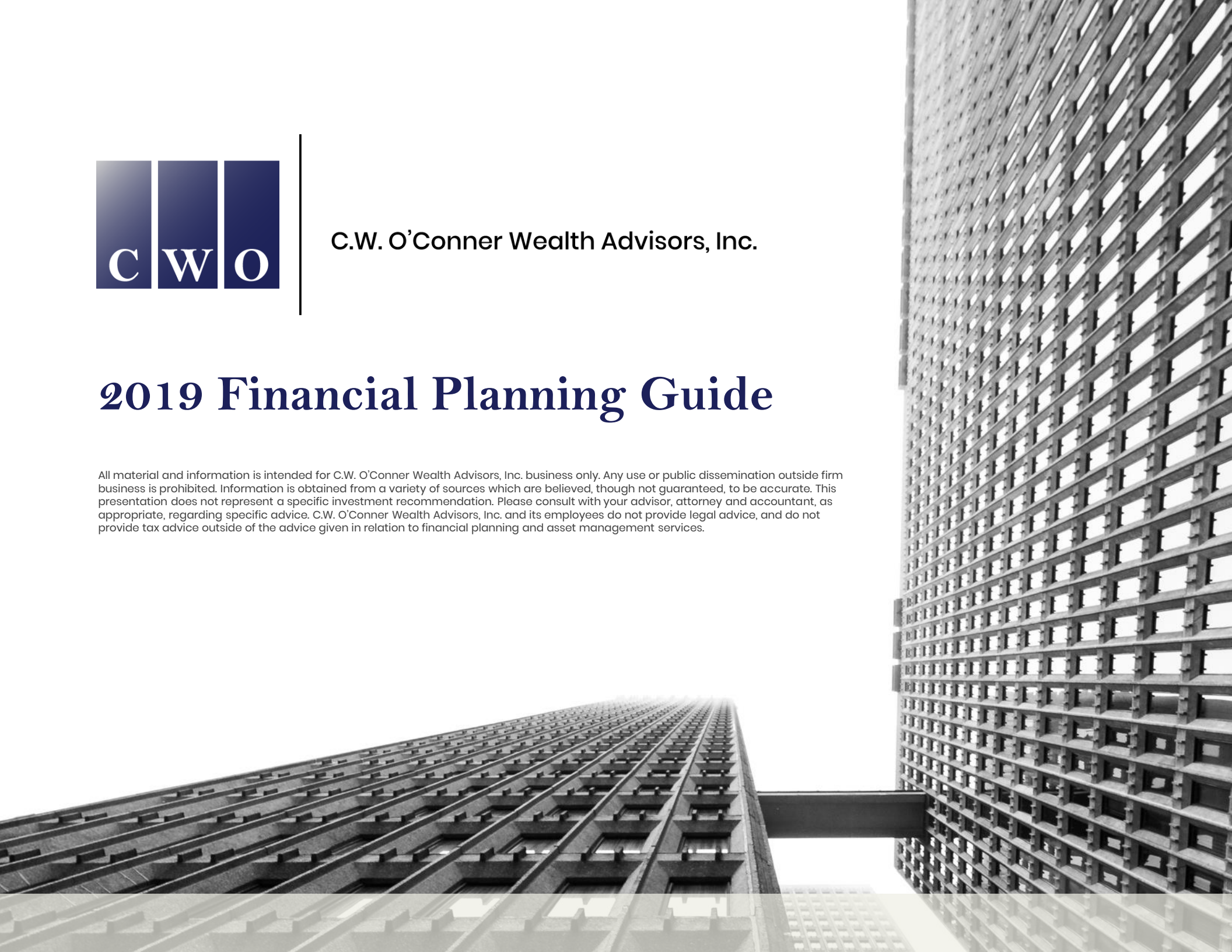




C.W. O'Conner Wealth Advisors, Inc.

# 2019 Financial Planning Guide

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# We have a passion for finding solutions to your challenges, big or small.

At C.W. O'Conner Wealth Advisors, Inc., we help business owners, corporate executives, and their families define their financial goals and explore creative solutions to reach those goals.

We are constantly elevating our knowledge base and enjoy staying on top of trends and ideas in investments, financial planning, and portfolio strategies. Our industry experience, blended with our background in real estate and our tax knowledge, serves as a strong foundation for continued learning.

# FEDERAL TAX PROVISIONS

## Significant Changes to Federal Tax Rates

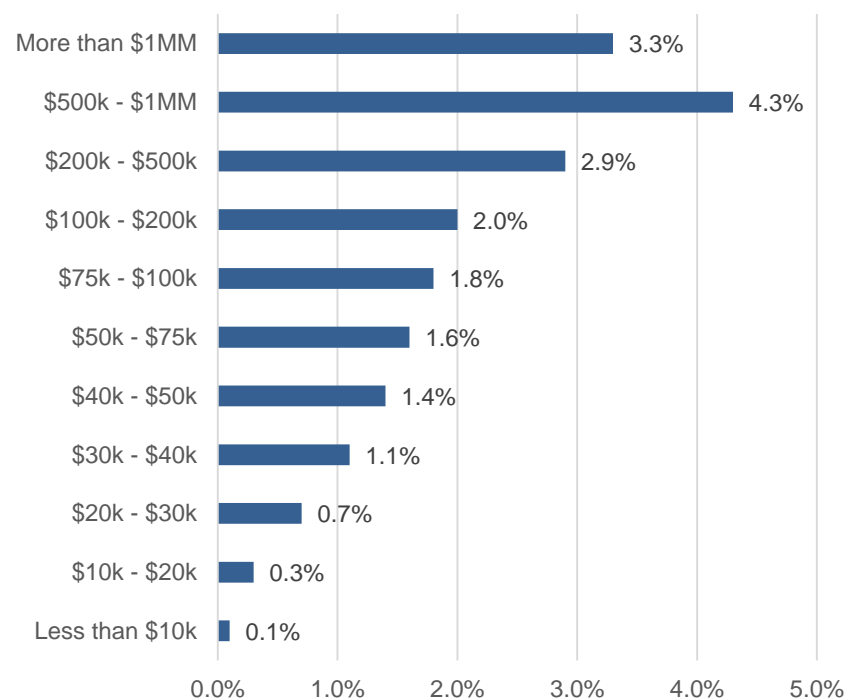


On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act, reforming individual income, estate and corporate income taxes. Many of the new tax provisions are set to expire (sunset) after 2025.

### Among the many changes...

- Reduction in marginal tax bracket rates (Top rate falls from 39.6% to 37%)
- Corporate Alternative Minimum Tax (AMT) is eliminated
- AMT for individuals is retained but with significant changes
- Personal Exemptions are eliminated
- Standard Deduction approximately doubles
- Expanded Child Tax Credit with an expanded income phase-out (\$200k Single, \$400k MFJ)
- Charitable cash gifts to public charities are deductible up to 60% of AGI (formerly 50% AGI limitation)
- The itemized deduction for state and local taxes ('SALT') is capped at \$10,000
- Miscellaneous Itemized Deductions are eliminated
- Special 20% deduction for certain pass-through businesses
- Estate Exemption and Lifetime Gifting Exemption significantly increased (\$11.4 million for 2019)
- Alimony payments are no longer tax-deductible for payer or taxable to recipient (for divorces finalized after 01/01/19)

### % Change in After-Tax Income (est)



Source: Tax Policy Center ("Distributional Analysis") (Dec 2017)

# 2019 FEDERAL TAX PROVISIONS

## 2019 Federal Tax Brackets

| Marginal Tax Rate | Single Filers         | Head of Household     | Married Filing Jointly | Trusts & Estates   |
|-------------------|-----------------------|-----------------------|------------------------|--------------------|
| 10%               | \$0 - \$9,700         | \$0 - \$13,850        | \$0 - \$19,400         | \$0 - \$2,600      |
| 12%               | \$9,700 - \$39,475    | \$13,850 - \$52,850   | \$19,400 - \$78,950    |                    |
| 22%               | \$39,475 - \$84,200   | \$52,850 - \$84,200   | \$78,950 - \$168,400   |                    |
| 24%               | \$84,200 - \$160,725  | \$84,200 - \$160,700  | \$168,400 - \$321,450  | \$2,600 - \$9,300  |
| 32%               | \$160,725 - \$204,100 | \$160,700 - \$204,100 | \$321,450 - \$408,200  |                    |
| 35%               | \$204,100 - \$510,300 | \$204,100 - \$510,300 | \$408,200 - \$612,350  | \$9,300 - \$12,750 |
| 37%               | \$510,300 +           | \$510,300 +           | \$612,350 +            | \$12,750 +         |

Source: Tax Foundation. November 2018

## Alternative Minimum Tax (AMT)

- The tax bill eliminated the corporate AMT, but retained the AMT for individual taxpayers.
- A few notable changes to AMT means far less taxpayers will be subject to AMT in future years (2018-2025). According to estimates from the Tax Policy Center, around 200,000 tax filers will now pay AMT (versus more than 4.4 million previously).

|                            | 2019<br>AMT Exemption | 2019<br>AMT Exemption Phase-out |
|----------------------------|-----------------------|---------------------------------|
| Single & Head of Household | \$71,700              | \$510,300                       |
| Married Filing Jointly     | \$111,700             | \$1,020,600                     |

- The AMT exemption is reduced by \$0.25 for each dollar that a taxpayer's Alternative Minimum Taxable Income (AMTI) exceeds the phase-out threshold.

# 2019 FEDERAL TAX PROVISIONS

## Long-Term Capital Gains Tax Rates

0%

Taxable income less than:  
\$39,375 Single  
\$52,750 Head of Household  
\$78,750 Married Filing Jointly

15%

Taxable income between:  
\$39,375 - \$434,550 Single  
\$52,750 - \$461,700 Head of Household  
\$78,750 - \$488,850 Married Filing Jointly

20%

Taxable income greater than:  
\$434,550 Single  
\$461,700 Head of Household  
\$488,850 Married Filing Jointly

## Itemized Deduction Limitations

10%

Medical expenses less than 10% of adjusted gross income are excluded

\$10k

Capped at \$10,000 for the sum of:  
- property taxes  
- greater of state and local income taxes or sales taxes

\$750k

Home mortgage interest on new mortgages (after 12/31/17) up to \$750K. (Note: Interest allowed for mortgages up to \$1MM if finalized prior to 12/15/2017, i.e. grandfathered.)

### Standard Deduction

\$12,200 Single  
\$18,350 Head of Household  
\$24,400 Married Filing Jointly

### Personal Exemption(s)

Eliminated

### Child Tax Credit

\$2,000 per child under age 17  
(up to \$1,400 refundable credit)

Phase outs begin at:  
\$200k Single  
\$400k Married Filing Jointly



## “Must Know” Healthcare Taxes

### Net Investment Income Tax (NIIT)

3.8%

On the *lesser of* net investment income *or* Modified AGI above threshold:  
\$200k for Single  
\$250k for Married Filing Jointly

### Medicare Surtax

0.9%

On *earned* income above:  
\$200k for Single  
\$250k for Married Filing Jointly



# STATE TAX PROVISIONS

41

States with individual income taxes

2

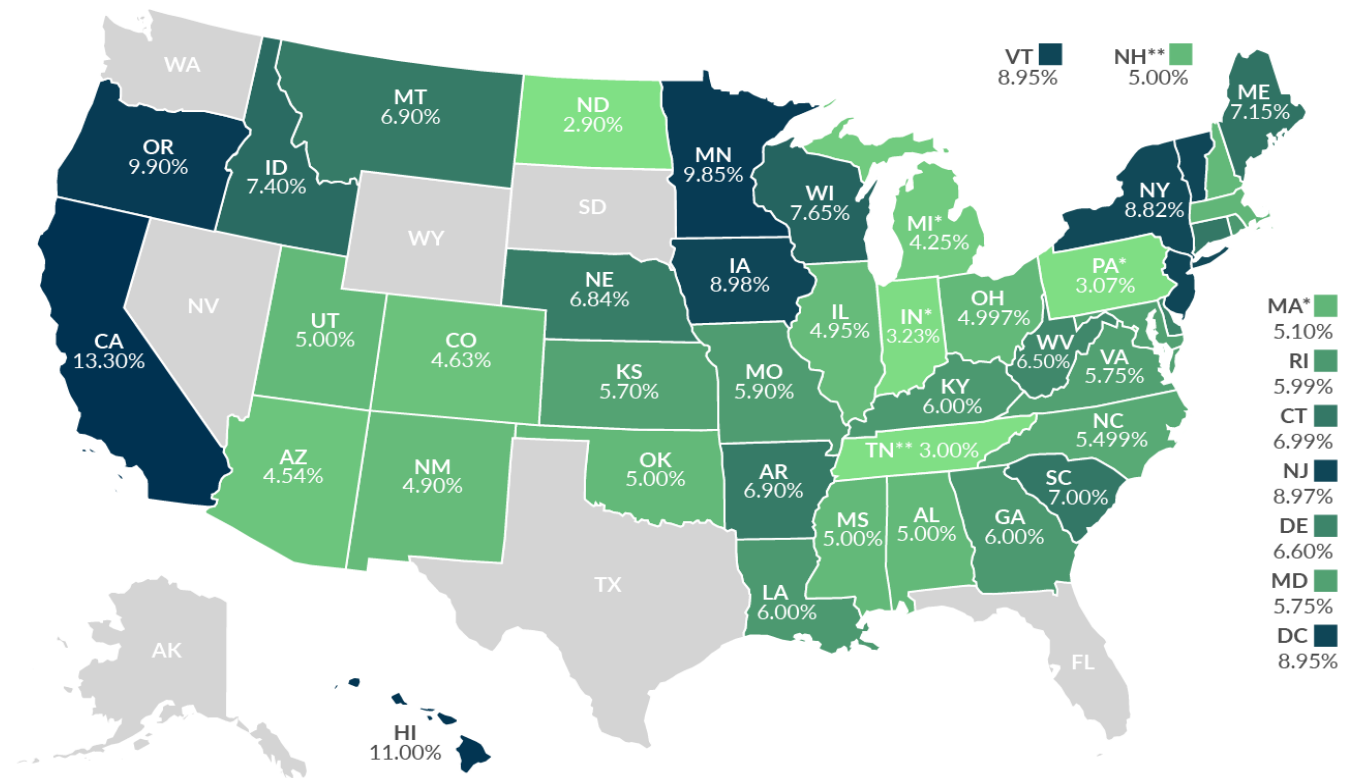
States that only tax dividends and interest (New Hampshire, Tennessee)

7

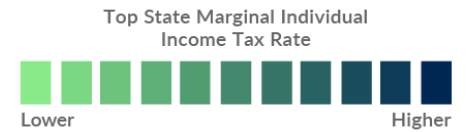
States with no individual income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming)

## How High Are Income Tax Rates in Your State?

Top State Marginal Individual Income Tax Rates, 2018



Note: (\*) State has a flat income tax. (\*\*) State only taxes interest and dividends income. Map shows top marginal rates: the maximum statutory rate in each state. This map does not show effective marginal tax rates, which would include the effects of phase-outs of various tax preferences. Local income taxes are not included.  
 Source: Tax Foundation; state tax statutes, forms, and instructions; Bloomberg BNA.



# TAX PLANNING CONSIDERATIONS



## Planning Tip: Qualified Opportunity Zones

- The Tax Cuts and Jobs Act (enacted in December 2017) contained a provision with special tax incentives for taxpayers making investments in economically distressed communities (“Opportunity Zones”). To date, over 8,700 low-income communities have been designated as Qualified Opportunity Zones.
- A taxpayer may defer realized gains on appreciated property (typically a capital gain) by investing the “deferred gain amount” (DGA) in a qualified opportunity fund (“QOF”).
- Among other requirements, a Qualified Opportunity Fund must hold at least 90% of its assets in property located within a Qualified Opportunity Zone (QOZ).
- The deferred gain amount must be invested in a QOF within 180 days of the property’s date of sale.
- Once the DGA has been invested in a QOF, the gain is deferred until *the earlier of*: the date the investor sells the QOF investment or December 31, 2026. (Given the potential 12/31/2026 trigger date, taxpayers would need to make a QOF investment by 12/31/2021 to receive the special 5+ year holding tax benefits or by 12/31/2019 to receive the special 7+ year holding tax benefits.)
- If the taxpayer holds the QOF investment for five or more years, the DGA is reduced, thereby providing a tax savings (see table below):

| Qualified Opportunity Fund Holding Period | Tax Benefits   |  |
|---|--|--|
|   | Deferred Gain Amount (DGA)   | Qualified Opportunity Fund (QOF)                   |
| Less than 5 Years                         | Deferral of gain   | n/a  |
| Between 5-7 Years                         | Deferral of gain, <i>plus</i> gain reduced by 10% of the deferred gain amount                | n/a  |
| More than 7 Years                         | Deferral of gain, <i>plus</i> gain reduced by 15% of the deferred gain amount                | n/a  |
| More than 10 Years                        | <i>Not applicable since the latest potential date for gain deferral is December 31, 2026</i> | Taxpayer can elect to fully exclude the QOF’s gain |



# TAX PLANNING CONSIDERATIONS



## Planning Tip: Accelerated Charitable Giving

The charitable giving landscape changed substantially in 2018, as the Tax Cut and Jobs Act nearly doubled the standard deduction but capped the state and local tax (SALT) deduction at \$10,000 and eliminated “miscellaneous 2% itemized deductions.” Due to the new changes, taxpayers should evaluate if a portion of charitable giving would not produce a tax benefit; in such a case, taxpayers might benefit from **accelerating (“bunching”) charitable gifts** to maximize itemized deductions in a single tax year while taking the standard deduction in other years.

### Scenario #1: Married Filing Jointly, Level Annual Charitable Giving

|   | 2019            | 2020            | 2021            | 2022            | TOTAL            |
|---|-----------------|-----------------|-----------------|-----------------|------------------|
| Mortgage Interest   | \$9,000         | \$9,000         | \$9,000         | \$9,000         | <b>\$36,000</b>  |
| State & Local Tax (SALT)  | \$10,000        | \$10,000        | \$10,000        | \$10,000        | <b>\$40,000</b>  |
| Charitable Gifts  | \$30,000        | \$30,000        | \$30,000        | \$30,000        | <b>\$120,000</b> |
| <b>Itemized Deduction Total</b>                                       | <b>\$49,000</b> | <b>\$49,000</b> | <b>\$49,000</b> | <b>\$49,000</b> | <b>\$196,000</b> |
| <b>Greater of: Itemized Deductions or \$24,400 Standard Deduction</b> | <b>\$49,000</b> | <b>\$49,000</b> | <b>\$49,000</b> | <b>\$49,000</b> | <b>\$196,000</b> |

### Scenario #2: Married Filing Jointly, Accelerated Charitable Giving

|   | 2019             | 2020            | 2021            | 2022            | TOTAL            |
|---|------------------|-----------------|-----------------|-----------------|------------------|
| Mortgage Interest   | \$9,000          | \$9,000         | \$9,000         | \$9,000         | <b>\$36,000</b>  |
| State & Local Tax (SALT)  | \$10,000         | \$10,000        | \$10,000        | \$10,000        | <b>\$40,000</b>  |
| Charitable Gifts  | <b>\$120,000</b> | \$0             | \$0             | \$0             | <b>\$120,000</b> |
| <b>Itemized Deduction Total</b>                                       | <b>\$139,000</b> | <b>\$19,000</b> | <b>\$19,000</b> | <b>\$19,000</b> | <b>\$196,000</b> |
| <b>Greater of: Itemized Deductions or \$24,400 Standard Deduction</b> | <b>\$139,000</b> | <b>\$24,400</b> | <b>\$24,400</b> | <b>\$24,400</b> | <b>\$212,200</b> |

*In this example, the couple’s itemized deductions before charitable gifts totals \$19,000. Since the MFJ standard deduction is \$24,400, the first \$5,400 of charitables (in this example) will not produce a tax benefit.*

*In Scenario #2, the couple accelerates charitable giving into a single year (2019) to maximize itemized deductions and takes the standard deduction in subsequent years (2020–2022). The composition of itemized deductions is the same under both scenarios, yet Scenario #2 produces a greater tax deduction of \$16,200 over the four-year period.*

*This planning strategy can be particularly effective for charitably inclined taxpayers without deductible medical expenses (>10% of AGI) and with no minimal mortgage interest.*

# TAX PLANNING CONSIDERATIONS



## Planning Tip: Qualified Charitable Distributions (QCDs) from an IRA

- Available to taxpayers over age 70½
- Taxpayers can gift up to \$100,000 from the IRA directly to 501(c)(3) charities
  - Donor-advised funds, private foundations, and supporting organizations are *not* eligible recipients under the QCD rules
- The distribution counts towards satisfying the RMD for that tax year
- The distribution does *not* count as income and does *not* count as a charitable deduction
- This strategy also has the added benefit of reducing Adjusted Gross Income (AGI) which may result in lower Medicare premiums (depending on taxpayer's income)

***Bottom Line: This provision may be beneficial for individuals who are charitably inclined and who would receive a greater tax benefit from the standard deduction rather than from itemized deductions.***

# TAX PLANNING CONSIDERATIONS



## Donor-Advised Funds vs. Private Foundations

There are numerous considerations for evaluating whether a donor-advised fund or a private foundation (or a combination) might be an effective charitable giving vehicle. The table below provides an abbreviated comparison.

|                                 | Donor-Advised Fund   | Private Foundation   |
|---------------------------------|--|--|
| Start-up Time                   | Immediate  | May take several weeks or months   |
| Start-up Costs                  | None   | Legal & other fees   |
| Initial Contribution/Minimum    | Varies by sponsor, but often as low as \$5,000 - \$10,000                    | No minimum, though due to start-up and ongoing administrative expenses, a larger starting balance (several million dollars) is generally advisable |
| Minimum Grant to Charity        | Varies by sponsor, but often as low as \$50-\$100                            | No minimum   |
| Ability to Give Anonymously     | Yes, donor can choose whether to give publicly or anonymously                | No, IRS Form 990 must report gifts   |
| Ongoing Administrative Expenses | Varies by sponsor, but typically starts ~0.60%                               | Various tax & other expenses   |
| Underlying Investment Expenses  | Varies by sponsor, with some investment options as low as 0.03%              | Varies based on investments chosen & advisor   |
| Tax Deduction for Gifts         | Up to 60% of AGI for cash gifts<br>Up to 30% of AGI for long-term securities | Up to 30% of AGI for cash gifts<br>Up to 20% of AGI for long-term securities   |
| Annual Distribution Requirement | None   | IRS requires minimum 5% annual distribution based on prior year's net average assets   |
| Tax Reporting                   | Handled by the sponsor; donors do not report charitable grant activity       | Responsible for tax filings and must annually file IRS Form 990  |
| Excise Taxes                    | None   | 1-2% each year   |

# TAX PLANNING CHECKLIST

## What we are doing to help clients

1. Tax Loss Harvesting / Thoughtful Rebalancing
2. Consider Tax Brackets when Realizing Gains
3. Tax Aware Investing / Asset Placement
4. Tax-Efficient Securities and Active Management Considerations
5. Capital Gains Distribution Analysis

## How your tax advisor can help

1. Recognition and Timing of Income
2. Review Estimated Tax Withholding
3. AMT Considerations
4. Manage State & Local Income Tax Deductions
5. Review Property Tax Deductions
6. Additional State Tax Considerations

## Areas that we can offer perspective

1. **Gifting Long-Term Appreciated Securities** rather than cash for charitable contributions, which avoids capital gains taxes on the appreciated securities.
2. **Charitably Gifting the Required Minimum Distribution of an IRA**, which avoids the IRA distribution being treated as taxable income. Given the meaningful increase to the standard deduction, this can be an effective strategy for some taxpayers.
3. **Making Contributions to a Flexible Spending Account (FSA) or Health Savings Account (HSA)** for growth and use of pre-tax dollars towards health expenses.
4. **Weighing the differences between a Lump Sum Option or Annuity** income stream for Defined Benefit Plan or Cash Balance Pensions
5. **Reviewing Social Security** Income Options
6. **Evaluating Tax Bracket breakpoints** and Stock Volatility when minimizing Single Stock Concentrations

# RETIREMENT CONTRIBUTION LIMITS

## Retirement Benefit Limits

|   | 2018      | 2019      |
|---|-----------|-----------|
| Contribution Limits for 401(k) / 403(b) Plans   | \$18,500  | \$19,000  |
| Age 50+ Catch-up                                | \$6,000   | \$6,000   |
| Contribution Limits for SIMPLE IRA Plans        | \$12,500  | \$13,000  |
| Age 50+ Catch-up                                | \$3,000   | \$3,000   |
| Contribution Limits for IRAs                    | \$5,500   | \$6,000   |
| Age 50+ Catch-up                                | \$1,000   | \$1,000   |
| Contribution Limits for Defined Benefit Plans   | \$220,000 | \$225,000 |
| Contribution Limits for SEP IRA and Solo 401(k) | \$55,000  | \$56,000  |



## Backdoor Roth IRA Contributions

If a taxpayer's income is higher than the noted thresholds for contributing to a Roth IRA, a taxpayer may fund a Traditional IRA with a "non-deductible" contribution. This contribution may, in turn, be converted to a Roth IRA tax-free, provided the taxpayer does *not* have any other outstanding holdings in a traditional IRA account. If a taxpayer has an outstanding Traditional, SEP, or SIMPLE IRA balance, a portion of the conversion will be treated as taxable income.

### 2019 Backdoor Roth IRA Example:

Single Taxpayer, Age 55  
 MAGI = \$450,000  
 Traditional IRA Non-Ded Contribution = \$7,000  
 Roth IRA Conversion = \$7,000

### Scenario 1:

- Ending Traditional IRA Balance = \$0
- Taxable Income = \$0

### Scenario 2:

- Ending Traditional IRA Balance = \$100,000
- Taxable Income = \$6,545  
 $(\$7,000 * 1 - (\$7,000 / (\$100,000 + \$7,000)))$

## Modified Adjusted Gross Income (MAGI) Limitations for IRA Contributions

|   | 2018   | 2019   |
|---|--|--|
| <b>Traditional IRA</b>                                  |  |  |
| Single,<br>Head of Household,<br>Married Filing Jointly | \$63,000 - \$73,000<br>\$101,000 - \$121,000   | \$64,000 - \$74,000<br>\$103,000 - \$123,000   |
| <b>Roth IRA</b>   |  |  |
| Single,<br>Head of Household,<br>Married Filing Jointly | \$120,000 - \$135,000<br>\$189,000 - \$199,000 | \$122,000 - \$137,000<br>\$193,000 - \$203,000 |
| Roth Conversions  | None   | None   |

Source: Internal Revenue Service, IR-2018-211

# RETIREMENT PLANNING CONSIDERATIONS

## Types of savings accounts



| Account Examples                 | Individual/Joint/Trust accounts      | Pre-Tax 401(k), Traditional IRAs<br>(funded with deductible contributions) | Roth 401(k), Roth IRAs             |
|----------------------------------|--------------------------------------|--|------------------------------------|
| <b>Taxable Income</b>            | Interest, Dividends, & Capital Gains | Account Withdrawals  | Earnings / Withdrawals not taxable |
| <b>Tax Deductions</b>            | Contributions Not Tax-Deductible     | Contributions Tax-Deductible   | Contributions Not Tax-Deductible   |
| <b>Contributions Limitations</b> | None                                 | Yes, specific to type of account   | Yes, specific to type of account   |



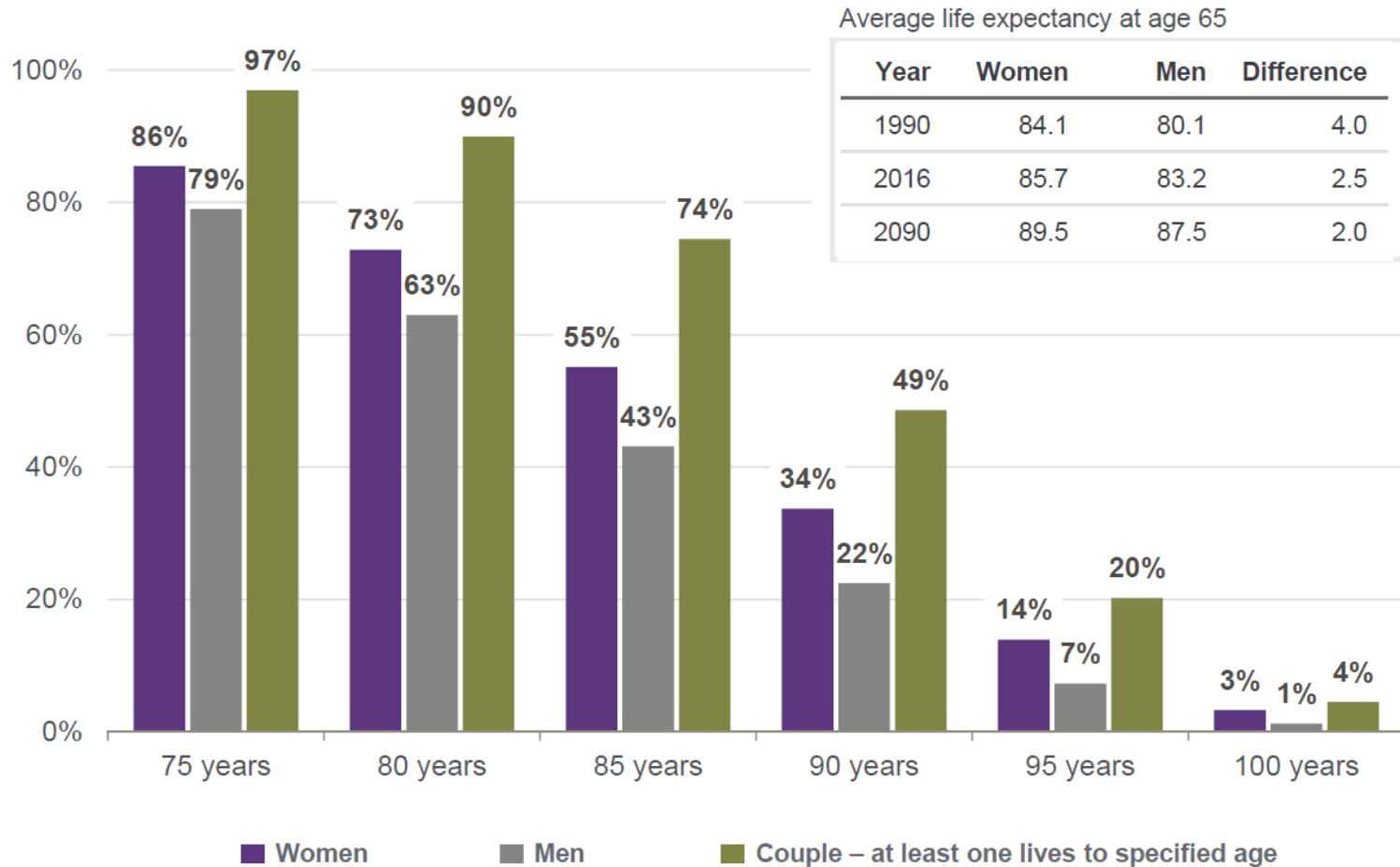
## Ways to maximize retirement savings:

1. Maximize contributions to Retirement Plans (401(k), 403(b)), deferring at least your company's match
2. Maximize after-tax assets in your portfolio:
  - Maximize contributions to after-tax accounts
  - Consider Backdoor Roth IRA contributions
  - Consider Roth IRA conversion
3. Consider establishing a Spousal IRA
4. If self-employed, maximize retirement savings by contributing to a SEP-IRA, Keogh, Defined Benefit Plan, or Solo 401(k)

# RETIREMENT PLANNING CONSIDERATIONS

*The Challenge: Individuals are living longer and forward-looking returns are likely to be lower than in the past.*

## If you're 65 today, the probability of living to a specific age or beyond



Source: Social Security Administration (2017 OASDI Trustees Report)



# RETIREMENT PLANNING CONSIDERATIONS

## Use the table below to assess current retirement savings

- Household income is assumed to be gross income (before tax and savings).
- Go to the intersection of your current age and your closest current household income.
- Multiply your salary by the checkpoint shown. This is the amount you should have saved today, assuming you continue contributions of 10% going forward.
- Example: For a 40-year-old with a household income of \$100,000:  $\$100,000 \times 2.9 = \$290,000$ .

| Current Age | Current Household Annual Income                        |          |           |           |           |           |           |
|-------------|--|----------|-----------|-----------|-----------|-----------|-----------|
|             | \$50,000   | \$75,000 | \$100,000 | \$150,000 | \$200,000 | \$250,000 | \$300,000 |
|             | <b>Savings Checkpoint (x Current Household Income)</b> |          |           |           |           |           |           |
| <b>25</b>   | -  | 0.3      | 0.6       | 1.0       | 1.3       | 1.5       | 1.7       |
| <b>30</b>   | 0.3  | 0.9      | 1.2       | 1.7       | 2.1       | 2.4       | 2.5       |
| <b>35</b>   | 0.9  | 1.6      | 2.0       | 2.6       | 3.0       | 3.4       | 3.5       |
| <b>40</b>   | 1.6  | 2.4      | 2.9       | 3.6       | 4.2       | 4.6       | 4.8       |
| <b>45</b>   | 2.5  | 3.4      | 4.0       | 4.8       | 5.5       | 6.0       | 6.2       |
| <b>50</b>   | 3.5  | 4.6      | 5.3       | 6.3       | 7.1       | 7.7       | 8.0       |
| <b>55</b>   | 4.7  | 6.0      | 6.9       | 8.1       | 9.1       | 9.7       | 10.1      |
| <b>60</b>   | 6.2  | 7.7      | 8.8       | 10.2      | 11.4      | 12.2      | 12.6      |
| <b>65</b>   | 8.1  | 10.0     | 11.3      | 13.0      | 14.5      | 15.5      | 16.0      |

### Model Assumptions

10%\* Annual Savings Rate

6.0% Pre-Retirement Return

5.0% Post-Retirement Return

2.25% Inflation Rate

Retirement age –  
Age 65 Primary earner  
Age 62 Spouse

30 Years in Retirement

\*10% is approximately twice the U.S. average annual savings rate

Source: J.P. Morgan Asset Management, 2018 Guide to Retirement

# SOCIAL SECURITY CONSIDERATIONS



## **The Basics**

### **When**

You may start receiving your Social Security retirement benefits as early as age 62, or as late as age 70. You can apply for benefits no more than 4 months in advance of your benefit start date.

### **How**

You can apply online for retirement benefits or spousal benefits directly online at <https://www.ssa.gov>.

### **Amount**

Check your Social Security statement for a current estimate of your benefits at <https://www.ssa.gov>

Your monthly benefits will be reduced if you start any time before “full retirement age.” Conversely, your monthly benefits will be increased if you start after your “full retirement age.”



Source: SSA.gov

# SOCIAL SECURITY CONSIDERATIONS

## Full Retirement Age (FRA) vs. Early Retirement (Age 62) vs. Late Retirement

| Year of Birth * | Full Retirement Age (FRA) |
|-----------------|---------------------------|
| 1937 or earlier | 65                        |
| 1938            | 65 and 2 months           |
| 1939            | 65 and 4 months           |
| 1940            | 65 and 6 months           |
| 1941            | 65 and 8 months           |
| 1942            | 65 and 10 months          |
| 1943-1954       | 66                        |
| 1955            | 66 and 2 months           |
| 1956            | 66 and 4 months           |
| 1957            | 66 and 6 months           |
| 1958            | 66 and 8 months           |
| 1959            | 66 and 10 months          |
| 1960 and later  | 67                        |

### Early Retirement

- Retiree can elect to receive benefits as early as age 62  
**(For a retiree taking benefits 5 years early, the reduction = 30%)**
- For the first 36 months, the FRA benefit is reduced by 5/9<sup>th</sup> of 1% for each month before full retirement age (FRA).
- For beyond 36 months, the FRA benefit is further reduced by 5/12<sup>th</sup> of 1% for each early month.

### Delayed Retirement Credit

*(i.e. Benefits after FRA, Up to age 70)*

| Year of birth  | Credit per year |
|----------------|-----------------|
| Before 1937    | Varies          |
| 1937-38        | 6.50%           |
| 1939-40        | 7.00%           |
| 1941-42        | 7.50%           |
| 1943 and later | 8.00%           |

Source: SSA.gov – “Early or Late Retirement?” – [https://www.ssa.gov/oact/quickcalc/early\\_late.html](https://www.ssa.gov/oact/quickcalc/early_late.html)

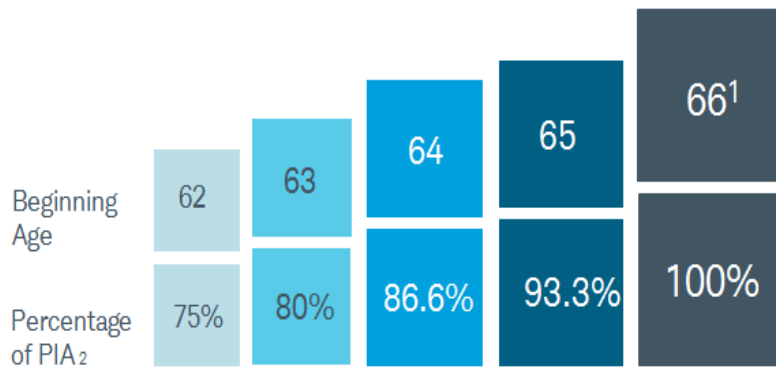
\* Persons born on January 1 of any year should refer to the previous year.

# SOCIAL SECURITY CONSIDERATIONS

## Full Retirement Age (FRA) vs. Early Retirement (Age 62) vs. Late Retirement

What if I take benefits **early**?

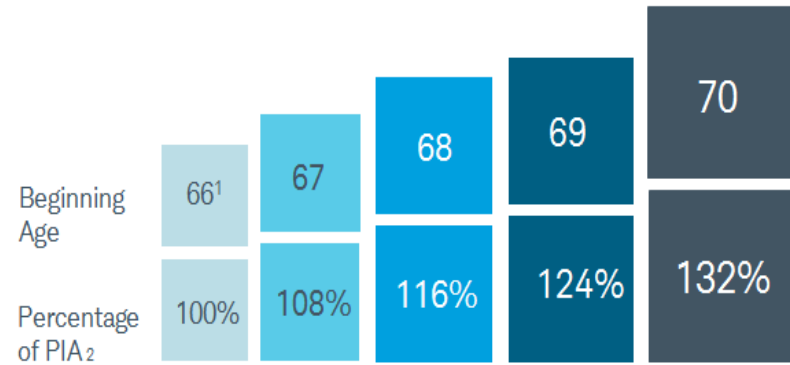
Effect of early retirement on benefit (DOB: Jan. 2, 1943-Jan. 1, 1955)



1. Represents Full Retirement Age (FRA) based on DOB Jan. 2, 1943 to Jan. 1, 1955
2. PIA = The Primary Insurance Amount is the basis for benefits that are paid to an individual

What if I **delay** taking my benefit?

Effect of late retirement on benefit (DOB: Jan. 2, 1943-Jan. 1, 1955)



1. Represents Full Retirement Age (FRA) based on DOB Jan. 2, 1943 to Jan. 1, 1955
2. PIA = The Primary Insurance Amount is the basis for benefits that are paid to an individual

Source: Charles Schwab, *When Should You Take Social Security?* (Dec 2017)

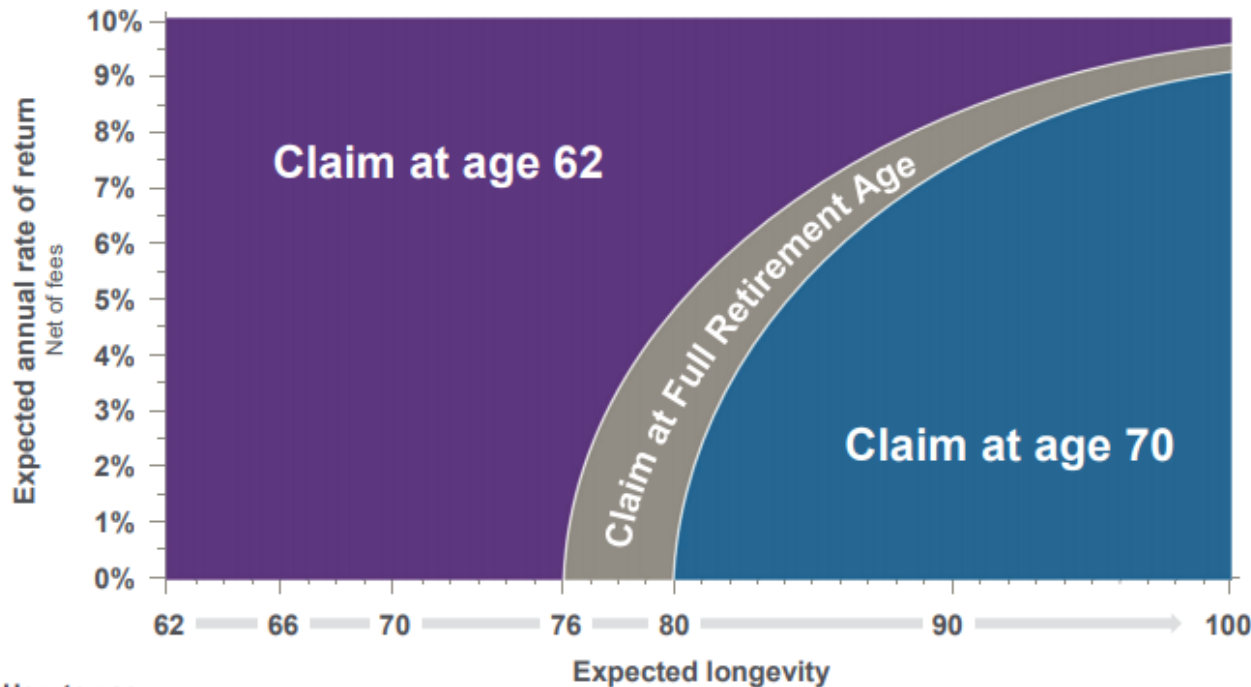
# SOCIAL SECURITY CONSIDERATIONS



Deciding when to claim benefits will have a permanent impact on the amount of total lifetime benefits. Delaying benefits past Full Retirement Age (FRA) increases the lifetime benefits received, while taking benefits early (before FRA) results in less lifetime benefits. There are multiple factors to consider when evaluating an appropriate benefits starting date.

## Comparison of claim age based on an individual's expected rate of return and longevity

Color represents the claim age with the highest expected lifetime benefits



### How to use:

- Go to the intersection of your expected rate of return and your expected longevity.
- The color at this intersection represents the Social Security claim age that maximizes total Social Security benefits over the course of one's life – given the three options of age 62, Full Retirement Age (age 66 & 4 months) and age 70.
- Example: For an individual invested in a diversified 40/60 portfolio (expected rate of return of 5%) and average expected female longevity (age 86) = Claim at age 70.

Source: J.P. Morgan Asset Management, 2019 Guide to Retirement

## 3 key factors for choosing to take benefits early or late:

1. Life expectancy (single or joint) / health issues
2. Income needs
3. Change in employment / retirement planning

For a 65 year-old married couple, there is a:

- 50% chance that both live to age 80
- Nearly 50% chance that one spouse lives to age 90

# SOCIAL SECURITY CONSIDERATIONS



## **Spousal/Family Benefits:**

*In starting Social Security retirement benefits, some members of your family may also be entitled to receive benefits from your Social Security earnings record.*

### **Spousal Benefits**

If started between spouse's age 62 and full retirement age:

- Permanently reduces monthly benefit
- May be affected by the earnings test if still working

If started at spouse's full retirement age, receives the greater of:

- 50% of your monthly benefits based at your FRA,
- Spouse's FRA personal monthly retirement benefit

If started after spouse's full retirement age, receives the greater of:

- 50% of your monthly benefits based at your FRA (no delayed credit)
- Spouse's FRA personal monthly benefit with delayed credit

### **Children Benefits**

Eligible children, including biological, adopted, stepchildren and/or dependent grandchildren may also be eligible for benefits, provided they meet the following qualifications:

- Unmarried; and
- Under age 18; or
- Age 18-19 and full-time student (no higher than grade 12); or
- Greater than age 18 and disabled from a disability that started before age 22

### **Ex-Spouse Benefits**

Even if you have re-married, your ex-spouse is entitled to benefits from your record, if they meet the following qualifications:

- Marriage lasted more than 10 years
- Ex-spouse has not re-married
- Ex-spouse is at least age 62
- Ex-spouse's personal monthly benefit is less than a spousal benefit

**Maximum Family Benefit:** *If one of your children also qualifies for benefits, generally the total amount you and your family may receive is about 150% to 180% of your full retirement benefit.*

*An ex-spouse benefit does not affect the benefit you or your family may receive.*

Source: SSA.gov

# MEDICARE CONSIDERATIONS

 Medicare benefits do not require annual enrollment. Key dates for first time enrollment and changes are highlighted below.

## Important Dates

| Date                     | Important Date  |
|--------------------------|---|
| January 1                | New coverage begins; monthly premium adjustments go into effect   |
| January 1 to March 31    | If enrolled in a Medicare Advantage plan, enrollee receives one-time opportunity to: <ul style="list-style-type: none"><li>• Switch to a different Medicare Advantage plan</li><li>• Drop Medicare Advantage plan and return to Original Medicare</li><li>• Sign up for Medicare Part D (if returning to Original Medicare)</li></ul> |
| October 15 to December 7 | Open enrollment period / annual election period (for the next year)   |

## Parts of a Medicare Plan



- Part A (Hospital Insurance)
  - Free for people age 65 and older who paid payroll tax for 40+ quarters (about 10 years)
  - Helps cover in-patient hospital care, skilled nursing facility care, hospice care, and home health care



- Part B (Medical Insurance)
  - Anyone eligible for Part A is eligible to enroll in Part B and pay a monthly premium
  - Helps cover doctor and health care services, outpatient care, home health care, preventive services, and durable medical equipment



- Part D (Prescription Drug Coverage)
  - Run by private insurance companies that follow rules set by Medicare
  - Helps cover the cost of prescription drugs

Source: Medicare.gov, 2018



# MEDICARE CONSIDERATIONS

## Ways to Obtain Medicare

- **Original Medicare**
  - Care options: visit any doctor that accepts Medicare; in most cases, no referral is needed for a specialist
  - Cost: no yearly out-of-pocket limit; usually pay 20% of Medicare approved amount after meeting deductible
  - Coverage: Part A and Part B included, Part D added separately; supplemental coverage allowed
- **Medicare Advantage (also known as Part C)**
  - Care options: seek doctors only in plan's network; a referral may be needed to visit a specialist
  - Cost: varying out of pocket costs, but will not pay additional costs in a year after reaching plan's limit
  - Coverage: plans must cover all services Original Medicare covers and may offer additional benefits; prescription drug coverage (Part D) is included in most plans; cannot buy or use separate supplemental coverage

## 2019 Modified Adjusted Gross Income (MAGI) Thresholds for Additional Premiums

- With higher reported Modified Adjusted Gross Income (MAGI), additional premiums are added to taxpayers receiving Medicare
- AGI is found on line 37 on the first page of a tax return. The most applicable deductions added back to calculate MAGI are: one-half of self-employment tax, passive income / loss, IRA contributions, and taxable Social Security payments.

| Single Filers         | Married Filing Jointly | Total Standard Annual Premium |
|-----------------------|------------------------|-------------------------------|
| \$0 - 85,000          | \$0 - \$170,000        | \$1,626                       |
| \$85,001 - \$107,000  | \$170,001 - \$214,000  | \$2,275                       |
| \$107,001 - \$133,500 | \$214,001 - \$267,000  | \$3,251                       |
| \$133,501 - \$160,000 | \$267,001 - \$320,000  | \$4,226                       |
| \$160,001 - \$500,000 | \$320,001 - \$750,000  | \$5,201                       |
| \$500,001 +           | \$750,001 +            | \$5,526                       |

Source: Centers for Medicare & Medicaid Services, 2018



### Options to Lower MAGI

- Spend from taxable accounts; minimize amount withdrawn from a tax-deferred account
- Make a Qualified Charitable Distribution from an IRA (page 9)
- Harvest losses in taxable accounts to offset realized capital gains

# SOCIAL SECURITY & MEDICARE

## Additional Resources:

- Social Security – Retirement Planner: When to Start Your Benefits  
<https://www.ssa.gov/planners/retire/applying1.html>
- Social Security – Early vs. Late Retirement  
[https://www.ssa.gov/oact/quickcalc/early\\_late.html](https://www.ssa.gov/oact/quickcalc/early_late.html)
- Resources/Sites for Evaluating Social Security Benefits:
  - <https://www.aarp.org/work/social-security/social-security-benefits-calculator.html>
  - <http://www.socialsecuritysolutions.com/>
  - <https://maximizemysocialsecurity.com/>
- Fidelity – “How to Get the Most from Social Security”  
<https://www.fidelity.com/viewpoints/retirement/get-most-from-social-security>
- Schwab – “When Should You Take Social Security?” (Dec 2017)  
<https://www.schwab.com/resource-center/insights/content/when-should-you-take-social-security>
- AARP – “Life after ‘File and Suspend’” (July 2016)  
<https://www.aarp.org/retirement/social-security/info-2016/social-security-final-word-on-file-and-suspend.html>
- The Official U.S. Government Medicare Handbook  
<https://www.medicare.gov/sites/default/files/2018-09/10050-medicare-and-you.pdf>

# 2019 ESTATE PLANNING UPDATES

## Federal Estate Planning Guidelines

|   | 2018         | 2019         |
|---|--------------|--------------|
| Estate Tax Exclusion                          | \$11,180,000 | \$11,400,000 |
| Maximum Estate Tax Rate                       | 40%          | 40%          |
| Lifetime Gifting Exemption                    | \$11,180,000 | \$11,400,000 |
| Maximum Gift Tax Rate                         | 40%          | 40%          |
| Annual Exclusion Gift                         | \$15,000     | \$15,000     |
| Annual Gifting Limit to US Citizen Spouse     | Unlimited    | Unlimited    |
| Annual Gifting Limit to Non-US Citizen Spouse | \$152,000    | \$155,000    |



## IRS Issues Clarification on Lifetime Gifts

In late November, the IRS issued proposed regulations that it would *not* retroactively “clawback” gifts made under the increased gifting exemption amounts afforded by the Tax Cuts and Jobs Act (2018–2025).

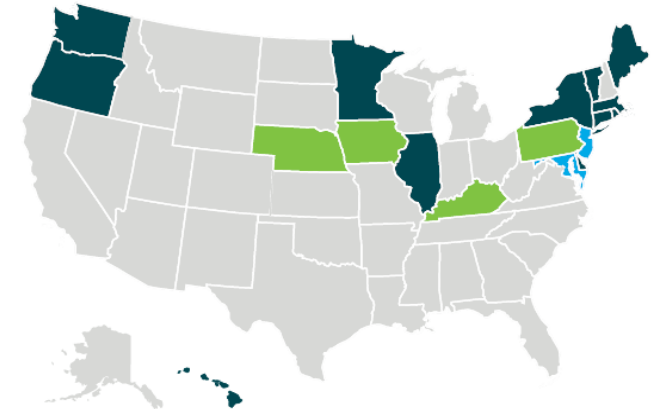


## Don't Forget Estate Tax at the State Level!

In recent years, many states have “decoupled” from the federal estate exclusion. As a result, such states have estate exclusions below the federal level which may result in state estate taxes.

## State Estate & Inheritance Taxes (2018)

| State                | Estate tax         | Inheritance tax |
|----------------------|--------------------|-----------------|
| Connecticut          | \$2M; 7.2%-12%     |                 |
| Delaware*            | \$5.49M; 0.8%-16%  |                 |
| Hawaii               | \$5.49M; 10%-15.7% |                 |
| Iowa                 |                    | 0%-15%          |
| Illinois             | \$4M; 0.8%-16%     |                 |
| Kentucky             |                    | 0%-16%          |
| Maine                | \$5.49M; 8%-12%    |                 |
| Maryland             | \$3M; 16%          | 0%-10%          |
| Massachusetts        | \$1M; 0.8%-16%     |                 |
| Minnesota            | \$2.1M; 10%-16%    |                 |
| Nebraska             |                    | 1%-18%          |
| New Jersey*          | \$2M; 0.8%-16%     | 0%-16%          |
| New York             | \$5.25M; 3.06%-16% |                 |
| Oregon               | \$1M; 10%-16%      |                 |
| Pennsylvania         |                    | 0%-15%          |
| Rhode Island         | \$1.515M; 0.8%-16% |                 |
| Vermont              | \$2.75M; 16%       |                 |
| Washington           | \$2.129M; 10%-20%  |                 |
| District of Columbia | \$2M; 8%-16%       |                 |



- State has an estate tax
- State has an inheritance tax
- State has both an estate and inheritance tax
- State has no transfer tax

\* The estate tax has been repealed for 2018 and beyond in Delaware and New Jersey (though New Jersey's inheritance tax remains).

Source: Deloitte, 2018 Essential Tax and Wealth Planning Guide

# 2019 GUIDE TO ESTATE PLANNING

## Level One (Must Haves)

**Planning for and documenting the transfer of assets with minimized tax and transfer cost. Review upon life events (marriage, divorce, birth, adoption, etc.)**

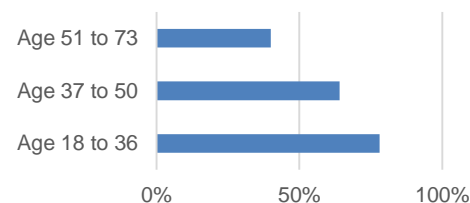
- A Will appoints guardians for your children and spells out specifically how you want your property split.
- A Living Trust avoids probate and allows for privacy and to designate how assets are to be divided upon your death.
- A Healthcare Power of Attorney allows you to designate a Healthcare agent to make health decisions in the event you are unable to make decisions for yourself.
- A Financial / Property Power of Attorney allows you to designate an agent to make financial decisions in the event you are unable to make decisions for yourself.
- Joint accounts transfer to a designated person upon death, it is important to review co-ownership provisions and the titling of accounts.
- Some assets (such as IRAs, Life Insurance, and Annuities) pass to your designated Beneficiaries; it is important to review those beneficiary designations.

## Level Two (Considerations)

**Further enhance the direction of assets, minimize Estate Taxes, or increase Asset Protection**

- Grantor Retained Annuity Trusts (GRAT) seek to pass assets to beneficiaries free of estate and gift tax that have appreciated over the IRS Section 7520 interest rate.
- Explore Charitable Trust, Donor Advised Fund, and Foundation Options
- Since Life Insurance is not estate tax free, consider establishing an Irrevocable Life Insurance Trust.
- Qualified Personal Residence Trust (QPRT)
- Intra-Family Loans can provide family members lower borrowing rates than traditional financing options.
- Special Needs Trusts ensure the proper passing of assets to ensure beneficiaries with needs are not disqualified from benefits they are entitled to

**American Adults Without A Will**



Source: Caring.com, 2017 Survey

## Level Three + (Advanced)

**For Complex Estate Tax Issues or Liability Concerns**

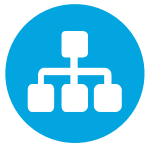
- Domestic and Offshore Asset Protection Trusts offer those in high liability fields of work and those with high estate tax brackets options to reduce liability
- Self-Cancelling Notes allow the exchange of property for periodic payments based upon mortality
- Family Limited Partnerships and Family LLC's provide legal, financial, and tax structure to family businesses



## Concept Check: Portability

Portability allows you to use your spouse's unused estate tax exclusion. While portability was made permanent for federal estate tax purposes, you should check if your resident state also allows for portability of a deceased spouse's unused estate exclusion. In the event your resident state does not allow for portability, it may make sense for both spouses to have assets in their respective name (or trust's name) up to the resident state's estate exclusion amount.

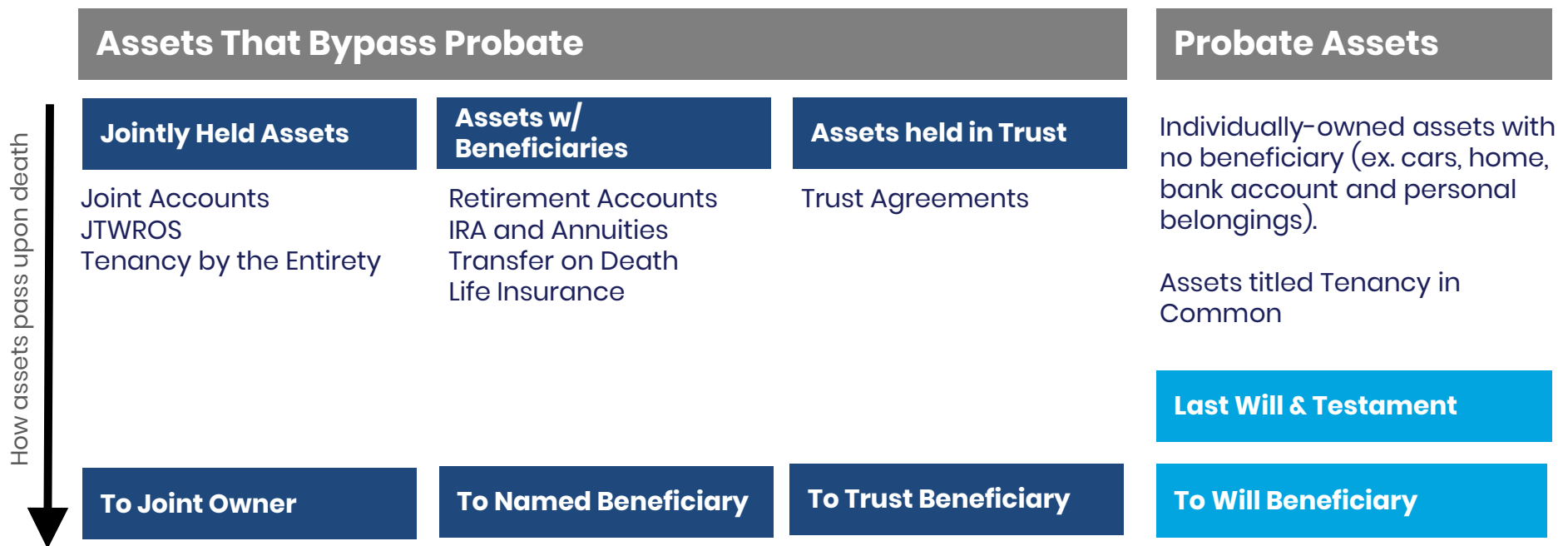
# HOW ASSETS PASS UPON DEATH



## Probate vs Non-Probate Assets

Probate is a public-court process that helps settle legal and financial matters upon death according to a will, if written.

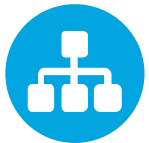
Court costs, length of time, the lack of privacy, and family disagreements are all potential issues that may arise within the probate process. With proper Estate Planning, you can limit the amount of assets that pass through Probate.



**Digital Assets:** 41 states have passed a version of the Uniform Law Commission’s Fiduciary Access to Digital Assets Act, Revised that legally allows for an executor, trustee, etc. to access a deceased’s digital accounts. Consider discussing your digital estate with your attorney and the potential need to share online access information with your executor.

Source: Uniform Law Commission, 2019

# HOW ASSETS PASS UPON DIVORCE



## Marital vs Non-Marital Assets

Estate planning is not divorce planning. Without a pre- or post-nuptial agreement, marital assets are subject to equitable division in a divorce proceeding.



Effective for divorces finalized after January 1, 2019, alimony payments will no longer be tax-deductible by the paying spouse and will not be added to the taxable income of the receiving spouse.

How assets pass upon divorce

### Marital Assets

#### Property Acquired During Marriage

Any property, real or personal, the couple acquires during the course of the marriage, regardless of title or who paid for it.

Typical examples include:

- Retirement & Investment Accounts
- Pensions
- Homes and Vacation Homes

**Subject to Equitable Division**

### Non-Marital Assets

#### Property Acquired Before Marriage

Any property, real or personal, acquired prior to the marriage, also including specific instances of property acquired during the course of the marriage by one spouse.

Typical examples include:

- Inheritances
- Gifts
- Any property owned prior to marriage

**Not Subject to Equitable Division**



**Tainting of Assets:** Non-marital assets may be tainted during the course of a marriage and be treated as marital assets in a divorce proceeding. For example, if a spouse deposits a personal inheritance into a joint account or uses income from an inheritance to support the couple's lifestyle, this non-marital asset may be treated as a marital asset.

# 2019 GUIDE TO RISK MANAGEMENT



*A thoughtful risk management (insurance) plan requires periodic evaluations to reassess objectives and sufficiency of coverages.*

|                                       |   |
|---------------------------------------|---|
| <p><b>Life</b></p>                    | <ul style="list-style-type: none"> <li>Review the reasons, necessity and beneficiaries of life insurance policies as circumstances and objectives may have changed since the original purchase.</li> </ul>  |
| <p><b>Disability</b></p>              | <ul style="list-style-type: none"> <li>Disability Insurance generally replaces up to 60% of income in the event of disability and can vary upon length. It is important to understand the definition of disability in your policy and whether it covers your own occupation or any occupation, particularly for those who are in careers with high specialization (ex. Surgeon, Medicine, Construction, etc.).</li> </ul>   |
| <p><b>Property &amp; Casualty</b></p> | <ul style="list-style-type: none"> <li>It is important to review your Auto and Homeowners policies to ensure you are adequately covered. Purchasing an umbrella liability policy to augment existing home and auto policies may be beneficial. Umbrella insurance can help protect against major claims and lawsuits. It is advisable to purchase a coverage amount that equals current net worth (at a minimum) and perhaps also factors anticipated future increases to net worth.</li> </ul> |
| <p><b>Health</b></p>                  | <ul style="list-style-type: none"> <li>It is important to review coverage options, particularly those who are retiring early. Insurance options are available on healthcare exchanges while eligibility for Medicare begins at age 65. While Medicare provides basic medical coverage, purchasing additional coverage such as a Medigap or a supplemental policy may make sense.</li> </ul>   |
| <p><b>Long-Term Care</b></p>          | <ul style="list-style-type: none"> <li>Protects against prolonged illness, accident, and disability not covered by traditional health insurance. It may be advantageous to start the conversation at age 50, review by age 60 but likely no later than age 70.</li> </ul>   |



# PROPERTY & CASUALTY INSURANCE



## Common mistakes

1. Failing to understand policy coverage terms
2. Purchasing coverage that does not cover the full replacement or fair value of an asset
3. Not revisiting / updating coverage as net worth changes over time

**Umbrella Liability Coverage** – Provides additional liability coverage against judgements in lawsuits in excess of primary home and auto insurance liability coverage

### Scenario #1: No Coverage Gaps



### Scenario #2: Coverage Gaps



## Art, Jewelry, and Collectibles Insurance

- Insure art, jewelry and collectibles with adequate insurance coverage with your property & casualty provider.
- In the case of modern artwork, more timely appraisals may be needed to keep pace with potential rapidly changing values.



John Smith, Modern Painter  
 Painting X  
 Purchased 01/01/2018  
 Fair Value \$30,000

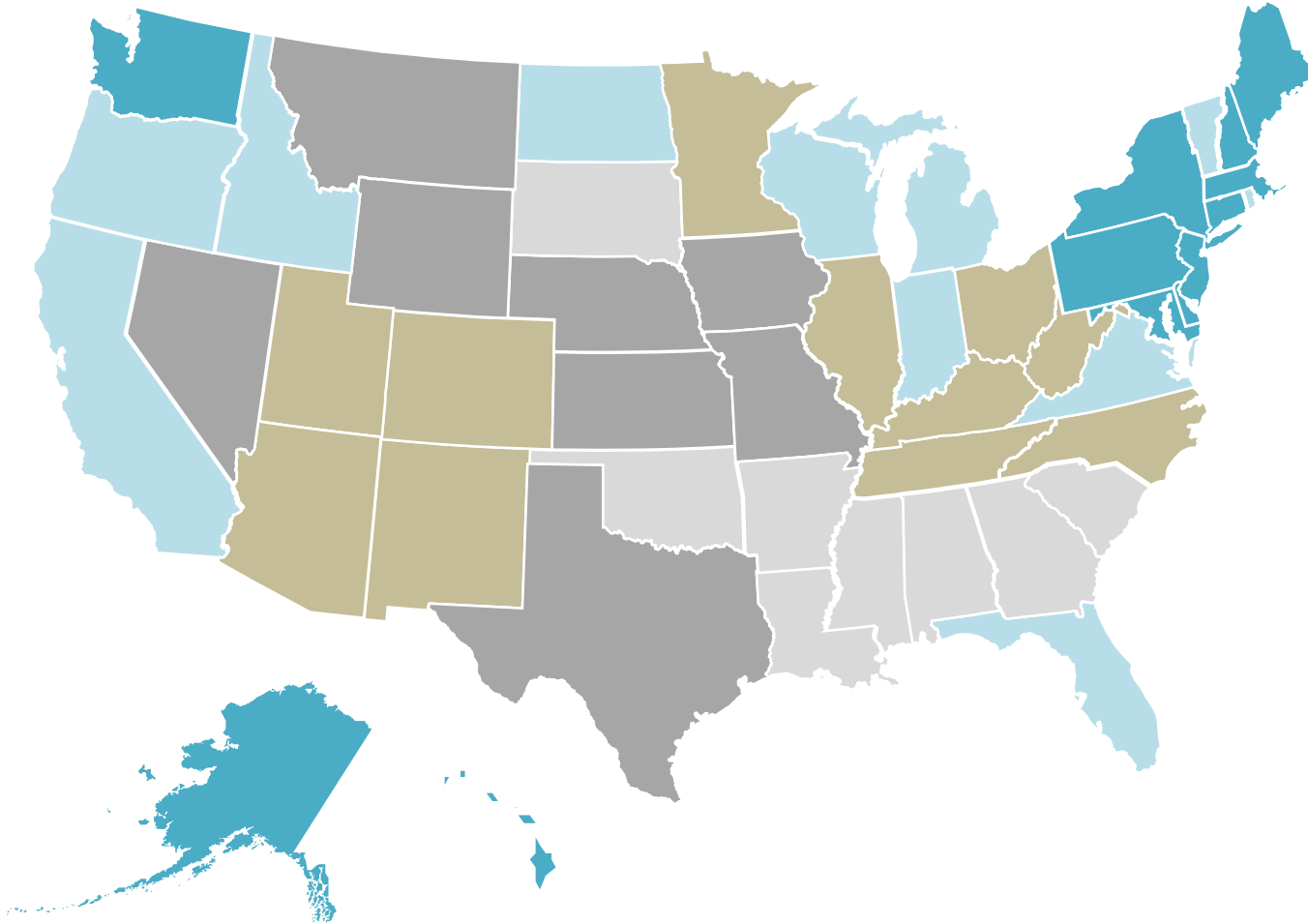
John Smith, Modern Painter  
 Painting Y; Painting Z  
 02/28/18 Sale \$200,000;  
 05/01/18 Sale \$400,000

John Smith, Modern Painter  
 Painting X  
 06/30/18 New Fair Value  
 \$250,000



# LONG-TERM CARE BY THE NUMBERS

Annual Median Costs by State for Private Room, Nursing Care Facility



< \$80k
  \$80k - \$90k
  \$90k - \$105k
  \$105k - \$120k
  \$120k +

## Ways to Cover Long-Term Care Need

1. Medicare (max 100 days) and Medicaid
2. Self-Insure
3. Long-Term Care Insurance
4. Hybrid Life Insurance / Accelerated Death Benefits

## Long-Term Care generally covers:

*Skilled care – licensed therapists, nursing homes, rehabilitation services; Custodial care – home health aides, companion services; Assisted living and sheltered care; Adult day care and hospice care; Care coordination services.*

Qualifying for benefits generally involves assistance with two of the Activities for Daily Living (ADLs): Dressing, eating, toileting, bathing, transferring, and continence.



At least 70% of people over 65 will require some form of LTC services and support during their lives



Average Length of Care, increases to 8-10 years with Alzheimer's



National Median Daily Rate For Long-Term Care



Annualized Increase in the cost of care since 2014

Source: Genworth 2017 Cost of Care Survey

# CYBERSECURITY

With the ever increasing threat of cyberattacks, individuals need to take precautions to keep sensitive information secure.



## How to keep yourself protected:

1. **Strong Passwords:** Use a combination of numbers, symbols and letters to form a long, complex password. Use unique passwords for each online login and regularly change all passwords.
2. **Multi-Factor Authentication:** If available, enable two-factor authentication for email, social media, financial accounts, etc. This functionality sends a one-time code to a mobile device to verify access, thus preventing unauthorized parties from accessing your account without the code.
3. **Software Updates:** To limit your computer/device vulnerabilities, be sure to promptly update any security software, operating system, or other software releases.
4. **Secure Wi-Fi Network:** To deter cybercriminals from accessing devices through a home's wireless router, change the Wi-Fi network's factory-set default username and password.
  - Avoid unsecure access to public Wi-Fi networks, such as in coffee shops, airports, hotels, etc. A virtual private network (VPN) creates a personal, private network across public networks. A few of the VPNs available include TunnelBear, NordVPN, and IPVanish.
5. **Cautiousness with targeted telephone calls:** Avoid divulging any banking or personal information to a caller over the phone and do not give in to pressure to take immediate action. The IRS and law enforcement agencies will not call you.
  - Beware of the question, "Can you hear me?" which leads to the recording of you saying "yes" to authorize unwanted charges, etc.

### Password Managers

- Dashlane
- Keeper
- LastPass
- 1Password

### Identify Protection Services

- Identity Guard
- Identity Force
- ID Shield
- LifeLock
- Eversafe



## Cybercrime at a glance:

**80%**

Over 80% of cyberattacks are perpetrated via weak or stolen passwords. (source: Panda Security)

**30%**

30% of phishing emails in the U.S. are opened. (source: Verizon's 2018 Data Breach Investigations Report)

**60%**

More than 60% of fraud originates on mobile devices; of that figure, 80% comes from mobile apps. (source: RSA)

**60 Million**

Nearly 60 million Americans have been impacted by identity theft, according to a 2018 online survey by The Harris Poll

# CYBERSECURITY


Choosing a strong password is a key step to minimize the risk of being hacked.

## Character Type Difference

Combining ASCII, Lowercase, Uppercase, and Numeric

**"Password"**  
Cracked just under the time  
it would take lightning to strike 2-3 times

**"P@ssw0rD"**  
Will be cracked in the same amount of time  
it took to carve Mt. Rushmore, or 14 years.



## How to Tell if Your Email Was Hacked

Pay Attention to the Warning Signs

 Your contacts tell you they're receiving spam emails from you

 You receive multiple failed delivery emails

 There are messages in your sent folder that you did not send

 Your account's location login history doesn't match your recent activity



## What to do if you believe your email was hacked:

1. Update your password. Choose a strong combination of upper and lower case letters, numbers, and symbols. Consider updating passwords for other accounts.
2. Update security questions and set up phone verification.
3. Notify any contacts who might have received spam emails.
4. Check any linked financial accounts for signs of unauthorized activity.

# FRAUD PREVENTION



## Review your credit report every year

By law, you can obtain a free credit report every 12 months from [www.annualcreditreport.com](http://www.annualcreditreport.com). According to the Federal Trade Commission, this is the only authorized source for the free annual credit report (though it will not include your FICO score). You should review your credit report for any discrepancies (unauthorized accounts, etc.).

Additionally, you can pay for a credit report from one of the three nationwide credit reporting bureaus (Equifax, Experian, TransUnion). Generally speaking, these companies offer a three-in-one credit report (costs range between \$40-\$60) which details your credit report from each company and may also include your FICO score.



## Tips for dealing with cybercrime & identity theft:

1. Change all passwords to follow the unique and complex guidelines.
2. Open your credit card bills and bank statements right away; check carefully for any unauthorized charges or withdrawals and report them immediately.
3. Shred or destroy papers containing your personal information including credit card offers and “convenience checks” that you will not use.
4. Only open emails, attachments, and links from people you know.
5. Pay attention to a website's URL; hover over any links to see where they lead.
6. Close any unauthorized or compromised credit cards.
7. If you have been a victim of identity theft:
  - File a report with your local law enforcement agency
  - File Form 14039 (Identity Theft Affidavit) with the Internal Revenue Service
  - Contact one of the three credit bureaus (Equifax, Experian and TransUnion) to report the crime and freeze credit (once one of the credit bureaus issues a fraud alert, the other two bureaus are automatically notified).

# FRAUD PREVENTION

## “10 Things You Can Do to Avoid Fraud” by the Federal Trade Commission (FTC)

*Excerpts:*

- **Spot imposters.** Scammers often pretend to be someone you trust, like a government official, a family member, a charity, or a company you do business with. Don't send money or give out personal information in response to an unexpected request — whether it comes as a text, a phone call, or an email.
- **Talk to someone.** Before you give up your money or personal information, talk to someone you trust. Con artists want you to make decisions in a hurry. They might even threaten you. Slow down, check out the story, do an online search, consult an expert — or just tell a friend.
- **Don't believe your caller ID.** Technology makes it easy for scammers to fake caller ID information, so the name and number you see aren't always real. If someone calls asking for money or personal information, hang up. If you think the caller might be telling the truth, call back to a number you know is genuine.
- **Consider how you pay.** Credit cards have significant fraud protection built in, but some payment methods don't. Wiring money through services like Western Union or MoneyGram is risky because it's nearly impossible to get your money back. That's also true for reloadable cards (like MoneyPak or Reloadit) and gift cards (like iTunes or Google Play). Government offices and honest companies won't require you to use these payment methods.
- **Be skeptical about free trial offers.** Some companies use free trials to sign you up for products and bill you every month until you cancel. Before you agree to a free trial, research the company and read the cancellation policy. And always review your monthly statements for charges you don't recognize.
- **Sign up for free scam alerts from the FTC** at [ftc.gov/scams](https://ftc.gov/scams). Get the latest tips and advice about scams sent right to your inbox. If you spot a scam, report it at [ftc.gov/complaint](https://ftc.gov/complaint). Your reports help the FTC and other law enforcement investigate scams and bring crooks to justice.

*Source: Federal Trade Commission (FTC)*



# FRAUD PREVENTION

## Additional Resources:

Federal Trade Commission – “10 Things You Can Do to Avoid Fraud”

<https://www.consumer.ftc.gov/articles/0060-10-things-you-can-do-avoid-fraud>

Marketwatch – “These common scams target seniors—how to avoid them”

<https://www.marketwatch.com/story/these-common-scams-target-the-elderlyhow-to-avoid-them-2018-11-15>

Better Business Bureau (BBB) – “10 Steps to Avoid Scams”

<https://www.bbb.org/avoidscams/>

Visa Security Sense – “Tips for Preventing Fraud”

[https://www.visasecuritysense.com/en\\_US/preventing-fraud.jsp](https://www.visasecuritysense.com/en_US/preventing-fraud.jsp)

Bankrate.com – “A 12-point checklist for victims of identity theft”

<https://www.bankrate.com/finance/credit/steps-for-victims-of-identity-fraud.aspx>

U.S. News & World Report – “10 Things to Do Immediately After Your Identity Is Stolen”

<https://money.usnews.com/money/personal-finance/family-finance/articles/2018-06-22/10-things-to-do-immediately-after-your-identity-is-stolen>

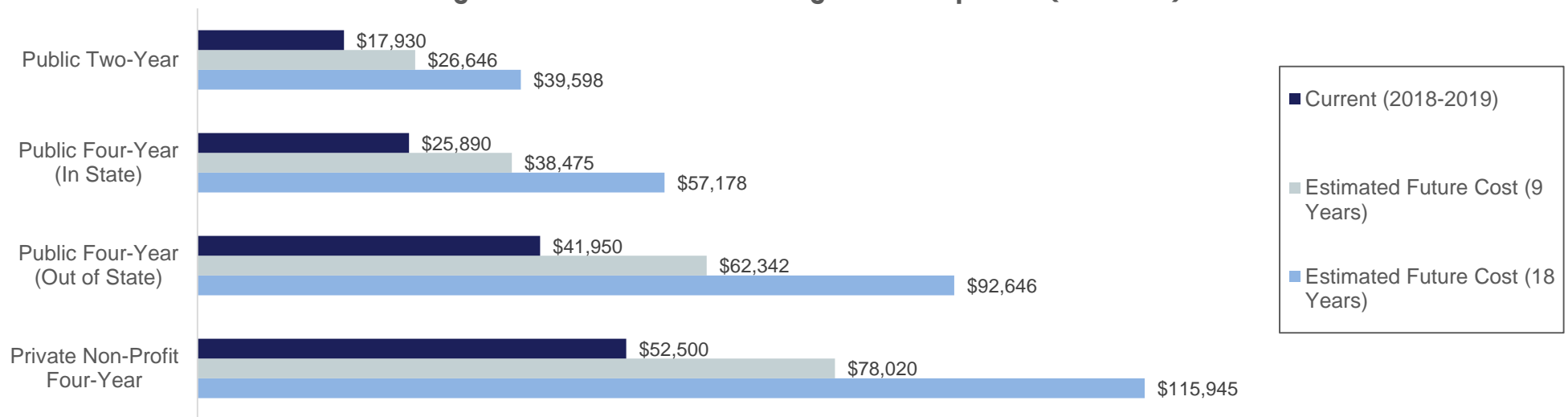
Norton by Symantec – “How to Choose a Strong Password”

<https://us.norton.com/internetsecurity-how-to-how-to-choose-a-secure-password.html>

# 2019 GUIDE TO COLLEGE PLANNING

With college costs steadily rising, a four-year education has become an increasingly expensive proposition. Over the last 10 years, published tuition and fees plus room and board (TFRB) expenses have increased annually at 2.6% above inflation for public four-year institutions and at 2.3% above inflation for private nonprofit four-year institutions.

**Average Estimated Full-Time Undergraduate Expenses (2018-2019)**



## Four Reasons Why Costs Are Rising

- **Spending** to attract the best students
- **Hiring** to reduce student-to-faculty ratios
- Colleges are receiving **less financial support** from states
- Colleges are attracting **more international students** willing to pay higher tuition

Calculations for estimated future college costs assume a 4.5% annualized increase

Source: College Board Trends in Annual Pricing 2018



# 2019 GUIDE TO COLLEGE PLANNING

## Sticker Price vs. Actual Costs

While college expenses have continued to increase, financial aid and tax benefits have helped to contain actual (net) costs.

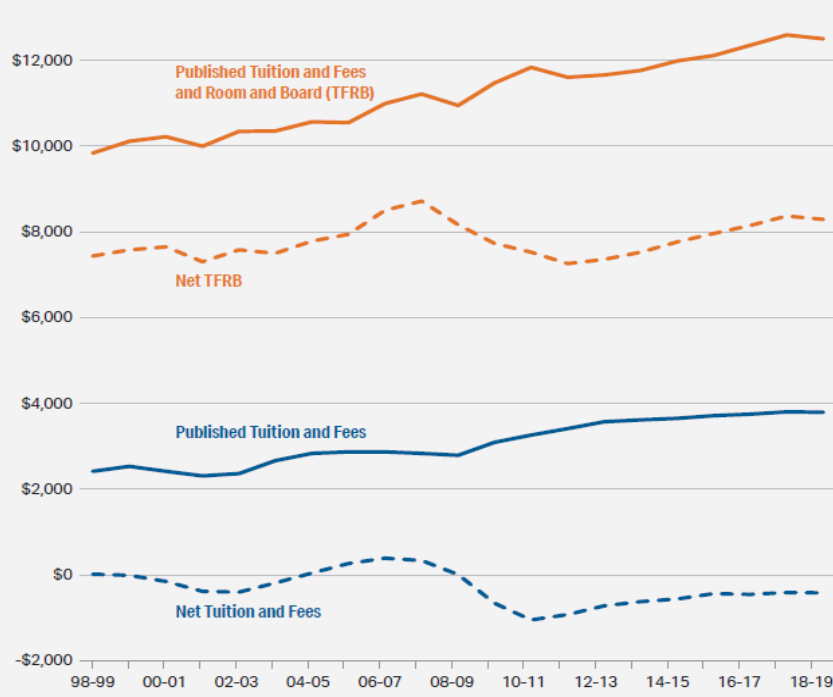
### 2018-2019 Public 4-Year

|   |                 |
|---|-----------------|
| Published Tuition & Fees plus Room & Board (TFRB)   | \$21,370        |
| Less: Grant Aid & Tax Benefits                      | (\$6,490)       |
| <b>Net Tuition &amp; Fees plus Room &amp; Board</b> | <b>\$14,880</b> |

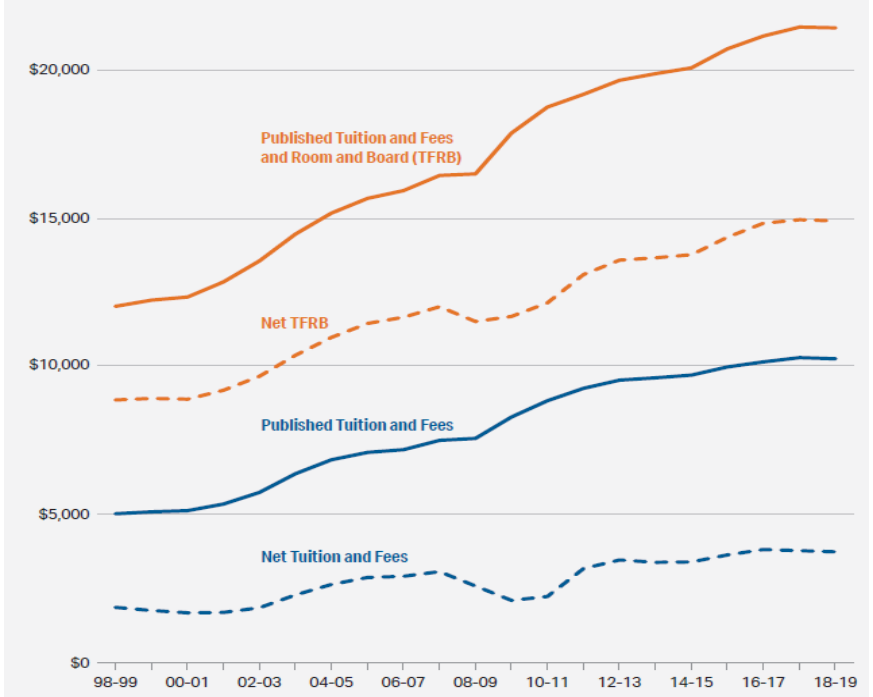
### 2018-2019 Private Non-Profit 4-Year

|   |                 |
|---|-----------------|
| Published Tuition & Fees plus Room & Board (TFRB)   | \$48,510        |
| Less: Grant Aid & Tax Benefits                      | (\$21,220)      |
| <b>Net Tuition &amp; Fees plus Room &amp; Board</b> | <b>\$27,290</b> |

**FIGURE 8** Average Published and Net Prices in 2018 Dollars, Full-Time In-District Undergraduate Students at Public Two-Year Institutions, 1998-99 to 2018-19



**FIGURE 9** Average Published and Net Prices in 2018 Dollars, Full-Time In-State Undergraduate Students at Public Four-Year Institutions, 1998-99 to 2018-19



Source: College Board, *Trends in Annual Pricing 2018*

# 2019 GUIDE TO COLLEGE PLANNING

## Saving for College

### Assumptions:

- Annual cost of college is \$40,000 per year
- Annual cost of college increases by 4.5% per year
- College savings (529 Plan, etc.) annualize at 6.0% per year
- Parent(s) / Guardian(s) wish to fully fund college education

| Years until College | \$0 Beginning Balance | \$10,000 Beginning Balance | \$25,000 Beginning Balance | \$50,000 Beginning Balance | \$75,000 Beginning Balance | \$100,000 Beginning Balance |
|---------------------|-----------------------|----------------------------|----------------------------|----------------------------|----------------------------|-----------------------------|
| 18                  | \$912                 | \$836                      | \$723                      | \$533                      | \$344                      | \$154                       |
| 17                  | \$957                 | \$879                      | \$762                      | \$566                      | \$370                      | \$174                       |
| 16                  | \$1,008               | \$927                      | \$805                      | \$602                      | \$399                      | \$196                       |
| 15                  | \$1,065               | \$980                      | \$854                      | \$643                      | \$432                      | \$221                       |
| 14                  | \$1,130               | \$1,042                    | \$909                      | \$689                      | \$469                      | \$248                       |
| 13                  | \$1,204               | \$1,112                    | \$973                      | \$742                      | \$511                      | \$280                       |
| 12                  | \$1,291               | \$1,194                    | \$1,047                    | \$803                      | \$559                      | \$315                       |
| 11                  | \$1,394               | \$1,290                    | \$1,134                    | \$875                      | \$616                      | \$357                       |
| 10                  | \$1,516               | \$1,405                    | \$1,239                    | \$961                      | \$684                      | \$406                       |
| 9                   | \$1,666               | \$1,546                    | \$1,366                    | \$1,066                    | \$765                      | \$465                       |
| 8                   | \$1,852               | \$1,721                    | \$1,524                    | \$1,195                    | \$867                      | \$538                       |
| 7                   | \$2,092               | \$1,946                    | \$1,727                    | \$1,362                    | \$997                      | \$631                       |
| 6                   | \$2,411               | \$2,246                    | \$1,997                    | \$1,583                    | \$1,168                    | \$754                       |
| 5                   | \$2,858               | \$2,664                    | \$2,374                    | \$1,891                    | \$1,408                    | \$925                       |

*Hypothetical illustration only. Actual results may vary based on a variety of factors (annual performance of savings, annual college cost increases, etc.) These returns are hypothetical and do not represent returns earned by clients of C.W. O'Conner Wealth Advisors, Inc.*

### Online College Savings Calculators:

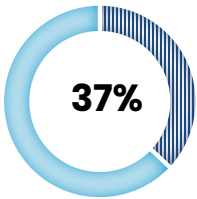
- <https://vanguard.wealthmsi.com/csp.php>
- <https://www.savingforcollege.com/calculators/worlds-simplest-college-cost-calculator>

# COLLEGE SAVINGS OPTIONS

**% of Parents who own an account**



## 529 Plan

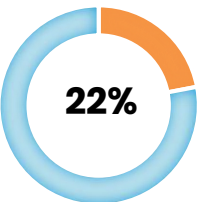


- Tax-free investing and distribution for qualified college education expenses, **as well as distributions up to \$10,000 per child per year for K-12 expenses.**
- With limited exceptions, non-qualified withdrawals are taxed as ordinary income *plus* a 10% penalty on the earnings.
- Can change beneficiaries.
- Investment allocation can be changed up to twice per year for previously invested funds.
- No income limits for contributors. Special provisions allows for up to 5 years of annual gift exclusions to be made (\$75k as individual, \$150k as a couple).
- 49 states offers a 529 plan and there are 34 states that offer resident tax benefits
  - Seven states offer taxpayers a deduction for contributions to any state's 529 plan: Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana, and Pennsylvania.
  - Seven states currently have a state income tax, but do *not* offer a deduction for contributions: California, Delaware, Hawaii, Kentucky, Maine, New Jersey, and North Carolina.



## 529 Gift Example

Contributing \$75,000 to a 529 plan at a child's birth may provide for 99% (\$214,075) of the projected four-year public college costs, assuming a 6% annual investment return, compounded monthly.<sup>1</sup>



## Custodial Account (UGMA/UTMA)

- Funds must be used for child's benefit, not necessarily for college.
- **Income taxed at trust rates under the 2017 Tax Cuts & Jobs Act.**
- **High impact** to financial aid eligibility.
- Child assumes full control at age of majority (generally, age 18 or 21).

| 2019 Tax Rates | Custodial (Trust Rates) |
|----------------|-------------------------|
| 10%            | \$0 - \$2,600           |
| 24%            | \$2,600 - \$9,300       |
| 35%            | \$9,300 - \$12,750      |
| 37%            | \$12,750 +              |



## 529 Rankings

### 2018 Morningstar Gold Plans

| Gold Rated Funds                                    | State |
|---|-------|
| Virginia Invest 529 Plan                            | VA    |
| Vanguard 529 College Savings Plan                   | NV    |
| Utah my529 Plan                                     | UT    |
| Illinois Bright Start College Savings (Direct-Sold) | IL    |

**Websites such as [Savingforcollege.com](http://Savingforcollege.com) can be a helpful resource for evaluating 529 plans**

Source: JPMorgan College Planning Essentials, 2017

1. Does not represent return earned by C.W. O'Conner Wealth Advisors, Inc. clients

# ESTIMATING FINANCIAL AID ELIGIBILITY



## Filing a FAFSA Application

The Department of Education uses the Expected Family Contribution (EFC) formula to determine whether your child is eligible to receive any financial aid.



## When Can You Apply?

Each October of the year **before** college begins. Starting in 2017, you can take advantage of the “prior-prior” rule, which allows families to use Income and Tax Information from **two years before college**.

**Total Cost of College**



**Expected Family Contribution**



**Federal Financial Aid Eligibility**

## What’s Considered for Expected Family Contribution:

| Parents   | Dependent Students  | Grandparents/Other   |
|---|---|--|
| <ul style="list-style-type: none"> <li>• 22 to 47% of Adjusted Gross Income above exclusion (factoring household, number of students in college)</li> <li>• Up to 5.64% of investment, savings and 529 plan accounts</li> </ul> | <ul style="list-style-type: none"> <li>• 50% of income above \$6,570</li> <li>• 20% of all assets owned by child</li> </ul> | <p>0% of income and assets considered, though 529 withdrawals may be considered student income and must be reported on FAFSA forms. Such income can reduce the amount of aid by 50%.</p> |

## Borrowing Rates (2018–2019):

- 5.05% Direct Subsidized & Direct Unsubsidized for Undergrads
- 6.60% Direct Unsubsidized for Graduate or Professional
- 7.60% Direct Plus for Parents / Graduate / Professional

Source: Federal Student Aid Website ([studentaid.ed.gov](http://studentaid.ed.gov))

# 2019 GUIDE TO COLLEGE PLANNING

## Additional Resources:

Trends in College Pricing (2018)

<https://trends.collegeboard.org/college-pricing>

Saving for College – “College Savings 101”

[http://www.savingforcollege.com/college\\_savings\\_101/](http://www.savingforcollege.com/college_savings_101/)

Saving for College – “7 Top Benefits of 529 Plans” (Jan 2018)

[http://www.savingforcollege.com/intro\\_to\\_529s/name-the-top-7-benefits-of-529-plans.php](http://www.savingforcollege.com/intro_to_529s/name-the-top-7-benefits-of-529-plans.php)

“Morningstar Names Best 529 College Savings Plans for 2018” (Oct 2018)

<https://www.morningstar.com/articles/889532/morningstar-names-the-best-529-college-savings-pla.html>

FinAid – The Smart Student Guide to Financial Aid

<http://www.finaid.org/>

The College Board – “Financial Aid 101”

<https://bigfuture.collegeboard.org/pay-for-college/financial-aid>

Scholly – Scholarship Search

<https://myscholly.com/>

The Wall Street Journal – “How to Find College Aid – by Yourself or With Help” (Jan 2018)

[https://www.wsj.com/article\\_email/how-to-find-college-aidby-yourself-or-with-help-1515177781-1MyQjAxMTI4MDExNzYxOTczWj/](https://www.wsj.com/article_email/how-to-find-college-aidby-yourself-or-with-help-1515177781-1MyQjAxMTI4MDExNzYxOTczWj/)