A Wealth of Knowledge

Positively Changing Life's Financial Outcomes

Perspective Counts

Interestingly, behavioral finance repeatedly shows that most human beings think they can out time the markets. Time and again though, history shows the real problem exists during market downturns, when staying with an investment strategy is difficult. Investors tend to hold on until they have lost a substantial amount, and then they give up. This not only cements the loss, but often may cause an investor to miss the upturn. Being told to "hold on" simply goes against human nature. After missing an upturn, "when to get back in" becomes the proverbial ten thousand pound gorilla.

The volatility of the past years and the current sluggish economy has pushed some investors' emotions to an extreme. Deciding what to do during tough times can be difficult, and emotions sometimes get in the way of making sound choices. One reason emotions can come into play is that people tend to extrapolate future performance from recent history. When markets are moving steadily downward, for example, fear can kick in. The reverse is also true.

In an effort to minimize losses, investors may unnecessarily lock them in by selling otherwise well thought out investments, at market-bottom prices and then holding funds in cash while the market rebounds. Other investors, however, fall victim to the fact that people often don't like to admit when they are wrong. That stubbornness can cause them to hold on to a bad investment (one with little potential to rebound) rather than cut their losses and reinvest the remaining proceeds into a better opportunity. Yet another potential pitfall for investors, and the most often occurring, is in the financial news media. Too much information focused on short-term market conditions- made possible by the Internet and 24 hour financial news networks- can lead to poor financial choices.

For most people, it's just too much to prioritize the flood of "noise" that they read or hear, and they can become paralyzed with indecision or resort to unprofitable strategies.

Even though it's natural to experience emotions in response to market volatility, there are steps you can take to reduce their impact on decision making. As an advisory firm, one of our goals is to help people determine the appropriate asset allocation for their age, family goals, personal circumstances, time frames and unique tolerance for risk. Once investment plans are created, we encourage people to deviate little and minimize, rather than maximize the effect of "market noise". Over time, systematic monitoring meetings and reviews of investment plans can really help as well. It can also be wise to pay attention to diversification strategies. Owning different kinds of securities that respond differently to changing markets conditions can be a prudent defense against volatility. Knowing that your investment plan is part of a coordinated wealth management plan, can help protect you from emotions.

Remember, an oft times overlooked fact of money management, is that more often than not, there is a huge gap between an investment funds listed performance and investors actual returns. Sure taxes and fees matter "but the real culprit is often the person looking back at you from the mirror" according to Dalbar, a Boston based financial research firm. According to Dalbar, the effects of trying to "time" the market over the last 20 years cost investors, on average, 4 percentage points. During the volatile markets, such as 2011, the research shows the average hit to "market timers" nearly doubled to 7%. While "predictive" type investment practices or methodologies may be perfectly reasonable in particular circumstances, (or for some institutions), for most people, short term trading practices must be carefully considered.

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Client Appreciation Spring 2018: Look for pictures from our April 20, 2018 event on our website. A good time was had by all, and we were able to generate some positive community benefits to Rockford Promise.

Thanks to Heidi for upgrades to our website content. Please be sure to take a look at new material at www.CYRSWealthAdvisors.com.

Look for upcoming information for our October 16, 2018 Fall Women's Financial Education event at Anderson Japanese Gardens.

Spring 2018

The Standard Deduction and Itemized Deductions After Tax Reform

Four Points to Consider When Setting a Retirement Income Goal

Cartoon: 21st Century Shopping Strategy

Is buying an extended warranty worth it?

The Standard Deduction and Itemized Deductions After Tax Reform

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. After 2025, these provisions revert to pre-2018 law.

The Tax Cut and Jobs Act substantially increased the standard deduction amounts for 2018 to 2025. It also eliminated or restricted many itemized deductions for those years. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Standard deduction

The standard deduction amounts are substantially increased in 2018 (and adjusted for inflation in future years).

	2017	2018
Single	$6,350	$12,000
Head of household	$9,350	$18,000
Married filing jointly	$12,700	$24,000
Married filing separately	$6,350	$12,000

Note: *The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is $1,600 (up from $1,550 in 2017) for single/head of household or $1,300 (up from $1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

Itemized deductions

Many itemized deductions have been eliminated or restricted. The overall limitation on itemized deductions based on the amount of adjusted gross income (AGI) was eliminated. Here are some specific changes.

Medical expenses: The AGI threshold for deducting unreimbursed medical expenses was reduced from 10% to 7.5% for 2017 and 2018, after which it returns to 10%. This same threshold applies for alternative minimum tax purposes.

State and local taxes: Individuals are able to claim an itemized deduction of up to only $10,000 ($5,000 for married filing separately) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income taxes). Previously, there were no dollar limits.

Home mortgage interest: Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married filing separately) of qualifying mortgage debt. For mortgage debt incurred before December 16, 2017, the prior $1,000,000 ($500,000 for married filing separately) limit will continue to apply. A deduction is no longer allowed for interest on home equity indebtedness. Home equity used to substantially improve your home is not treated as home equity indebtedness and can still qualify for the interest deduction.

Charitable gifts: The top percentage limit for deducting charitable contributions is increased from 50% of AGI to 60% of AGI for certain cash gifts.

Casualty and theft losses: The deduction for personal casualty and theft losses is eliminated, except for casualty losses attributable to a federally declared disaster.

Miscellaneous itemized deductions: Previously deductible miscellaneous expenses subject to the 2% floor, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Alternative minimum tax (AMT)

The standard deduction is not available for AMT purposes. Nor is the itemized deduction for state and local taxes available for AMT purposes. If you are subject to the alternative minimum tax, it may be useful to itemize deductions even if itemized deductions are less than the standard deduction amount.

Year-end tax planning

Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

With the substantially higher standard deduction amounts and the changes to itemized deductions, it may be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction. Thus, while this might seem counterintuitive from a nontax perspective, it may be useful to make charitable gifts in years in which you have high medical expenses or casualty losses.

In this environment, qualified charitable distributions (QCDs) may be even more useful as a way to make charitable gifts without itemizing deductions. QCDs are distributions made directly from an IRA to a qualified charity. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) you would otherwise have to receive from your IRA. Individuals age 70½ and older can make up to $100,000 in QCDs per year.

Four Points to Consider When Setting a Retirement Income Goal

Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.[1]

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can expect to live 18 more years.[2] To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about $265,000 just to pay for basic medical expenses in retirement.[3] And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another $69,000, on average, to the out-of-pocket costs.[4]

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated $50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than $67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

[1] EBRI Issue Brief, March 21, 2017

[2] NCHS Issue Brief, Number 293, December 2017

[3] EBRI Notes, January 31, 2017

[4] HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016

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RETIREMENT AND WEALTH MANAGEMENT

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Is buying an extended warranty worth it?

If you've ever purchased an electronic device, a major appliance, or a vehicle, chances are you've been asked if you also wanted to purchase an extended warranty or service contract. Extended warranties are offered by retailers for an additional cost to customers and provide repair or product maintenance for a specific period of time.

Selling extended warranties may be quite profitable for retailers. It's an easy way for them to make money because they get to keep a percentage of what they charge for the service contracts.

Before you purchase an extended warranty, consider the following questions.

- Does your purchase come with a manufacturer's warranty? Many products already come with a warranty from the manufacturer that covers replacement or repairs within a certain time period. Even if the warranty period is short, manufacturers may offer low-cost repair or replacement of items if they are known to be defective, although there are no guarantees unless state or federal laws apply.
- Will the manufacturer's warranty overlap with the extended warranty? You may want to forgo purchasing an extended warranty if it will result in duplicate coverage.
- If you're using a credit card, does your card issuer automatically extend the manufacturer's warranty? Some double the warranty period or extend it up to a year for products purchased using the card.
- Do you plan on purchasing your product from a well-known manufacturer? Research online product reviews to gauge reliability and the potential for problems to occur before you spring for an extended warranty.
- If the product you've purchased needs repairs, will they be costly? You should weigh the cost of the extended warranty against what it will cost to pay for the repairs out of pocket.

If you decide to purchase an extended warranty, read the terms carefully. Extended warranties contain coverage exclusions and limitations. In addition, some extended warranties may require you to pay additional charges to have a covered product serviced (e.g., deductibles, fees, and shipping costs).

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