# DBFS Quarterly Connection

*Your Trusted Financial Resource*


**DeLong & Brower, P.C.**
Joel Johnson, AIF®
238 Hoover Blvd
Holland, MI 49423
616-394-0500
support@delongbrower.com
www.delongbrower.com


You may have noticed a new advisor name on your account statements recently. To help avoid any service gaps that could arise with our advisors being out of the office, we have assigned a second advisor to your account.

Our team of experienced advisors include James Hagel, Joel Johnson, Matt VanOrder, Spencer Bacon, Terry Seely, and Jeff McCormick. Client Service Associates Connie VanderPloeg, Darlene Khuon, and Jill Gruppen will continue to provide the quality customer care you have come to know and expect.

As always, if you have any questions, please contact us at 616.394.0500 or support@delongbrower.com.

**July 2018**



DeLong & Brower P.C.
CERTIFIED PUBLIC ACCOUNTANTS | FINANCIAL ADVISORS

## Quiz: Financial Facts That Might Surprise You


If you have a penchant for financial trivia, put your knowledge to the test by taking this short quiz. Perhaps some of the answers to these questions will surprise you.

### Questions

**1. The first organized stock market in New York was founded on Wall Street under what kind of tree?**

a. Maple

b. Linden

c. Buttonwood

d. Elm

**2. Who invented the 401(k)?**

a. Congress

b. Ted Benna

c. The IRS

d. Juanita Kreps

**3. Which three U.S. bills together account for 81% of the paper currency in circulation?**

a. $1, $20, $100

b. $1, $5, $20

c. $1, $10, $20

d. $1, $10, $100

**4. Small businesses comprise what percentage of U.S. businesses?**

a. More than 39%

b. More than 59%

c. More than 79%

d. More than 99%

**5. Which U.S. president signed Medicare into law?**

a. President John F. Kennedy

b. President Lyndon B. Johnson

c. President Richard M. Nixon

d. President George W. Bush

### Answers

**1. c. Buttonwood.** On May 17, 1792, 24 New York City stockbrokers and merchants met under a buttonwood tree outside of what is now 68 Wall Street. Their two-sentence brokers' agreement is known as the Buttonwood Agreement.[1]

**2. b. Ted Benna.** A 401(k) is a tax-deferred, employer-sponsored retirement savings plan. Although the name comes from Section 401(k) of the Internal Revenue Code, this type of retirement savings plan was created by Ted Benna in 1979. At the time, he was a co-owner of The Johnson Companies, a small benefits consulting firm.[2]

**3. a. $1, $20, $100.** The $1 bill represents about 29% of the total paper currency in circulation. The $20 bill represents about 22%, and the $100 bill represents about 30%.[3]

**4. d. More than 99%.** Despite their size, small businesses are a big part of the U.S. economy. According to the U.S. Small Business Administration, small businesses (independent businesses with fewer than 500 employees) comprise 99.9% of all firms and account for 62% of net new jobs.[4]

**5. b. President Lyndon B. Johnson.** President Kennedy recommended creating a national health insurance program in 1961, but it was President Johnson who signed the Medicare bill into law on July 30, 1965. President Nixon extended Medicare eligibility to certain people under age 65 in 1972, and President Bush expanded Medicare to include prescription drug benefits in 2003.[5]

[1] NYSEData.com

[2] 401kbenna.com

[3] Federal Reserve, Currency in Circulation: Volume, December 2017

[4] U.S. Small Business Administration, August 2017

[5] Centers for Medicare & Medicaid Services

# Marriage and Money: Taking a Team Approach to Retirement

*Open communication and teamwork are especially important when it comes to saving and investing for retirement.*

Now that it's fairly common for families to have two wage earners, many husbands and wives are accumulating assets in separate employer-sponsored retirement accounts. In 2018, the maximum employee contribution to a 401(k) or 403(b) plan is $18,500 ($24,500 for those age 50 and older), and employers often match contributions up to a set percentage of salary.

But even when most of a married couple's retirement assets reside in different accounts, it's still possible to craft a unified retirement strategy. To make it work, open communication and teamwork are especially important when it comes to saving and investing for retirement.

## Retirement for two

Tax-deferred retirement accounts such as 401(k)s, 403(b)s, and IRAs can only be held in one person's name, although a spouse is typically listed as the beneficiary who would automatically inherit the account upon the original owner's death. Taxable investment accounts, on the other hand, may be held jointly.

Owning and managing separate portfolios allows each spouse to choose investments based on his or her individual risk tolerance. Some couples may prefer to maintain a high level of independence for this reason, especially if one spouse is more comfortable with market volatility than the other.

However, sharing plan information and coordinating investments might help some families build more wealth over time. For example, one spouse's workplace plan may offer a broader selection of investment options, or the offerings in one plan might be somewhat limited. With a joint strategy, both spouses agree on an appropriate asset allocation for their combined savings, and their contributions are invested in a way that takes advantage of each plan's strengths while avoiding any weaknesses.

Asset allocation is a method to help manage investment risk; it does not guarantee a profit or protect against loss.

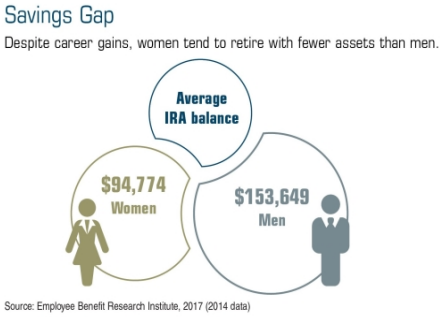
## Spousal IRA opportunity

It can be difficult for a stay-at-home parent who is taking time out of the workforce, or anyone who isn't an active participant in an employer-sponsored plan, to keep his or her retirement savings on track. Fortunately, a working spouse can contribute up to $5,500 to his or her own IRA and up to $5,500 more to a spouse's IRA (in 2018), as long as the couple's combined income exceeds both contributions and they file a joint tax return. An additional $1,000 catch-up contribution can be made for each spouse who is age 50 or older. All other IRA eligibility rules must be met.

Contributing to the IRA of a nonworking spouse offers married couples a chance to double up on retirement savings and might also provide a larger tax deduction than contributing to a single IRA. For married couples filing jointly, the ability to deduct contributions to the IRA of an active participant in an employer-sponsored plan is phased out if their modified adjusted gross income (MAGI) is between $101,000 and $121,000 (in 2018). There are higher phaseout limits when the contribution is being made to the IRA of a nonparticipating spouse: MAGI between $189,000 and $199,000 (in 2018).

Thus, some participants in workplace plans who earn too much to deduct an IRA contribution for themselves may be able to make a deductible IRA contribution to the account of a nonparticipating spouse. You can make IRA contributions for the 2018 tax year up until April 15, 2019.

*Withdrawals from tax-deferred retirement plans are taxed as ordinary income and may be subject to a 10% federal income tax penalty if withdrawn prior to age 59½, with certain exceptions as outlined by the IRS.*




DeLong&Brower P.C.
CERTIFIED PUBLIC ACCOUNTANTS | FINANCIAL ADVISORS

# A Parent-Child Conversation About College Costs

***A weighty decision***

*Most teens are not financially experienced enough to drive a $100,000 or $200,000 decision, especially one that has the potential to impact them for most or all of their 20s or longer. So parent guidance is critical.*

If you're the parent of a high school student who's looking ahead to college, it's important to have a grown-up conversation with your child about college costs. A frank discussion can help both of you get on the same page, optimize the college search process, and avoid getting blindsided by large college bills.

## An initial conversation: a, b, and c

As a parent, you need to take the lead in this conversation because most 16-, 17-, and 18-year-olds are not financially experienced enough to drive a $100,000 or $200,000 decision. One approach is to start off saying something like: "We will have saved 'a' when it's time for you to start college, and after that we should be able to contribute 'b' each year, and we expect you to contribute 'c' each year." That will give you a baseline of affordability when you start targeting colleges.

## A more in-depth conversation: borrow x, pay back y

Once you start looking at colleges, you'll see that prices vary, sometimes significantly. If a college costs more than a + b + c above, you'll have to fill the gap. The best way to try and do this is with college grants or scholarships (more on that in a minute). Absent grant aid, you'll need to consider loans. And here is where you should have a more detailed conversation with your child in which you say: "If you borrow 'x' you will need to pay back 'y' each month after graduation." Otherwise, random loan figures probably won't mean much to a teenager.

You can use an online calculator to show your child *exactly* what different loan amounts will cost each month over a standard 10-year repayment term. For example, if College 1 will require your child to borrow a total of $16,000 at 5%, that will cost $170 each month for 10 years. If College 2 requires $24,000 in loans, that will cost $255 each month. A loan amount of $36,000 for College 3 will cost $382 per month, and $50,000 for College 4 will cost $530 a month, and so on. The idea is to take an abstract loan amount and translate it into a month-to-month reality.

But don't stop there. Put that monthly loan payment into a larger context by reminding your child about other financial obligations he or she will have after college, such as a cell phone bill, food, rent, utilities, car insurance. For example, you might say: "If you attend College 3 and have a student loan payment of $382 every month, you'll also need to budget $40 a month for your phone, $75 for car insurance, $400 for food..." and so on. The goal is to help your child understand the cost of real-world expenses and the long-term financial impact of choosing a more expensive college that will require more loans.

Even with a detailed discussion, though, many teenagers may not be able to grasp how their future lives will be impacted by student loans. Ultimately, it's up to you — as a parent — to help your child avoid going into too much debt. How much is too much? The answer is different for every family. One frequently stated guideline is for students to borrow no more than what they expect to earn in their first year out of college. But this amount may be too high if assumptions about future earnings don't pan out.

To build in room for the unexpected, a safer approach might be to borrow no more than the federal government's Direct Loan limit, which is currently a total of $27,000 for four years of college ($5,500 freshman year, $6,500 sophomore year, and $7,500 junior and senior years). Federal loans are generally preferable to private loans because they come with an income-based repayment option down the road that links a borrower's monthly payment to earned income if certain requirements are met. Whatever loan amount you settle on as being within your range, before committing to a college, your child should understand the total amount of borrowing required and the resulting monthly payment after graduation. In this way, you and your child can make an informed financial decision.

If there's any silver lining here, it's that parents believe their children may get more out of college when they are at least partly responsible for its costs, as opposed to having a blank check mentality. Being on the hook financially, even for just a small amount, may encourage your child to choose courses carefully, hit the books sufficiently, and live more frugally. Later, if you have the resources, you can always help your child repay his or her student loans.

## Target the right colleges

To reduce the need to borrow, spend time researching colleges that offer grants to students whose academic profile your child matches. Colleges differ in their aid generosity. You can use a net price calculator — available on every college website — to get an estimate of how much grant aid your child can expect at different colleges. For example, one college may have a sticker price of $62,000 but might routinely offer $30,000 in grant aid, resulting in an out-of-pocket cost of $32,000. Another college might cost $40,000 but offer only $5,000 in grant aid, resulting in a higher $35,000 out-of-pocket cost.

**DeLong & Brower, P.C.**
Joel Johnson, AIF®
238 Hoover Blvd
Holland, MI 49423
616-394-0500
support@delongbrower.com
www.delongbrower.com



## I received a large refund on my tax return this year. Should I adjust my withholding?

You must have been pleasantly surprised to find out you'd be getting a refund from the IRS — especially if it was a large sum. And while you may have considered this type of windfall a stroke of good fortune, is it really?

The IRS issued over 112 million federal income tax refunds, averaging $2,895, for tax year 2016.[1] You probably wouldn't pay someone $240 each month in order to receive $2,900 back, without interest, at the end of a year. But that's essentially what a tax refund is — a short-term loan to the government.

Because you received a large refund on your tax return this year, you may want to reevaluate your federal income tax withholding. That way you could end up taking home more of your pay and putting it to good use.

When determining the correct withholding amount, your objective is to have just enough withheld to prevent you from having to owe a large amount of money or scramble for cash at tax time next year, or from owing a penalty for having too little withheld.

It's generally a good idea to check your withholding periodically. This is particularly important when something changes in your life; for example, if you get married, divorced, or have a child; you or your spouse change jobs; or your financial situation changes significantly.

Furthermore, the implementation of the new tax law at the beginning of 2018 means your withholding could be off more than it might be in a typical year. Employers withhold taxes from paychecks based on W-4 information and IRS withholding tables. The IRS released 2018 calculation tables reflecting the new rates and rules earlier this year. Even so, the old W-4 and worksheet you previously gave to your employer reflect deductions and credits that have changed or been eliminated under the new tax law.

The IRS has revised a useful online withholding calculator that can help you determine the appropriate amount of withholding. You still need to complete and submit a new W-4 to your employer to make any adjustments. Visit irs.gov for more information.

[1] Internal Revenue Service, 2018

## What is the difference between a tax deduction and a tax credit?

Tax deductions and credits are terms often used together when talking about taxes. While you probably know that they can lower your tax liability, you might wonder about the difference between the two.

A tax deduction reduces your taxable income, so when you calculate your tax liability, you're doing so against a lower amount. Essentially, your tax obligation is reduced by an amount equal to your deductions multiplied by your marginal tax rate. For example, if you're in the 22% tax bracket and have $1,000 in tax deductions, your tax liability will be reduced by $220 ($1,000 x 0.22 = $220). The reduction would be even greater if you are in a higher tax bracket.

A tax credit, on the other hand, is a dollar-for-dollar reduction of your tax liability. Generally, after you've calculated your federal taxable income and determined how much tax you owe, you subtract the amount of any tax credit for which you are eligible from your tax obligation. For example, a $500 tax credit will reduce your tax liability by $500, regardless of your tax bracket.

The Tax Cuts and Jobs Act, signed into law late last year, made significant changes to the individual tax landscape, including changes to several tax deductions and credits.

The legislation roughly doubled existing standard deduction amounts and repealed the deduction for personal exemptions. The higher standard deduction amounts will generally mean that fewer taxpayers will itemize deductions going forward.

The law also made changes to a number of other deductions, such as those for state and local property taxes, home mortgage interest, medical expenses, and charitable contributions.

As for tax credits, the law doubled the child tax credit from $1,000 to $2,000 for each qualifying child under the age of 17. In addition, it created a new $500 nonrefundable credit available for qualifying dependents who are not qualifying children under age 17. The tax law provisions expire after 2025.

For more information on the various tax deductions and credits that are available to you, visit irs.gov.

DELONG & BROWER P.C.
CERTIFIED PUBLIC ACCOUNTANTS | FINANCIAL ADVISORS