-topping hit, "The Gambler," in 1978, financial statements were received in the mail. Today, these same statements are delivered electronically. Although the way we receive financial information has drastically changed over the past 40 years, the financial wisdom imparted by "The Gambler" remains the same. When it comes to financial spring cleaning, "the secret to survivin' is knowin' what to throw away and knowin' what to keep."

Document	Hold 'Em	Fold 'Em
Receipts	Until the item's warranty expires or as needed for tax purposes.	Once you have verified the purchase is reflected properly on your next bank or credit card statement.
Credit Card Statements	As needed to demonstrate proof of payment or for tax purposes.	Once you have paid the bill (if not needed for tax purposes).
Bank Statements	As needed for tax purposes.	After one year has passed from the statement date (if not needed for tax purposes).
Bills	As needed for tax purposes.	Once you have verified the accuracy of the statement and paid the bill (if not needed for tax purposes).
Monthly Investment Statements	Until you receive your annual investment summary.	Once you have received your annual investment summary.
Annual Investment Summary	Up to seven years, as needed for tax purposes.	Once no longer needed for tax purposes.
Tax Returns and Supporting Documents	For three years with the following exceptions: • For seven years if you file a claim for a loss from worthless securities or a bad debt deduction. • For six years if you do not report income that you should report. • Indefinitely if you fail to file a return or file a fraudulent return.	Once the noted audit-related time periods have lapsed.
Vital Records • Birth and death certificates • Marriage licenses • Divorce decrees • Estate planning documents	Forever.	Never.

As you can see, some documents have a limited shelf life. Once that shelf life expires, these documents should be shredded to ensure the safety of sensitive information. Other documents should be retained in perpetuity. If certain documents are needed after you are gone, will your family be able to find them? Ask your Stifel Financial Advisor for a copy of our *Final Thoughts and Information for Loved Ones*. Use this document to help your family quickly locate all important documents and information. In these final words, they'll find an ace that they can keep.

Taxes and responsible document retention go hand in hand. Before discarding any documentation that may have tax implications, consult with a qualified tax professional.

Tidy Up Your Taxes

Understanding and Avoiding the Underpayment Penalty

Spring is the season of growth and renewal. It is also tax season, and you may be wondering how you will be affected by the Tax Cuts and Jobs Act of 2017 (TCJA). Hopefully, the income withheld on your paychecks throughout the year will exceed your income tax liability, allowing you to receive a refund. For many, this will not be the case. In fact, some taxpayers will have a shortfall great enough to trigger a penalty from the IRS. How can you ensure that you avoid this penalty? The answer may be easier than you think.

Generally, you will not be subject to an underpayment penalty if you owe the IRS less than $1,000 after factoring in all tax payments. Tax payments include taxes withheld from your paychecks, estimated tax payments, refundable credits, and any portion of your 2017 refund that you applied to your 2018 taxes. If your tax bill is $1,000 or greater, you may still avoid the underpayment penalty if either of the following scenarios applies.

1. Your tax payments for the year are at least 100% of the prior year's tax liability.

This threshold increases to 110% if your adjusted gross income is more than $150,000 (or $75,000 if you are married filing separately).

EXAMPLE

In 2017, America's favorite miniature pony-owning bachelor, Chip, had an income of nearly $37,000. Chip's tax liability was $5,000. Because Chip's tax payments for the year totaled $7,500, he received a $2,500 refund.

In 2018, Chip's income nearly doubled. His income tax liability jumped to $12,000. Chip once again made tax payments totaling $7,500. Even though Chip has a shortfall of $4,500, he avoids the underpayment penalty because his tax payments for 2018 ($7,500) were at least 100% of his 2017 income tax liability ($5,000).

2. Your tax payments for the year are at least 80% of the ultimate income tax liability for the current tax year.

Normally, you must make tax payments that are at least 90% of the current year's ultimate tax liability in order to avoid the underpayment penalty. In an effort to offer some degree of relief to those who were unable to properly adjust their tax payments in light of the various changes brought forth by the TCJA, the 90% requirement has been reduced to 80% for the 2018 tax year.

EXAMPLE

In 2017, Chip's nemesis, Ernesto Thomas, had a tax liability of $25,000. When Ernesto retired in 2018, he anticipated that his total income tax liability would drop to about $8,000. As a result, he chose to withhold $8,000 from his various retirement income streams. When filing his taxes, Ernesto's CPA informs him that his tax liability is actually $10,000. Although Ernesto has a shortfall of $2,000, he avoids the underpayment penalty because he paid in at least 80% ($8,000) of his ultimate tax liability ($10,000).

Wealth Planning Tip

If you see an underpayment penalty on your 2018 return, use the information above to tidy things up and avoid this mistake in the future.

Reward Yourself

Planting the Seeds for Your Summer Vacation

Famed Irish author, playwright, and poet Oscar Wilde once said, “Anyone who lives within their means suffers from a lack of imagination.” Perhaps this logic is why Oscar Wilde never landed a job at Altheimer & Rawlings Investment Co., the predecessor to the firm we know today as Stifel. Although we strongly discourage you from relying on Oscar Wilde for financial advice, we encourage you to emulate his zest for life (within the constraints of your budget, of course). Once you have successfully completed your financial spring cleaning, consider rewarding yourself with a summer vacation. Below are some tips to help you plan a budget-friendly adventure that would make Oscar proud.

Don’t wait until the last minute to book your flights.

During the summer months, the average cost of air travel tends to spike. Nonetheless, if you plan ahead and remain flexible, you can find great deals. According to 2017 data compiled by the Airlines Reporting Corporation, you can save up to 10% by booking your domestic flights 50 days in advance. Similarly, 2018 data compiled by CheapAir.com indicates that you can save up to $203 by booking 47 days in advance. The ideal timeframe for booking international flights varies by region. According to CheapAir.com, the best time to book flights to Asia is 120 days in advance, while the best time to book flights to Europe is 160 days in advance. You can save additional money on flights if you are willing to travel on Tuesday or Wednesday.

Wealth Planning Tip

Travel websites and apps, such as Hopper and Scott’s Cheap Flights, will alert you when good deals are available on airfare to your desired destination.

Consider all of your lodging options.

Before booking your lodging, you should consider all of your options. In many major cities, you could save substantial money by staying in an Airbnb property rather than a hotel. *Forbes* recently compared the average nightly cost of Airbnb properties and hotels in New York, Sydney, Tokyo, London, Toronto, Paris, Moscow, and Berlin. In each of those cities, travelers saved significant money with Airbnb. Travelers in New York, for example, saved an average of $119 per night. Travelers in Tokyo saved an average of $127 per night. Despite this, you may still prefer to stay in a hotel. After all, the amenities and luxury of certain hotels cannot be rivaled. Similar to airfare, timing is paramount when it comes to booking a hotel. According to Kayak’s Global Hotel Study, the cheapest days to book a hotel are Friday and Saturday. Alternatively, the most expensive day to book a hotel is Tuesday.

If cost is no obstacle, take your adventure to the next level with a luxury concierge service.

There are a growing number of luxury concierge services available to help you make the most of your summer vacation. Two of the most popular are Quintessentially and Velocity Black. With annual memberships ranging from a few thousand dollars to well over six figures, these services cater to high-end clients looking for one-of-a-kind experiences. When it comes to fulfilling the requests of its members, the sky is the limit (unless you request to be flown to the edge of space like other members have done in the past).

Wealth Planning Tip

Don’t shy away from the discount blind booking options available through certain websites, such as Hotwire and Priceline. With a little bit of research, you can often narrow down which hotel is being offered.

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Spring Cleaning the Clutter

How Much Stuff We Actually Own

There are **300,000 items** in the average American home.

– LA Times

Americans spend **$1.2 trillion annually on nonessential goods,** in other words, items they do not need.

– The Wall Street Journal

The average American **throws away 65 pounds of clothing per year.**

– Huffington Post

Over the course of our lifetime, we will spend a total of **3,680 hours or 153 days searching for misplaced items.**

– The Daily Mail

We **lose** up to **nine items every day** or **198,743 in a lifetime.**

Phones, keys, sunglasses, and paperwork top the list.

– The Daily Mail

The average **10-year-old owns 238 toys** but plays with ***just 12 daily.***

– The Telegraph

Source: Becoming Minimalist, "21 Surprising Statistics That Reveal How Much Stuff We Actually Own"