STIFEL

Wealth Planning Newsletter

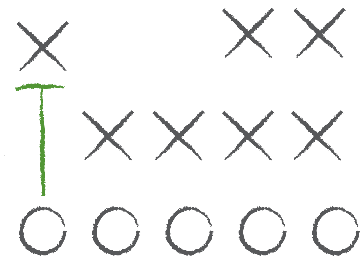
Winter 2019 Issue

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.

Game Plan – Keys to the Game



Build Your Playbook

- ☐ Provide your Stifel Financial Advisor with detailed outside account statements from the current month or previous quarter. This will help promote the integrity of your financial plan.
- ☐ Visit ssa.gov to find your most recent Social Security earnings statement.
- ☐ Obtain an in-force illustration for each of your life insurance policies.

Did You Know?

According to a 2009 *Sports Illustrated* article, 78% of professional football players are bankrupt or under financial stress within two years of retirement. A comprehensive and versatile financial plan may have helped these players better navigate their financial future.

Source: *Torre, Pablo S., "How (and Why) Athletes Go Broke," Sports Illustrated, March 23, 2009. Accessed November 13, 2018, at https://www.si.com/vault/2009/03/23/105789480/how-and-why-athletes-go-broke.*

Offense

- ☐ Implement financial strategies that maximize your available resources
- ☐ If you are fortunate enough to have a pension available at retirement, consider the following factors before selecting a payout option: personal attributes, such as self-control and longevity; market risk; and inflation risk.

Did You Know?

In 1998, approximately 50% of employers offered a pension plan to newly hired employees. In 2015, only 5% of employers offered this benefit.

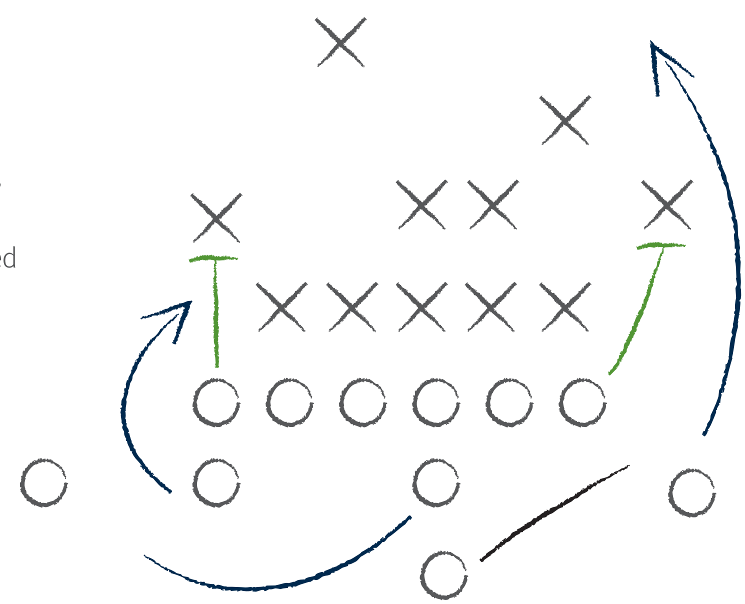
Source: *https://401kspecialistmag.com/percentage-of-employers-still-offering-defined-benefits-is/*

Defense

- ☐ Incorporate financial strategies that help defend against certain pitfalls you may encounter when seeking to manage market risk.
- ☐ Build an asset allocation based on your time horizon, goals, and risk tolerance.
- ☐ Periodically rebalance your portfolio to maintain your desired asset allocation.
- ☐ Utilize dollar-cost averaging to reduce the impact of market fluctuations and the overall cost of investing.

Special Teams

- ☐ Work with a tax professional to flip the field and minimize your income tax liability.
- ☐ Assess whether you could still benefit from contributions to a health savings account (HSA) or individual retirement account (IRA) for the 2018 tax year.
- ☐ If you are an owner of a pass-through business entity, consider whether you may benefit from funding a retirement plan on behalf of yourself, your employees, or both.



Asset allocation and dollar-cost averaging do not ensure a profit or protection against loss. When utilizing a dollar-cost averaging strategy, you should consider your ability to continue investing during periods of falling prices. Rebalancing may have tax consequences, which you should discuss with your tax advisor.

The Playbook – Build Your Playbook

Throughout your life, you are forced to make a series of calls that impact your ability to reach your financial end zone. A comprehensive and versatile financial plan serves as your playbook and helps you develop a strategic approach to these calls by addressing offense, defense, and special teams. A dynamic offense moves the ball by maximizing your available resources. A stout defense guards against financial pitfalls. An innovative special teams approach flips the field against your tax and legal opponents. Providing the personalized information and up-to-date statements described below will promote the accuracy, relevance, and integrity of your financial playbook.

You can't build a championship-caliber team with players who are past their primes, so why base your financial plan on stale information? Statements from the current month or previous quarter provide accurate details regarding share quantities, holdings, values, and other key data.

Wealth Planning Tip: Pension statements tailored to your anticipated retirement date will improve the integrity of your financial plan by more accurately projecting your future benefits. Your employer's HR department or retirement benefits office can provide you with the customized information that you need.

Documents to Provide:

- ☐ Most recent bank, brokerage, 529 plan, mutual fund, and annuity statements
- ☐ List of all CDs, government/treasury securities, stocks, municipal bonds, and other securities held in a safe deposit box or not listed on the requested statements
- ☐ Most recent IRA, 401(k), pension, profit sharing, and employee benefit statements
- ☐ Vesting schedule, grant details, and restricted stock/option agreements
- ☐ Most recent Social Security statement(s)
- ☐ Life, long-term care, and disability insurance contracts and policies
- ☐ Personal umbrella liability policies
- ☐ Two most recent federal and state income tax returns
- ☐ Estate planning documents (Will, Trusts, Powers of Attorney, Health Care Powers of Attorney, Living Wills, Irrevocable Life Insurance Trusts, etc.) *Note: We do not accept original estate documents.*

When developing your playbook, you must consider the impact of your Social Security benefit. This cannot be accomplished if you do not provide your most recent Social Security earnings statement.

Wealth Planning Tip: Visit ssa.gov to find your most recent earnings statement and to learn more about the Social Security program.

Life can change in an instant. By providing current statements and in-force illustrations for your insurance policies, you can ensure that your playbook is built to defend against life's unforeseen events.

Wealth Planning Tip: Life insurance statements should provide all relevant information, including the premium schedule, cash value, death benefit, and beneficiary designations.

You have worked hard to build a good life for yourself and your family. If you neglect your estate plan, you may jeopardize the legacy that you leave behind. If you fail to engage in income tax planning, you may unnecessarily erode your wealth due to a high tax burden. If you provide your estate planning documents and two most recent federal and state income tax returns, we can review your situation and help you understand the estate planning and tax planning tools at your disposal.

Wealth Planning Tip: Estate planning is an ongoing process. You should review your estate plan with an attorney every three to five years or upon a significant life event to ensure that your documents remain consistent with your intentions and compliant with current law.

Coaching legend Bear Bryant once said, "It's not the will to win, but the will to prepare to win that makes the difference." Although Coach Bryant was referring to football, these words are directly applicable to your financial life. Working with your Stifel Financial Advisor to develop a comprehensive financial playbook will prepare you to navigate your financial future with confidence.

Offense – The Pension Option: Lump Sum or Income Stream

After you have assembled your financial playbook, you must craft a game plan designed to maximize your available resources. If you are fortunate enough to have a pension, you will likely be forced to choose one of two payout options: a lump-sum distribution or a guaranteed lifetime income stream. Calling the proper play in this scenario could ultimately determine whether you are able to reach your financial end zone. Prior to making this important decision, you should huddle with your Stifel Financial Advisor to consider a variety of factors.

Personal Attributes

Like all championship quarterbacks, financially savvy individuals have a keen awareness of their strengths and weaknesses. By embracing their personal attributes, these individuals are more consistently able to move the chains towards their financial goals. Two personal attributes that may impact your pension decision are self-control and longevity.

If you elect to receive a lump-sum pension payout, you will have access to a large sum of cash. Suddenly, you may be able to afford the sailboat of your dreams. However, doing so may jeopardize your ability to reach your long-term financial goals. Will you have the self-control to forgo the sailboat while continuing to diligently follow the financial path that you have charted with your Stifel Financial Advisor? If not, a lifetime income stream may better protect your pension assets from impulse purchases that will have an adverse impact on your financial future.

While self-control is inherently determined by your ability to remain disciplined and focused, longevity is determined by factors outside of your control. When working to develop a financial game plan, you must consider the risk of outliving your assets. If you are healthy and have a family history of longevity, you can hedge against this risk by electing a guaranteed lifetime income stream. However, this option also has potential downside, as the income stream typically ends when you or your spouse dies. This may hinder your ability to leave a financial legacy that your heirs can enjoy. If you are in poor health or have a poor family health history, you may instead choose to receive a lump-sum pension payout. This will ensure that you receive your entire benefit while enhancing your ability to leave a financial legacy.

Did You Know?

21% of those individuals who elect a lump-sum distribution deplete it. On average, those who deplete their lump-sum do so in 5.5 years.

Source: *MetLife's Paycheck or Pot of Gold StudySM, https://www.metlife.com/about-us/newsroom/2017/april/retirement-plan-lump-sums-being-depleted-too-quickly/*

Market Risk

As we experienced this past October, the market can be volatile. This volatility could impact your financial future. A pension can be a powerful tool to help mitigate the risk posed by market swings. If you have a high risk tolerance, you may benefit from a lump-sum pension payout. This would give you and your Stifel Financial Advisor the opportunity to actively manage market risk. During certain market conditions, responsibly investing your lump-sum payout may allow you to capture market upside and maximize your pension benefit. During other market conditions, however, you may experience losses that erode your pension benefit and threaten your retirement spending goals. A lump-sum pension payout places the burden of managing market risk squarely on you and your Stifel Financial Advisor. If you have a low risk tolerance, you can transfer this burden to your employer and their pension fund manager by electing a guaranteed lifetime income stream. With this election, you are guaranteed to receive your scheduled payment for the rest of your life regardless of market conditions, subject to the financial strength and stability of the pension provider.

Inflation Risk

Before deciding whether to receive your pension as a lump-sum payout or guaranteed lifetime income stream, you must consider the potential impact of inflation. If you elect to receive a guaranteed lifetime income stream, will your benefit be indexed for inflation? If not, you may be better off taking a lump-sum payout. Since 1913, the average annual inflation rate is 3.22%. Accordingly, a $2,000 monthly benefit today that is not indexed for inflation will have the equivalent purchasing power of $1,061.09 in 20 years and $772.88 in 30 years. The erosion of the purchasing power of your pension benefit could ultimately prevent you from reaching your financial goals.

Did You Know?

The cheapest ticket to last year's big game cost $3,700. Twenty years ago, the average ticket cost $275. Thirty years ago, the average ticket cost $100. This is due to a variety of factors, including inflation.

Source: *https://www.gobankingrates.com/saving-money/entertainment/average-cost-super-bowl-tickets-1967-through-today/*

Once you have huddled with your Stifel Financial Advisor to consider these factors, you will almost be ready to make the call that will help you maximize your pension benefit and move the chains towards your financial end zone. However, you should first consider the following scenario.

Kevin's Conundrum

Kevin is a 65-year-old software developer at a company known for its generous employee benefits. As part of his benefits package, Kevin will receive a pension upon retirement. Early in his career, Kevin attended an industry conference where he was misidentified as a vendor named Chip. Kevin's co-workers have called him Chip since that day. One morning, having decided that enough was enough, Chip decided to retire so that he could once again live life as Kevin.

Shortly after notifying his employer of his pending retirement, Kevin met with his Stifel Financial Advisor to determine how to receive his pension benefit. Based on the terms of his pension, Kevin has two options. He could choose to receive his pension benefit as a $350,000 lump-sum distribution that could be rolled into his IRA. Alternatively, he could elect to receive his pension benefit as a guaranteed lifetime income stream of $1,950 per month that will not be adjusted for inflation.

After considering Kevin's personal attributes, market risk, and inflation risk, Kevin and his Stifel Financial Advisor ran a calculation to compare the present value of the $1,950 guaranteed monthly income stream to the $350,000 lump-sum distribution. Before doing this calculation, Kevin and his Stifel Financial Advisor had to make a few assumptions. First, they assumed that Kevin would have a 30-year retirement. Next, they assumed that any payment received would be invested in a portfolio with a 5% rate of return. Finally, they assumed that the monthly payment would occur on the first day of every month.

After running the calculation, Kevin and his Stifel Financial Advisor learned that the present value of the guaranteed monthly income stream is $369,391.21. In other words, the guaranteed income stream option is worth $19,391.21 more in today's dollars than the lump-sum distribution option. In light of Kevin's proclivity to splurge on unnecessary items (like his miniature pony, Duncan), his exceptional family health history, and his intolerance for the risk posed by market volatility, this calculation helped Kevin confidently elect to receive his pension benefit as a guaranteed lifetime income stream. Hopefully, this decision will help ensure that Kevin is able to ride Duncan all the way to his financial end zone.

The above is a hypothetical illustration only and does not reflect actual performance for any particular investment.

Defense – Managing Market Risk

Interest rates, political agendas, and other economic forces can lead to market volatility. This volatility can stoke fears and motivate investors to make rash decisions that ultimately jeopardize their financial future. Although you cannot control the economic forces that drive market volatility, you can control how you react when volatility occurs. A well-designed financial game plan will incorporate certain strategies to help defend against the pitfalls you may encounter when managing market risk.

Perspective and Time Horizon

On January 3, 1993, the hometown crowd poured out of Rich Stadium in Buffalo, New York, after the visiting team built a 32-point lead with 13:19 remaining in the third quarter. Disgusted by the performance of the hometown team, these fans lost perspective. There was still nearly an entire half of football to be played, and the hometown team featured one of the league's most potent offenses. By making a rash decision, these fans missed the greatest comeback in professional football history.

This cautionary tale demonstrates the importance of perspective and time horizon. According to the Social Security Administration, a man reaching age 65 today can expect to live, on average, until age 84.3. A woman reaching age 65 today can expect to live, on average, until age 86.7. If history is any indicator, there are bound to be countless market drops throughout this time horizon. Your financial game plan should help you withstand these short-term market shifts and remain focused on your long-term financial goals.

Asset Allocation

Asset allocation is the process of apportioning an individual's investment portfolio among different asset classes, such as stocks, bonds, and cash. A well-designed financial game plan bases its asset allocation on your time horizon, goals, and risk tolerance. While stocks overall are expected to generate the highest rate of return over a long period of time, they also carry greater risk. Bonds tend to be less volatile, but they do not have the same growth potential as stocks. Cash is generally immune from market volatility, but its value may be eroded by inflation. Depending on your time horizon, goals, and risk tolerance, some combination of these three asset classes is prudent.

Diversification

Once you have determined an appropriate asset allocation, you must diversify your investments within each asset class. For example, the funds allocated to stocks should be spread across a variety of holdings. Diversification may help minimize the impact of volatility while providing for more consistent returns over time.

Rebalancing

As diversified investments perform differently, your assets may stray from the desired allocation. When the stock market is doing well, stocks may become over-represented in your portfolio, introducing more risk than intended. In order to minimize your exposure to undesired risk, you should regularly re-balance your portfolio. Rebalancing involves periodically buying or selling certain holdings to maintain the desired asset allocation. This may have tax consequences that you should discuss with your tax advisor.

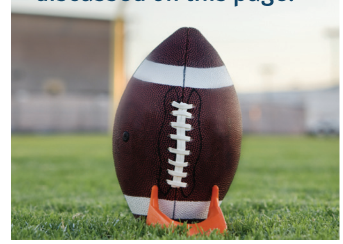
Dollar-Cost Averaging

Dollar-cost averaging is a systematic and disciplined investment strategy that helps to reduce the impact of market fluctuations and the overall cost of investing. This strategy requires you to invest a specific dollar amount on a regular basis. The price of the desired holdings will determine how many shares you are able to buy. This disciplined approach to investing will discourage emotional decisions and help you continue to move the chains toward your financial goals.

Asset allocation, diversification, and dollar-cost averaging do not ensure a profit or protection against loss.

Special Teams – Don't Punt on 2018 Contributions

Don't punt on your 2018 contributions. Contact your Stifel Financial Advisor today to discuss whether you may benefit from any of the strategies discussed on this page.



Although the calendar has turned to 2019, you still have time to implement certain tax saving strategies before the 2018 tax planning play clock expires. Before filing your 2018 return, consider calling the following plays to flip the field and reduce your income tax liability.

Make a Tax-Deductible Contribution to a Health Savings Account

If you are under age 65 and enrolled in a high-deductible health plan, you may still be eligible to make a contribution to a health savings account (HSA) for the 2018 tax year. HSAs offer significant tax benefits, including tax-deductible contributions, tax-free growth, and tax-free withdrawals (so long as the funds are used for qualified medical expenses). For 2018, the annual contribution limit for a taxpayer with individual coverage is $3,450. The annual contribution limit for a taxpayer with family coverage is $6,900. Eligible taxpayers who reach age 55 prior to the end of 2018 can make an additional $1,000 "catch-up" contribution.

Make a Tax-Deductible Contribution to a Traditional IRA

If you are under age 70 ½, you may also still be eligible to make a tax-deductible contribution to a traditional IRA for the 2018 tax year. For 2018, taxpayers can contribute up to $5,500 to a traditional IRA. Taxpayers who reach age 50 before the end of 2018 can make an additional $1,000 "catch-up" contribution. The deductibility of a contribution made to a traditional IRA depends on your filing status, modified adjusted gross income ("MAGI"), and whether you (or your spouse) were covered by an employer-sponsored plan at any point in 2018.

2018 Filing Status	IRA Owner Covered by an Employer-Sponsored Retirement Plan	IRA Owner Not Covered by an Employer-Sponsored Retirement Plan
Single	Full deduction if MAGI is less than $63,000 Partial deduction if MAGI is between $63,000 and $73,000 No deduction if MAGI exceeds $73,000	Full deduction regardless of MAGI
Married Filing Jointly	Full deduction if MAGI is less than $101,000 Partial deduction if MAGI is between $101,000 and $121,000 No deduction if MAGI exceeds $121,000	If spouse is not covered by an employer-sponsored retirement plan, full deduction regardless of MAGI If spouse is covered by an employer-sponsored retirement plan: • Full deduction if MAGI is less than $189,000 • Partial deduction if MAGI is between $189,000 and $199,000 • No deduction if MAGI exceeds $199,000

Tax-Deductible Contributions for Business Owners

If you are an owner of a pass-through business entity, you may still benefit from funding a retirement plan on behalf of yourself, your employees, or both. Contributions to Simplified Employee Pension Plans (SEP) IRAs, Savings Incentive Match Plan for Employees (SIMPLE) IRAs, defined benefit plans, and defined contribution plans may help reduce your 2018 tax liability.

Any contribution discussed above for the 2018 tax year must be made prior to the 2018 tax filing deadline of April 15, 2019. When making a contribution for the 2018 tax year on or after January 1, 2019, you should inform the custodian that the contribution is for the prior year.

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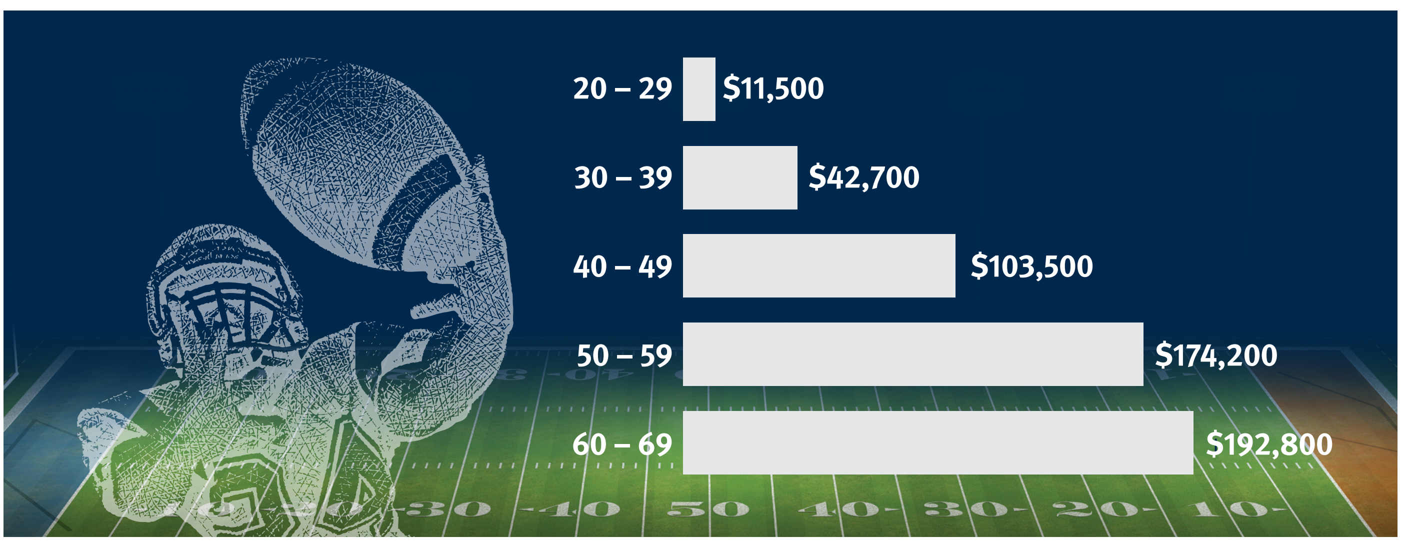
Average 401(k) Balance by Age

How much Americans have in their 401(k) plans as of the second quarter of 2018.



https://www.cnbc.com/2018/09/12/how-much-money-americans-have-in-their-401k-accounts.html