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Welcome back!

We hope you enjoy this month's newsletter. We cover various lessons today's workers can learn from current retirees as they mentally prepare for retirement. Do you invest in collectibles? If so, we cover them in this newsletter too - from how to determine their value to if you will even see a return. If you have any questions on these articles, feel free to give us a call either in the office or on the show - Saturday's at 10:00 AM on 550 KTRS!

We are continuing to accept new clients. Call us at 314-863-0008 to set up your complimentary coaching session or client review. *This meeting is cost-free and obligation-free.*

-The Coaches

The Coach's Corner September 2019

The Coach's Corner

From your Retirement Coaches and Advisors

Federal Income Tax: How Did We Get Here?

April 16, 2019 was an important day for many of us. But do you know why? It was Tax Freedom Day — the day when the average American theoretically earned enough to pay his or her tax obligations for the year. According to the Tax Foundation, Americans will pay $3.4 billion in federal taxes in 2019, more than they spend on food, clothing, and housing combined.* But it wasn't always this way. In fact, income taxes are a fairly new development in the overall history of America. So how did we get to this point?

In the beginning...

The United States was founded, in part, on the premise that colonists didn't want to pay taxes without representation, which led to the famous tossing of tea into the Boston Harbor and the American Revolution. However, not long after the colonies gained their freedom from England, Congress passed the Stamp Act of 1797, which essentially was our nation's first estate tax. Otherwise, from the early 1790s to 1802, the U.S. government was supported by taxes on such items as spirits (alcohol, not the ghostly kind), sugar, tobacco, and corporate bonds.

Wars played a big part in the history of taxation in this country. To fund the War of 1812, Congress taxed sales of gold, silverware, jewelry, and watches. In 1817, tariffs on imported goods provided the main source of revenue to run the government.

With the onset of the Civil War, Congress enacted the nation's first income tax law, the Revenue Act of 1861, which included a flat tax of 3% on annual incomes exceeding $800 to help pay for the costs of the war. That tax law was repealed and replaced by the Revenue Act of 1862, which established the Office of the Commissioner of Internal Revenue (forerunner to the Internal Revenue Service), levied excise taxes on most goods and services, and replaced the flat tax with a progressive tax.

The 16th Amendment

However, it was not until 1913 with the adoption of the 16th Amendment to the Constitution, that the income tax became a permanent fixture in the American tax system. Congress now had the authority to tax income of both individuals and corporations. It didn't take the IRS long to start inundating us with forms, beginning in 1914 with the introduction of the first income tax form, the dreaded Form 1040. Enactment of the Revenue Act of 1916 introduced tax rates and income scales.

Tax rates

Here's a sobering fact: In 1913, the top federal income tax bracket was 7% on all income over $500,000, and the lowest tax bracket was 1%. During the Great Depression, Congress raised the highest tax bracket to 63%. Wars can be expensive, as evidenced by the jump in the highest tax rate to 94% during World War II. In 2018, the highest income tax rate was lowered to 37%.

Trying to get it right

Over the years, there have been frequent attempts to reform the tax law in some manner. We've seen the adoption of the alternative minimum tax, Social Security tax, taxes on cigarettes and alcohol, gasoline taxes, aviation taxes, property taxes, telecommunication taxes, not to mention state and local taxes. To quote Will Rogers, "The difference between death and taxes is death doesn't get worse every time Congress meets."

Tax laws are always changing and will likely remain a political hot potato. Only time will tell what changes are ahead, but there is no doubt that through taxation, what the government giveth, it inevitably taketh back again.

**Tax Freedom Day 2019 was April 16, as calculated by the Tax Foundation,* taxfoundation.org.

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Five Retirement Lessons from Today's Retirees

EBRI consistently finds that setting a savings goal increases the level of confidence among today's workers. Despite that fact, just 42% of survey respondents have tried to determine a total retirement savings goal, and less than one-third have tried to calculate how much they may need for medical expenses. Of those who have calculated a total savings goal, 34% have found they will need $1 million or more to retire comfortably.

Source: 2019 Retirement Confidence Survey, EBRI

Each year for its Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) surveys 1,000 workers and 1,000 retirees to assess how confident they are in their ability to afford a comfortable retirement. Once again, in 2019, retirees expressed stronger confidence than workers: 82% of retirees reported feeling "very" or "somewhat" confident, compared with 67% of workers. A closer look at some of the survey results reveals various lessons today's workers can learn from current retirees.

Current sources of retiree income

Let's start with a breakdown of the percentage of retirees who said the following resources provide at least a minor source of income:

- Social Security: 88%
- Personal savings and investments: 69%
- Defined benefit/traditional pension plan: 64%
- Individual retirement account: 61%
- Workplace retirement savings plan: 54%
- Product that guarantees monthly income: 33%
- Work for pay: 25%

Lesson 1: Don't count on work-related earnings

Perhaps the most striking percentage is the last one, given that 74% of today's workers expect work-related earnings to be at least a minor source of income in retirement. Currently, just one in four retirees works for pay.

Lesson 2: Have realistic expectations for retirement age

Building upon Lesson 1, it may benefit workers to proceed with caution when estimating their retirement age, as the Retirement Confidence Survey consistently finds a big gap between workers' expectations and retirees' actual retirement age.

In 2019, the gap is three years: Workers said they expect to retire at the median age of 65, whereas retirees said they retired at a median age of 62. Three years can make a big difference when it comes to figuring out how much workers need to accumulate by their first year of retirement. Moreover, 34% of workers reported that they plan to retire at age 70 or older (or not at all), while just 6% of current retirees fell into this category. In fact, almost 40% of retirees said they retired before age 60. The reality is that more than four in 10 retirees retired earlier than planned, often due to a health issue or change in their organizations.

Estimating retirement age is one area where workers may want to hope for the best but prepare for the worst.

Lesson 3: Income is largely a result of individual savings efforts

Even though 64% of current retirees have defined benefit or pension plans, an even larger percentage say they rely on current savings and investments, and more than half rely on income from IRAs and/or workplace plans. Current workers are much less likely to have defined benefit or pension plans, so it is even more important that they focus on their own savings efforts.

Fortunately, workers appear to be recognizing this fact, as 82% said they expect their workplace retirement savings plan to be a source of income in retirement, with more than half saying they expect employer plans to play a "major" role.

Lesson 4: Some expenses, particularly health care, may be higher than expected

While most retirees said their expenses were "about the same" or "lower than expected," approximately a third said their overall expenses were higher than anticipated. Nearly four out of 10 said health care or dental expenses were higher.

Workers may want to take heed from this data and calculate a savings goal that accounts specifically for health-care expenses. They may also want to familiarize themselves with what Medicare does and does not cover (e.g., dental and vision costs are not covered) and think strategically about a health savings account if they have the opportunity to utilize one at work.

Lesson 5: Keep debt under control

Just 26% of retirees indicated that debt is a problem, while 60% of workers said this is the case for them. Unfortunately, debt can hinder retirement savings success: seven in 10 workers reported that their non-mortgage debt has affected their ability to save for retirement. Also consider that 32% of workers with a major debt problem were not at all confident about having enough money to live comfortably in retirement, compared with just 5% of workers who don't have a debt problem.

As part of their overall financial strategy, workers may want to develop a plan to pay down as much debt as possible prior to retirement.

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Social Security: Shoring Up America's Safety Net

Future projections

In 2019, the trustees of Social Security reported that the Old-Age and Survivors Insurance (OASI) trust fund is projected to run out in 2034. At that time, payroll tax revenue alone would be sufficient to pay 77% of scheduled benefits.

Ever since a legal secretary named Ida May Fuller received the first Social Security retirement check in 1940, Americans have been counting on Social Security to provide much-needed retirement income. For many older Americans, Social Security is their main source of guaranteed retirement income — income that continues throughout their lifetimes and is indexed for inflation every year (in 2019, the cost-of-living adjustment, or COLA, was 2.8%).

Social Security provides more than just retirement income, though. It also provides disability and survivor insurance benefits. About 62 million people — more than one in six U.S. residents — collected some type of Social Security benefit in 2018, with approximately 80% of these recipients receiving Social Security retirement or survivor benefits.[1]

How Social Security works

Social Security is a pay-as-you-go system, which means that payments from current workers (in the form of payroll taxes) fund benefits for current beneficiaries. The payroll tax rate for Social Security is 12.4%, with 6.2% paid by the employee and 6.2% paid by the employer (self-employed individuals pay the entire 12.4%). These payroll taxes are deposited into the Old-Age and Survivors Insurance (OASI) trust fund (for retirement and survivor benefits) and the Disability Insurance (DI) trust fund (for disability payments).

Because of demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, worsening the strain on the trust funds. This year, the trustees of Social Security reported that the OASI trust fund is projected to run out in 2034. After that, payroll tax revenue alone would be sufficient to pay 77% of scheduled benefits.

Ideas for reform

There has been little national consensus by policymakers on how to deal with Social Security's looming demographic challenges. Meaningful reform will require broad bipartisan support, and the trustees have urged Congress to address Social Security's challenges sooner rather than later, so that solutions will be less drastic and can be implemented gradually, lessening the impact on the public.

Some Social Security reform proposals on the table include:

- Raising the current Social Security payroll tax rate — according to the 2019 trustees report, an immediate and permanent payroll tax increase to 15.1% (up from the current 12.4%) would be necessary to address the long-range revenue shortfall (16.05% if the increase started in 2035)
- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes ($132,900 in 2019)
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later)
- Reducing future benefits — to address the long-term revenue shortfall, the trustees have noted that scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by approximately 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later
- Changing the formula that is used to calculate benefits
- Changing the formula that is used to calculate the annual cost-of-living adjustment for benefits

Understand your retirement benefits

The amount you'll receive from Social Security is based on the number of years you've worked, the amount you've earned over your lifetime, and the age when you file for benefits. Your benefit is calculated using a formula that takes into account your 35 highest earnings years, but you don't need to work for that long to qualify for retirement benefits. Generally, you need to have earned a minimum of 40 work credits, which is about 10 years of work in a job covered by Social Security. If you haven't worked long enough to qualify on your own, you may qualify for spousal benefits based on your spouse's work record. A spousal benefit claimed at your full retirement age is generally equal to 50% of the primary worker's full benefit.

You can get an estimate of your future Social Security retirement benefits by visiting the Social Security website at ssa.gov and using the Retirement Estimator tool or by viewing your Social Security Statement. Your personalized statement contains a detailed record of your earnings history, as well as estimates of the retirement, survivor, and disability benefits you can expect at different ages. To view your statement online, you'll first need to register. If you haven't registered online, you'll receive your Social Security Statement in the mail every year if you are age 60 or older and not yet receiving benefits.

[1] Top Ten Facts About Social Security, Center on Budget and Policy Priorities, August 14, 2018

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What should I know about investing in collectibles?

Collectible assets such as fine art, antiques, coins, and gems are one way to diversify your investment portfolio. But it can be difficult to predict if or when the money you invest will provide a return. Here are a few things you should know about collectibles before investing in them.

Not all collectibles are valuable. Some collectibles are valuable because of the creator's inherent talent or skills; each item is unique. Other collectibles are considered valuable because they're rare or experts and appraisers have attributed significance to them. Another type of collectible may have no intrinsic value, including baseball cards, action figures, stuffed toys, and vintage wine. These collectibles are subject to changing tastes and tend to be valuable only if they're currently in demand and someone is willing to pay for them, which makes it hard for collectors to get the timing right and profit from them.

Different factors help determine a collectible's value. The age of a given item as well as its quality, condition, historical value, and current popularity among collectors are factors that contribute to determining its worth.

It's easy to fall for a counterfeit. Even the most experienced appraisers can get duped by forgeries. And it's possible to overpay for a collectible because of an imperfection or inferiority that you didn't realize prior to the purchase.

Returns may be low. The average returns that investors earn from collectibles may not keep pace with inflation, and it may take a long time for them to appreciate.

The most compelling reason to buy a collectible is personal enjoyment. If you have pre-existing knowledge or interest in a collectible, or desire to learn more about a particular subject, then that's why you should buy a collectible — not because you expect a high investment return. Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

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

How can I teach my high school student the importance of financial literacy?

Even though your child is just in high school, he or she may still have to deal with certain financial challenges. Whether this involves saving for an important purchase like a car or learning how to use a credit card responsibly, it's important for your high schooler to have a basic understanding of financial literacy concepts in order to manage his or her finances more effectively.

While financial literacy offerings in schools have increased in popularity, a recent study reported that only 17 states require high school students to take a personal finance course before they graduate.[1] Here are some ways you can teach high school students the importance of financial literacy.

Advocate saving. Encourage your children to set aside a portion of any money they receive from an allowance, gift, or job. Be sure to talk about goals that require a financial commitment, such as a car, college, and travel. As an added incentive, consider matching the funds they save for a worthy purpose.

Show them the numbers. Use an online calculator to demonstrate the concept of long-term investing and the power of compound interest. Your children may be surprised to see how fast invested funds can accumulate, especially when you match or contribute an additional amount each month.

Let them practice. Let older teens become responsible for paying certain expenses (e.g., clothing and entertainment). The possibility of running out of their own money might make them think more carefully about their spending habits and choices. It may also encourage them to budget their money more effectively.

Cover the basics. By the time your children graduate from high school, they should at least understand the basic concepts of financial literacy. This includes saving, investing, using credit responsibly, debt management, and protection planning with insurance.

[1] Survey of the States, Council for Economic Education, 2018