The COMPASS Chronicle

Winter 2019 *Highlighting important wealth management issues*

New Year's Resolution: Review Your Estate Plan

Before you ring in another New Year, you may want to take time out of your busy schedule to observe another annual ritual: a review of your estate plan. If you're like most people, you probably stuck your will and other documents in a drawer or a safe deposit box as soon as you had them drawn up—and have rarely thought about them since. But changes in your personal circumstances or other events could mean it's time for an update.

It normally makes sense to review an estate plan at least once a year, just to make sure it's still meeting your main objectives.

Events That Could Spur Changes

What sort of changes might necessitate a change in your plan? Here are events that require alterations in your will or other estate documents.

- The birth or adoption of a child, grandchild, or great-grandchild;
- The death of a spouse or another family member;
- Marriage, divorce, or re-marriage;
- Illness or disability affecting you or another family member;
- A child or grandchild reaching the age of majority;
- A child or grandchild in need of education funding;
- The death of a guardian, executor, or trustee;
- Taking on or paying off a sizeable debt;
- Significant changes in the value of your assets;
- The sale of your residence or a second home;
- A significant promotion at work or a change in jobs;
- Retirement of you or your spouse;
- A large gift or inheritance;
- Sale of a business interest;
- Revisions in federal or state income tax or estate tax laws.

What You May Need To Do

If one or more of these events happens to you, there are several legal documents you may need to revisit.

Your will: As the centerpiece of your estate plan, your will dictates who gets which assets, and it also specifies a guardian for any minor children. Changes in your life since you had the will drafted could require significant alterations. (Note: If a will is kept in a bank safe, it may be sealed upon death. It's better to keep it in another safe.)

Often that will include revisions in the bequests for some of your heirs. For instance, you might expand the list of beneficiaries to include a newborn in the family or reduce it if you've had a falling-out with a relative. A divorce could necessitate a complete overhaul. Also, you might decide to switch

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COMPASS Corner

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Stocks worldwide declined throughout the fourth quarter, but developed market stocks, especially U.S. stocks, fell precipitously in December before partially rebounding in the last week of the year. Investors appeared to refocus on the risks facing the markets, including trade/tariffs and interest rates, especially their impact on economic growth, as well as a lack of constructive cooperation in Washington, DC as the U.S. government ended the year with a partial shutdown. Most of these risks were present earlier in the year, but the stock market reacted negatively to their continued existence. Further, the lower levels of trading liquidity present during the holidays heightened volatility at year end.

The net result was that U.S. stocks, as represented by the Russell 3000 Index, declined 14.3% during the fourth quarter and 5.2% for the year. International developed market stocks, as represented by the MSCI EAFE Index, performed better on a relative basis during the fourth quarter (a decline of 12.5%), but fell more for the year overall (a decline of 13.8%).

U.S. Treasuries soared during the fourth quarter's stock market turmoil in a "flight to quality." The yield on the 10-Year U.S. Treasury ended the quarter at 2.68%, after beginning the quarter at 3.05%. The Bloomberg Barclays U.S. Aggregate Bond Index benefitted from the decline in rates, gaining 1.6% in the fourth quarter, but remaining flat for the year.

The Big New Tax Break For Pre-Retired Professionals

Pre-retired dentists, doctors and lawyers as well as other independent professionals may be able to save tens of thousands of dollars in income taxes annually during their peak income years under the new federal tax regulations. The new rules are complex. Here are 10 things pre-retired business owners need to know about qualifying for a 20% reduction in qualified business income under Section 199(A) of the new Internal Revenue Code:

1. Sole proprietors, LLCs, S corps, partnerships and other pass-through entities qualify.

2. Real estate and rental business income — including self-rentals — may qualify.

3. Some businesses are specified as ineligible and you may need a professional to determine if you qualify.

4. Service-business owners could get a deduction on 20% of their income, subject to income limitations.

5. A business owner with $315,000 in taxable income owes tax on only $252,000 — saving more than $12,000 of income tax.

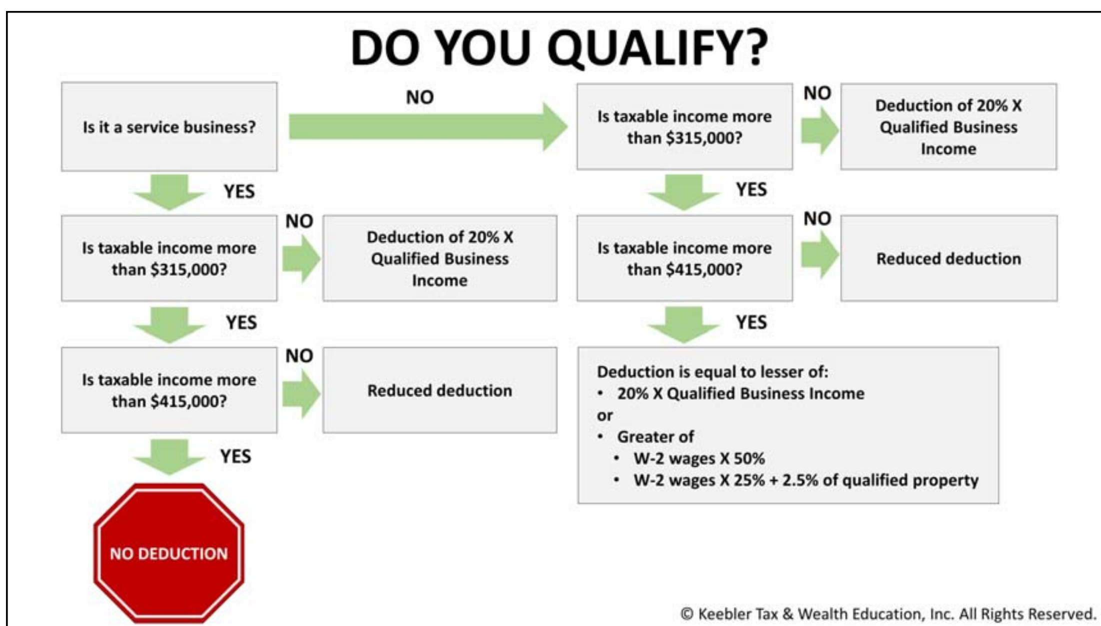
6. If you are married filing jointly and have more than $315,000 of income, the 20% deduction is subject to a phase-out. The phase-out begins at $157,500 for single filers.

7. If you have more than $415,000 of income from the service business, the 20% deduction is eliminated ($207,500 for single filers).

8. To keep your income below these thresholds, consider contributions to a defined benefit (DB) plan.

9. DB plans require you to commit to funding a defined benefit plan instead of a defined contribution plan, making them more complex.

10. A DB plan can supercharge retirement savings while minimizing your taxable income to enable you to qualify for the 20% deduction for business owners. ●



Five Retirement Questions To Answer

How much money do you need to save to live comfortably in retirement? Some experts base estimates on a multiple of your current salary or income, while others focus on a flat amount such as a million dollars. Either way, the task can be daunting.

But there is no magic formula and every situation is different. What's more, your definition of "comfortable" could be different than someone else's. Maybe a better approach is to answer these five basic questions:

Q. What will your expenses be?

It's almost impossible to figure out what you need to save if you don't know what you'll be spending. Draw up a monthly budget based on what you think might happen. If you downsize your home or won't have to spend as much on clothes as you do now, you may spend somewhat less in retirement. But you also might travel more and make greater outlays for leisure pursuits. Just don't expect your expenses to be dramatically lower in retirement than they are now.

Q. How long will your nest egg have to last?

This requires you to analyze several factors, including your age, medical condition, and family history. No one can predict the future, so it's usually best to plan for the worst and hope for the best. And with life expectancies on the rise, it becomes easier and easier to outlive your savings.

Q. How are you investing your savings?

It's not just how much you save that counts, it's also what you do with that money. If you invest wisely, reflecting your personal comfort level with investment risk, you may be able to stretch your savings longer. Of course, no one knows for sure how the markets will perform, but the independent research firm Morningstar projects that savings of about $1.18 million invested at 6% annually (with a

Watch Out For These 7 Retirement Ups And Downs

Have you heeded the usual dire warnings about retirement? You may have made all of the necessary preparations, including saving enough to have a strong likelihood of living comfortably in your golden years. However, the economic and practical realities may be harsher than you expect. Consider these ups and downs that might hinder your plans:

1. The stock market could go down. People are quick to forget the hard lessons learned from previous stock market downturns—such as in 2008 and 2009, when the market lost about half of its value. Volatility in equities is inevitable and if the market drops while you're making withdrawals, the value of your retirement portfolio could plummet. Suppose you have a portfolio valued at $1 million and you anticipate withdrawing 5% a year, or $50,000 a year, during retirement. If your holdings drop 25% next year, you'll be left with $750,000—and that same withdrawal amount rises to almost 7% of the portfolio, a withdrawal rate that would be very difficult to sustain.

2. Your health care costs could go up. Some people think they'll have it made when they reach age 65 and become eligible for Medicare. While Medicare may reduce your health insurance outlays, you'll still likely need supplemental insurance, and there will be out-of-pocket expenses. And what if you need long-term care? In 2016, the average cost of a private room in a U.S. nursing home was $7,698 per month, according to the Genworth Cost of Care survey. That's more than $92,000 a year.

3. Inflation could go up. Inflation has been negligible during the past decade. Nevertheless, steep price increases could return quickly, and even if inflation doesn't spiral dramatically like it did during the 1960s and '70s, it's safe to assume that your expenses are likely to go up during your retirement years, while your savings may lose value. If you withdraw the same amount from your portfolio each year, expect that money not to stretch as far as it once did.

4. Your taxes could go up. You may expect your tax bill to go down during retirement because you'll likely earn less than you did at the peak of your working career. But various factors could result in higher-than-expected taxes. The tax break you likely got when you were contributing to your 401(k) and IRAs will end, and now you'll have to pay income tax on the money coming from those accounts. Up to 85% of your Social Security benefits, too, will be subject to tax if your income exceeds relatively low thresholds.

5. Your work earnings could go down. If you're like many people of retirement age, you may plan to work at least part-time well into your 60s or perhaps your 70s and beyond. But there are no guarantees. The work you've been doing might dry up, or you may no longer be able to meet the physical or mental challenges of the job. And, even if you have been healthy until now, that too could change as you get older.

6. Your retirement assets could go down. Just because you figure that you have enough on hand to ensure a comfortable retirement doesn't mean that your nest egg won't be eroded. For one thing, you must start taking required minimum distributions (RMDs) from qualified plans and traditional IRAs after you reach age 70½. (RMD rules don't apply to Roth IRAs.) The amount of your distribution is based on your account balance in the prior year and your life expectancy. There's no way to get around this, but you can postpone RMDs from an employer-sponsored retirement plan until you retire if you're still working for the company with the plan and you don't own more than 5% of the business.

7. Your stress level could go up. Any or all of these pitfalls could give you a lot more to worry about than you expected. What's more, you now may have to take on more decisions about how to invest your assets and how to structure your withdrawals.

However, you don't have to shoulder these responsibilities alone. Your financial advisors can work with you to help you overcome potential problems. ●

2.5% inflation rate) will provide annual income of $40,000 for 30 years. Naturally, your needs may differ.

Q. How will taxes affect your investments?

Don't forget to factor future taxes into the equation. Long-term capital gains currently are taxed for most people at a 15% rate, while those in the top ordinary income tax bracket pay 20%. But income from some investments—including municipal bonds and muni bond funds—is exempt from federal income tax. Also, remember that the tax law requires you to start taking minimum distributions from most retirement plans after age 70½.

Q. What can I do now to avoid problems?

If you're still working, you could boost your savings, utilizing tax-advantaged retirement accounts such as 401(k) plans. The compounding of the money inside your plan can help you catch up in meeting your retirement goal. In addition, you might consider postponing your retirement until you've saved enough. ●

When To Start Social Security?

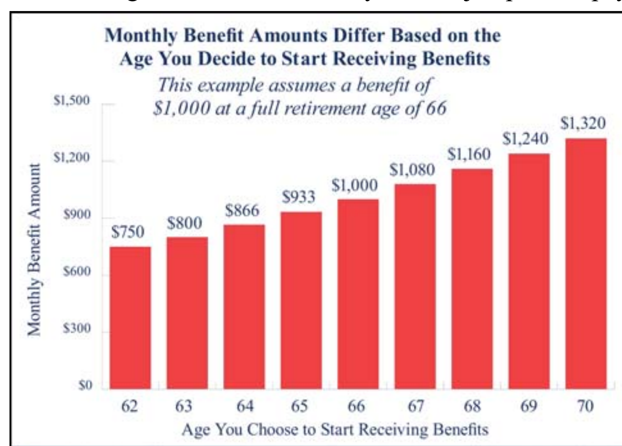
Once you enter your 60s, with thoughts of retirement looming ahead, you face a difficult decision: When should you start to receive Social Security retirement benefits? With some experts arguing that you should begin benefits as soon as possible and others contending that you should wait until full retirement age or longer, the answer to this question is not exactly a no-brainer.

The Social Security Administration (SSA) reminds us that this is a highly personal choice. It depends on numerous factors, including your current need for cash, your health and family history, whether you plan to work in retirement, your other retirement income sources, how much income you expect you will need in the future, and the amount you'll receive from Social Security. There's no definitive right or wrong answer.

The earliest you can start benefits is at age 62, but you'll receive less than you would be entitled to at full retirement age (66 for most Baby Boomers.) However, you'll get even more each month if you wait longer—until age 70 at the latest. When you start will lock in your benefit amount for the rest of your life, although you'll get cost-of-living increases, and there could be other changes based on work records.

The accompanying chart provides an example of how your monthly amount can differ based on the start date for receiving benefits.

As this chart shows, you're entitled to $1,000 in monthly benefits at your full retirement age of 66, if you choose instead to start benefits at age 62, your monthly benefit will be 25% lower, or $750. Conversely, if you wait until age 70 to begin benefits, the monthly amount jumps to $1,320, or 32% more than the $1,000 you would receive at age 66.



Source: Social Security Administration

Several variables might sway your decision. Waiting longer and receiving more each month could be advisable at a time when life expectancies are increasing and about one in every three 65-year-olds can now expect to live to age 90. Women, who tend to live longer than men, may want to do all they can to maximize their Social Security income. There's also the potential impact of your decision on the rest of the family. If you die before your spouse, he or she may be eligible for payment based on your work history. That amount could be reduced if you opt for early retiree benefits. Also, if you delay benefits, you may need money from other sources.

Finally, consider that you might decide to work past your full retirement age, perhaps on a part-time basis. That's generally an incentive to postpone payments.

Because this is such an important decision, take the time to weigh all of the variables of your particular situation. We can help you sort through the many possible alternatives. ●

Review Your Estate Plan

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executors. Finally, your will may need to be updated to reflect changes in state or federal laws.

Revocable living trusts: Similar to a will, a revocable living trust provides for the distribution of assets transferred to the trust. Unlike a will, however, these assets don't have to pass through probate upon your death. This can save both time and money, and you might decide to use a living trust to supplement your will.

Because the trust is "revocable," you retain the right to change beneficiaries and reallocate assets designated for certain beneficiaries. The same sort of additions and subtractions used for a will might apply to the trust. In addition, depending on your situation, you could amend other terms, such as changing the guardian of minor children, a trustee, or successor trustees.

Durable power of attorney: A power of attorney is a legal document authorizing someone (the "attorney-in-fact") to act on your behalf in financial affairs. A "durable" power of attorney stays in force if you become incapacitated. This can be a vital component of your estate plan.

Are you planning to buy or sell assets or undergo life-threatening surgery? A durable power of attorney may be especially beneficial in these situations. Include this document in your estate plan if you haven't already done so.

Living will: Finally, a living will can provide guidance to your loved ones should they face difficult end-of-life scenarios. This can be combined with a health care power of attorney to ensure that your physicians and the hospital comply with your wishes.

Living wills are often associated with elderly people, but issues can arise at any stage of life. In your review of your estate plan, look again at this document to see whether it still accurately reflects how you feel. And if you don't have these documents yet, consider adding them to your plan.

Once you've completed the year-end review of your estate plan, circle back to your professional advisors for assistance in implementing any changes that are needed. When you're done, you can look forward to a happy New Year! ●

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