Schneider
WEALTH STRATEGIES

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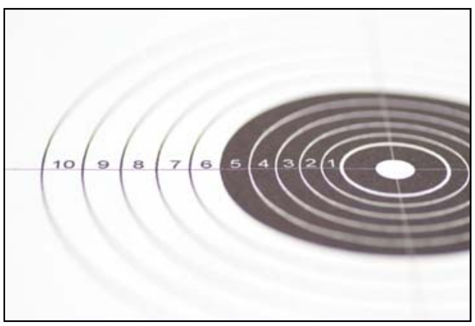
WEALTH MANAGEMENT REPORT

Are You Still On Target For A Secure Retirement?

If you've been paying attention to the experts, you dutifully have set aside and invested money to provide income during your retirement years. With those savings earmarked for retirement, and what you can expect to receive from Social Security, pensions, and other sources, you figure to be in good shape. But is it enough?

The conventional wisdom is that you need to replace somewhere between 70% and 80% of your pre-retirement income in order to live comfortably during retirement. However, life expectancies are continuing to increase. For instance, a woman who expects to retire in 20 years at age 67—the current age for receiving full Social Security benefits—now has a life expectancy of more than 20 years after retirement. Your savings may have to last through much of a third decade of retirement.



Fear not. If you haven't retired yet, there's still time to take action. Here are five practical suggestions to consider:

1. Set your primary target. It helps to have a goal to shoot for and establishing this number may help you save more money. Every situation is different, so conduct an in-depth analysis of what your target should be. For instance, if you determine that you'll need to replace 75% of your pre-retirement income to create a reasonably secure cushion, continue to use that benchmark to gauge your savings.

2. Boost plan contributions. Typically, you'll be eligible to participate in an employer-sponsored retirement plan, such as a 401(k). The beauty of the deal is that the deferrals reduce current tax liability while they compound without any tax erosion inside your account. It might hurt short-term, but try to contribute as close to the maximum amount as you can, especially as you near retirement. For 2018, you can defer up to $18,500 to a 401(k) or $24,500 if you're age 50 or over. Take full advantage of matching contributions from your employer to bulk up your account even more.

3. Rely on a Roth IRA. If your 401(k) or other employer-sponsored plan isn't enough to get you where you need to go, you can supplement retirement savings with IRA contributions. The maximum contribution for 2018 is $5,500 or $6,500 if you're age 50 or over. Depending on your circumstances, you might utilize a Roth IRA, whose future payouts will be exempt from income tax. As part of your overall strategy, you could decide to convert funds in traditional IRAs into a Roth IRA. You'll pay current income taxes on the amount you convert, but you may minimize the tax damage by

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Earnings Drives Stocks, And That's A Good Bottom Line

Since April 1991, the S&P 500 index averaged a 10.03% total return, driven by profits that grew at an average of 7.40% annually. In 2018 and 2019, earnings growth of 12% and 10%, respectively, are expected. This why the Standard & Poor's 500 index continues to climb in 2018.

At 111 months, this expansion is the second longest in modern U.S. history, behind the 120-month boom of the 1990s. This growth cycle could set a new modern record, but you never really know what's going to happen.

The S&P 500 has broken new record-highs repeatedly since the November 2016 election. But there are risks: rapid growth spurred by the new tax act increases the likelihood of a Fed interest-rate policy mistake, quashing growth or accelerating an inflationary spike. Meanwhile, a constitutional crisis or adverse geopolitical event could throw a monkey wrench into the works.

A 10% or 15% drop could occur in a flash of bad news and the chance of a bear-market decline of 20% or more increases as the long bull market grows older. But for now the economy shows not a whiff of recession. To the contrary, smashing earnings growth is expected, and that's literally the bottom line.

Qualifying For The New Business Owner Tax Break

Under the new tax law, business owners are entitled to deduct 20% of "qualified business income." The test for qualifying for a tax break on 20% of business income is defined in the Tax Cuts and Jobs Act (TCJA) and summarized here along with a simple illustration.

If you formed your BUSINESS as a sole proprietorship, S corporation, partnership, LLC or similar pass-through entity, you are entitled to the deduction. C corporations don't qualify for the 20% deduction. Only businesses generating income not taxed at the company level, but directly to the owner.

Qualified business income is the business' day-to-day, non-investment income. It's revenue the business generates minus expenses.

QBI doesn't include interest, dividend income or capital gains on a property sale. Nor does QBI include salary or wages paid either as W-2 wages from an S corporation or guaranteed payments from a partnership.

However, the 20% deduction is limited to the lesser of:

- 20% of qualified business income, or
- 50% of the total W-2 wages paid by the business.

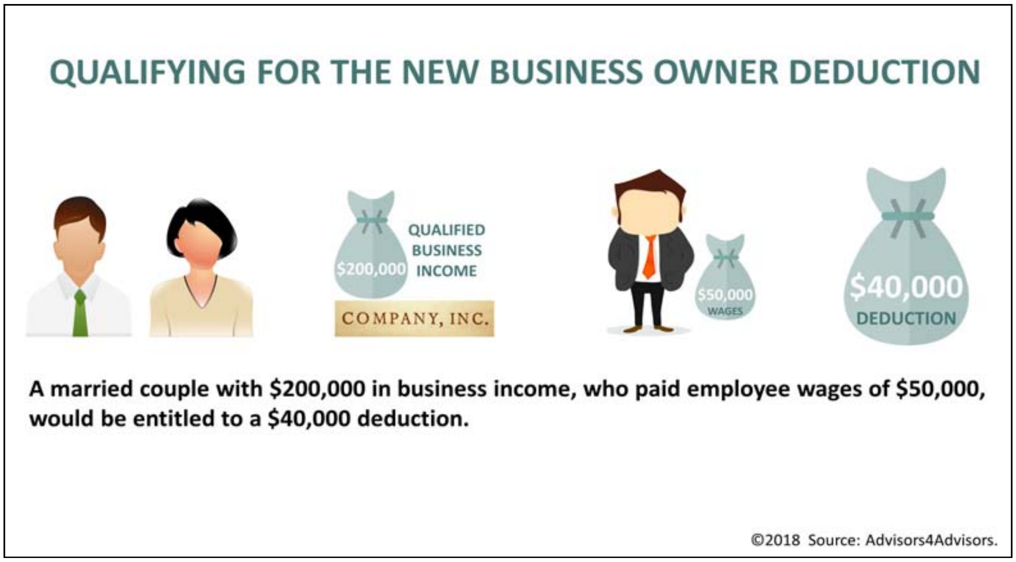
A separate limit based on the unadjusted basis of certain business assets could also apply, a rare situation.

More important: The 50% W-2 wage cap kicks in when a couple filing jointly has a total taxable income of more than $315,000 ($157,500 for singles).

Here's an illustration of a couple who owns a business with $200,000 in qualified business income, with no real assets, such as vehicles or real estate, and with one employee who was paid $50,000 in 2018. The couple would be entitled to QBI deduction of $40,000. That's 20% of $200,000.

Because the couple's taxable income is less than $315,000, the wage limitation — 50% of wages paid to their employee — is equal to $25,000 and would not apply.

Some business owners with more than $315,000 in QBI may want to consider reducing their W-2 wages or guaranteed payments to qualify for the deduction, but this requires careful planning and personal consulting beyond this simple illustration. The rules are new and technical, and before changing how your business pays you to qualify for the 20% QBI deduction, it's prudent to contact your CPA and plan properly. ●



Your Alma Mater Or Your Family?

The new tax law doubles what you can leave loved ones' tax free when you die and that may be really bad for your alma mater. Tax breaks for donations to your alma mater may no longer make the grade with you. Here's why:

Estate Tax Exemption Rises. The Tax Cuts And Jobs Act (TCJA) doubles a married couple's estate's tax-exemption to $22 million. Alums now want to maximize their exemptions by leaving $22 million to their children, nieces, nephews and other loved ones before even thinking about a donation to favorite old schools.

Larger Standard Deduction. The TCJA upped the standard deduction from $13,000 to $24,000 for married couples and most Americans no longer will itemize deductions. But that also means you no longer may deduct college donations. Younger alumni will never get into the habit of contributing to their alma mater, disrupting the finance of U.S. educational institutions.

Athletic Deduction Nixed. Before the TCJA, many colleges targeted contributions from alumni who might qualify for good seats at games. The old law allowed donors to deduct 80% of such gifts. Now, the deduction is zero.

Taxing Endowments. Under the new tax code, schools with endowments of $500,000 per student or more and 500 students or more face a 1.4% levy on income. Only a small number of schools are subject to this new tax, but it is a consideration in making college donations.

The Plus Side. The TCJA is not entirely bad for all education-minded donors. Some plusses:

- If you itemize, you may now deduct up to 60% of your adjusted gross income on donations to qualified charities, including your old school. That's up from 50%.
- You can "bunch" donations you pledge to give over several years. The

New Ways To Influence The Next Generation

The Tax Cuts And Jobs Act of 2018 (TCJA) gives you more good reasons to help your children, grandchildren, great nieces and nephews. Any amount you accumulate in a 529 account that's used to pay for qualified expenses for college as well as private or religious schooling before college is not taxed. With tax reform eliminating all or a large chunk of state income-tax deductions for many individuals in 2018, giving to a 529 lightens your state income-tax load while perhaps changing a life of a family member or friend and influencing their values.

If a child in your family is affected by autism, severe ADHD, opioids, or any other modern maladies, you have new ways to benefit from the privilege of helping children with special needs.

The average annual rate of college inflation was double the overall inflation rate for the past decade, according to College Board data, and 529 assets hit $279 billion in 2016, according to College Savings Plan Network — up almost 160% from 10 years earlier, as parents tried to keep pace with rising college costs.

Enacted two decades ago, Section 529 plans have become popular because contributions grow tax-free and withdrawals for tuition, books, room and board are also tax-free. No limits are imposed on contributions, but your 529 may not exceed the estimated cost of a beneficiary's education expenses.

Many states let you deduct 529 contributions from state income tax, and some also allow deductions made to out-of-state 529 plans. Almost all states offer 529s and permit out-of-state residents to invest. Here's how the new tax overhaul encourages 529 savings:

Savings on state income tax lowers federal liability. To the horror of high-tax states, federal deductions for state income, property and sales tax were limited for 2018, and annually through 2026, with a $10,000 limitation. Still, 41 states have an income tax and New Hampshire and Tennessee tax dividends and other investment income, and about three dozen states allow deductions for 529 contributions. But money in 529s lowers your income subject to federal as well as state income tax, easing the pain of losing the federal deduction for state and local taxes.

Paying for private school tuition. 529s to pay for kindergarten through 12th grade are now permitted, but you must check to see if your state allows you to deduct 529s used to pay for private schools.

Children with special needs. This bolsters a federal tax break for those who become blind or disabled before age 26. It also covers education for modern maladies, like ADHD and autism. Enacted in 2014, ABLE accounts make gifts to individuals with special needs eligible for tax-free growth in 529 accounts. The 529 accounts are not figured into eligibility for Medicaid, Social Security income or Supplement Security Income (SSI) payments.

Deduct up to $15,000 a year by giving to an ABLE account from a 529. Spouses get twice as much benefit. Withdrawals are tax-free for qualified expenses, like employment training, housing, fighting autism, ADHD and overcoming disabilities.

If you have the privilege to be able to help the next generation and want to finance religious school, military training, or help a child with special needs, this is a loophole for you. Please let us know if we can assist you with making this happen. ●

deduction can exceed the write off under the standard deduction.

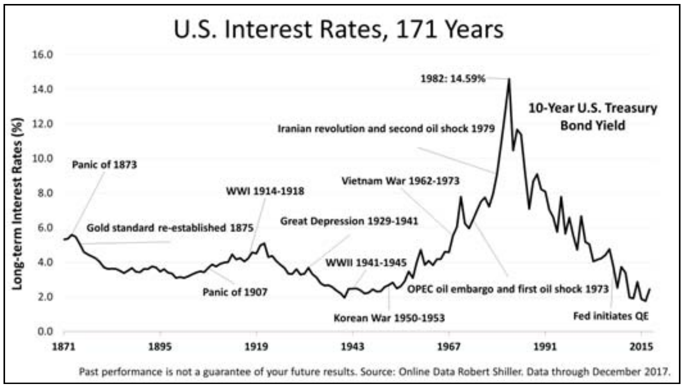
• You can contribute via a donor-advised fund, which entitles you to a large immediate deduction on annual donations you pledge to make over a period of years. If you suddenly strike it rich, this is a great way to go.

Old Ivy has been around since before the income tax and has managed to flourish, but the new economics of supporting education is disrupting the finances of major educational institutions and the effects are yet to be felt. If you have questions about donating money to a school or your priorities in planning your estate, please contact us. ●

This Is Not Your Parents' Interest Rate Cycle

If you're a pre-retiree, your returns on fixed income investments may be much lower than your parents' portfolio.

If you're over 70, you were invested during four decades marked by strong fixed income returns. From the astronomical highs of the late 1980s, rates climbed down before finally bottoming in 2017, and two generations of retirement investors enjoyed bull market returns in bonds annually for years. The next generation of retirees face an entirely different fixed income investing environment.



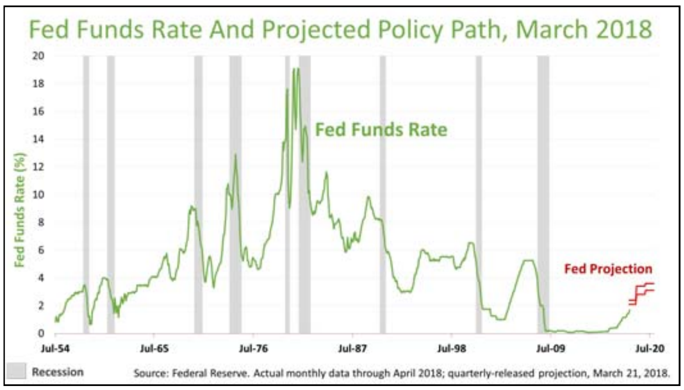
Past performance is not a guarantee of your future results. Source: Online Data Robert Shiller. Data through December 2017.

The last 50 years were an aberration when viewed from the perspective of the past 171 years. The rise in rates of the 1970s and 80s and the unwinding of that anomaly is behind us now, and history indicates the next decades could be characterized by 10-year U.S. Treasury bond rates of about 4%. That may be the new normal.

Past performance is not a guarantee of your future results, but we are nonetheless grateful to Robert Shiller, an economics professor at Yale University and Nobel Laurate in Economics, for sharing this historical data online. It shows that, over in the long arc of U.S. financial history, nothing like the last 50 years ever happened before the 1970s. If interest rates revert to their long-term mean, a 4% 10-year U.S. Treasury bond is a likely path in the decades ahead.

The yield on a 10-year U.S. Treasury bond, in the grand sweep of history, averaged about 4% annually. That's normal. Mortgage rates of the 70s, 80s, or 90s were abnormal. The new normal may be a 2% inflation rate and a 10-year bond yield of 4%. That's what the Federal Reserve Board of Governors expected in the second quarter of 2018.

The point is, this is not your parents' retirement savings environment. Economic fundamentals are different. If you learned about investing from your parents or invest based on what's worked in the past, the future may not be much like the recent past but instead like the distant past. This is the kind of fundamental analysis you get from a real financial professional. This is the kind of analysis you can expect from us. ●



Source: Federal Reserve. Actual monthly data through April 2018; quarterly-released projection, March 21, 2018.

A Secure Retirement

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shifting the money into the Roth over several years.

4. Adjust your portfolio. Again, every situation is different, but it generally is recommended that you develop a diversified portfolio. Although there are no guarantees against a loss of principal, particularly in a declining market, diversification may minimize your exposure to the risk of losing money. When you assemble your portfolio, take into account all relevant factors, including your age and life expectancy, your risk tolerance, and your personal needs. Most investors tend to become more conservative during their retirement years, but investing for a long retirement still requires taking some investment risks.

5. Stay on track. It's not enough simply to set a target and meet it for a short period of time. Retirement saving requires dedication and stick-to-itiveness. Maintain this as a top priority as you draw closer to the day you'll call it quits. Don't be seduced by temptations you really can't afford and really don't need. If you're suddenly able to splurge—perhaps you inherited a large sum or came into another unexpected windfall—you can treat yourself, but don't go overboard. The extra money can feather your retirement nest.

Finally, keep in mind that targeting a comfortable retirement is an ongoing process. For instance, you may have to adjust your portfolio to accommodate market fluctuations or raise or lower your 401(k) contributions if you start earning more or less in the future. Also, it's likely that your retirement isn't your only financial goal—you also may want to help your children or grandchildren, for example, or support your philanthropic objectives. Just try to take a balanced approach and keep your eye on the prize(s). ●

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