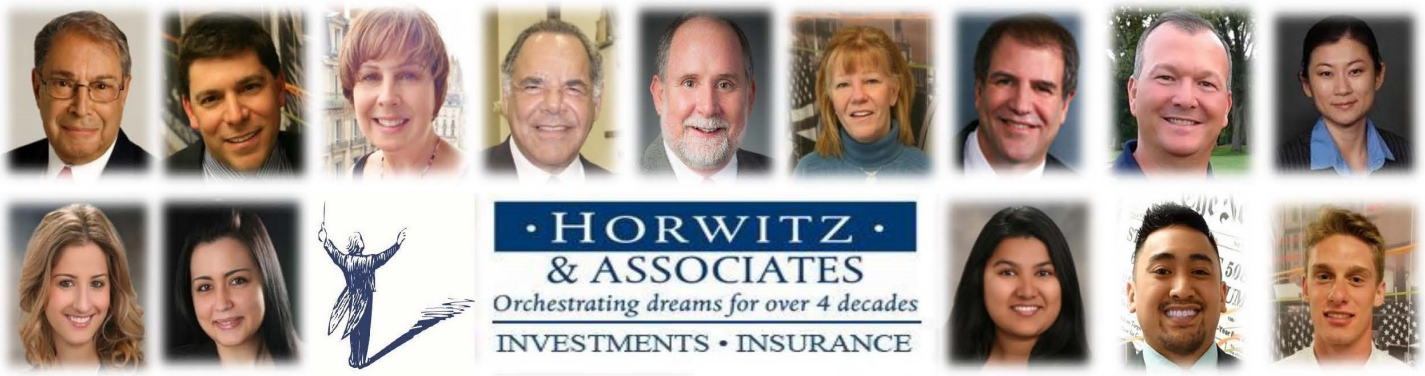
Investment News April 2018



The Move Toward Fee-Based Advisory Accounts

Why financial professionals are changing their business models.

A major shift has occurred in the financial world. More and more financial professionals have moved away from the industry's traditional compensation model to a new one – in the eyes of many of them, a better one.

Increasingly, financial professionals are introducing their clients to fee-based accounts. This means a change in the way a financial advisor is paid for some or all services. It also implies a meaningful change in the advisor-client relationship.

Traditionally, financial professionals have been paid through commissions linked to trades or product sales. Opinions about this compensation model vary. Many in the industry accept it, but with reservations. It has the potential for conflict of interest, which may affect how a client is served and consulted.

Commission-based advisors may feel pressure from a Wall Street investment company to "push" select financial products, even though these products might not be appropriate for all clients. They seek to create a trusted relationship with each of their clients, yet they may end up feeling more like a financial salesperson than a financial advisor.

The careers and businesses of fee-based advisors are not so product driven, not so brokerage rooted. In the fee-based model, the financial professional earns the majority of his or her compensation through fees linked to either a) the amount of client assets under management, b) the creation, deployment, and refinement of financial strategies, or c) financial consultation offered on retainer or by the hour.

Fee-based advisory accounts help to promote long-term client relationships. The advisor is not seen as a product salesman by a cynical client, but as a resource, a knowledge broker, and a partner in a client's effort to save and invest for the future. When the client's investment accounts do well and grow, the advisor's compensation grows proportionately.

In addition, a financial professional working by a fee-based compensation model may be licensed as an investment advisor under a fiduciary regulation. That means he or she has a legal and ethical obligation to act in your best interest, place your financial interests above his or her own, and be transparent about fees and any potential conflicts of interest. (All CERTIFIED FINANCIAL PLANNER™ practitioners are required to work by a fiduciary standard.)[1,2]

There are investors and retirement savers who may find a fee-based advisory relationship with a financial advisor to be more expensive when compared with the relationship they had under a commission-based compensation structure. In such cases, the commission-based structure may be maintained, as its potential lower cost might be advantageous to the client. In the main, though, we are witnessing a great movement away from what was the norm to a new paradigm. An advisor paid mostly or wholly through fees is an advisor well positioned to create candid, trusted relationships with loyal clients for years to come.

Citations.

1 - time.com/money/5176238/5-questions-financial-advisor-sallie-krawcheck-ellevest/ [2/23/18]
2 - al.com/business/index.ssf/2018/02/ask_the_right_questionsof_your.html [2/16/18]

Horwitz & Associates
1650 Lake Cook Road, Suite 190
Deerfield, IL 60015

Phone: 224-632-4600
Fax: 224-632-4590

Www.HorwitzAdvisors.com
Ed Horwitz — Ed@HorwitzAdvisors.com
Gerald Horwitz — GAH@HorwitzAdvisors.com

2018 Market Performance 01/01/2018 to 03/29/2018

DJIA ^DJI Down –3.00%
S&P 500 ^GSPC Down –1.67%
NASDAQ ^IXIC Up 1.92%
Russell 2000 ^RUT Down –0.40%

* Index performance does NOT include any fees (Gross of fees)

Source: http//finance.yahoo.com

We hope you enjoy our newsletter. Please e-mail us any topics you would like to see covered in future newsletter.
We welcome your referrals and feedback. Please feel free to share this newsletter with your family and friends.

Please like us on Facebook & Follow us on LinkedIn!

Retirement Plans for Individuals & Businesses

A look at some of the choices

Households are saving too little for the future. According to one new analysis, 41% of Gen Xers and 42% of baby boomers have yet to begin saving for retirement. In a recent financial industry survey, 35% of small business owners said they were planning to use the sale proceeds from their company for a retirement fund, an idea which comes with a flashing question mark.[1,2]

Do you need to build retirement savings? Take a look at these retirement plans:

SEP-IRA: low fees, easy to implement and maintain. These plans cover sole proprietors and their workers with no set-up fees or yearly administration charges. Your business makes all the contributions with tax-deductible dollars. The amount of the contribution your company can deduct is the lesser of your contributions or 25% of an employee's compensation. You can even skip contributions in a lean year.[3,4]

SIMPLE IRAs and 401(k)s: low maintenance, high contribution limits. In contrast to SEP-IRAs, Savings Incentive Match Plan (SIMPLE) IRAs are largely employee-funded. A worker can direct as much as $12,500 or 100% of compensation (whichever is less) into a SIMPLE IRA per year. That current $12,500 annual contribution limit rises to $15,500 for plan participants 50 and older. Matching employer contributions are required: you can either put in 2% of an employee's annual compensation, or match employee contributions dollar-for-dollar up to 3% of the employee's annual compensation.[2,4]

Does your company have less than 100 workers? Do you want a 401(k) plan that is relatively easy to administer? The SIMPLE 401(k) might do. This is a regular 401(k) with a key difference: the employer must match employee contributions in the manner described in the previous paragraph. As with the SIMPLE IRA, employee contributions are elective. Contributions to a SIMPLE 401(k) vest immediately. While you must file a Form 5500 annually with the I.R.S., no non-discrimination testing is necessary for these 401(k)s.[2,4]

Solo 401(k)s: a great way to "play catch-up." Both pass-through firms and C corps can install these plans, which allow a solopreneur to contribute to a retirement plan as both an employee and an employer. In 2018, a business owner can direct up to $55,000 into a solo 401(k). As with a standard 401(k), participants age 50 and older can make a $6,000 catch-up contribution each year. If you are 50 or older, your maximum annual contribution could be as large as $61,000.[2,5,6]

If you are behind on retirement saving, a solo 401(k) presents an outstanding opportunity to help you grow your retirement fund. The catch is that your business must be very small and stay that way. You can only have one employee besides yourself, and that employee must be your spouse. Solo 401(k)s do need plan administrators, but no Form 5500 is needed until the plan assets top $250,000.

If you have a corporation, your solo 401(k) contributions are characterized by the I.R.S. as business expenses. If your business is unincorporated, you may deduct your solo 401 (k) contributions from your personal income.[2]

The solo 401(k) offers even more savings potential for a married couple. Your employed spouse can make an employee contribution to the plan (limit of $18,500/$24,500 annually), and you can then make a profit-sharing contribution of up to 25% of his or her compensation as the employer. You can even have a Roth solo 401(k).[4,6]

Roth and traditional IRAs: the individual retirement planning mainstays. These accounts currently let you save and invest up to $5,500 a year ($6,500 a year if you are 50 or older). Both permit tax-advantaged growth of the invested assets. With a Roth IRA, contributions are not tax-deductible, but distributions are tax-free provided I.R.S. rules are followed. Roth IRAs never require mandatory withdrawals when you reach your seventies. Withdrawals from traditional IRAs are taxed as regular income, but contributions are often fully tax-deductible; withdrawals must begin when the account owner is in his or her seventies.[2,7]

Roth and traditional 401(k)s: the small business standard. These plans now have annual contribution limits of $18,500 ($24,500 for those 50 and older). Your 401(k) contributions reduce your taxable income. Assets within all 401(k)s grow with tax deferral. Some 401(k) plans now feature a Roth option. The rules for Roth 401(k)s mirror those for Roth IRAs, with a notable exception: Roth 401(k) plan participants usually must begin taking mandatory withdrawals from their accounts once they reach age 70½.[8,9]

Contact the financial professional you know and trust today about these plans. You must build adequate retirement savings for the future, and your prospects for retirement should not depend on the future of your business.

Citations.
1 - fool.com/retirement/2018/01/29/guess-how-many-gen-xers-and-baby-boomers-have-no-r.aspx [1/29/18]
2 - inc.com/hr-outsourcing/best-retirement-plans-for-small-businesses.html [2/2/18]
3 - irs.gov/retirement-plans/retirement-plans-faqs-regarding-seps-contributions [10/25/17]
4 - trustetc.com/resources/investor-awareness/contribution-limits [2/6/18]
5 - irs.gov/retirement-plans/one-participant-401k-plans [10/25/17]
6 - nerdwallet.com/blog/investing/what-is-a-solo-401k/ [7/24/17]
7 - cbsnews.com/news/new-tax-law-roth-vs-traditional-ira-or-401k/ [2/6/18]
8 - investopedia.com/ask/answers/112515/are-401k-contributions-tax-deductible.asp [1/30/18]
9 - forbes.com/sites/greatspeculations/2017/03/17/__trashed-55/ [3/17/17]

Catching Up on Retirement Saving

If you are starting at or near 50, consider these ideas.

Do you fear you are saving for retirement too late? Plan to address that anxiety with some positive financial moves. If you have little saved for retirement at age 50 (or thereabouts), there is still much you can do to generate a fund for your future and to sustain your retirement prospects.

Contribute and play catch-up. This year's standard contribution limit for an IRA (Roth or traditional) is $5,500; common employer-sponsored retirement plans have a 2018 contribution limit of $18,500. You should try, if at all possible, to meet those limits. In fact, starting in the year you turn 50, you have a chance to contribute even more: for you, the ceiling for annual IRA contributions is $6,500; the limit on yearly contributions to workplace retirement plans, $24,500.[1]

Look for low-fee options. Lower fees on your retirement savings accounts mean less of your invested assets going to management expenses. An account returning 6% per year over 25 years with an annual expense ratio of 0.5% could leave you with $30,000 more in savings than an account under similar conditions and time frame charging a 2.0% annual fee.[2]

Focus on determining the retirement income you will need. If you are behind on saving, you may be tempted to place your money into extremely risky and speculative investments – anything to make up for lost time. That may not work out well. Rather than risk big losses you have little time to recover from, save reasonably and talk to a financial professional about income investing. What investments could potentially produce recurring income to supplement your Social Security payments?

Consider where you could retire cheaply. When your retirement savings are less than you would prefer, this implies a compromise. Not necessarily a compromise of your dreams, but of your lifestyle. There are many areas of the country and the world that may allow you to retire with less financial pressure.

Think about retiring later. Every additional year you work is one less year of retirement to fund. Each year you refrain from drawing down your retirement accounts, you give them another year of potential growth and compounding – and compounding becomes more significant as those accounts grow larger. Working longer also lets you claim Social Security later, and that means bigger monthly retirement benefits for you.

Most members of Generation X need to save more for their futures. The median retirement savings balance for a Gen Xer, according to research from Allianz, is about $35,000. A recent survey from Comet Financial Intelligence found that 41% of Gen Xers had not yet begun to build their retirement funds. So, if you have not started or progressed much, you have company. Now is the time to plan your progress and follow through.[3,4]

Citations.
1 - irs.gov/newsroom/irs-announces-2018-pension-plan-limitations-401k-contribution-limit-increases-to-18500-for-2018 [10/25/18]
2 - businessinsider.com/401k-fees-devastate-retirement-2017-5 [5/10/17]
3 - fool.com/retirement/2018/02/07/heres-what-gen-xers-have-saved-for-retirement.aspx [2/7/18]
4 - entrepreneur.com/article/309746 [3/2/18]

2018 Retirement Account Limits

How much can you contribute this year?

In 2018, you have another chance to max out your retirement accounts. Here is a rundown of yearly contribution limits for the popular retirement savings vehicles.

IRAs. The 2018 limits are the same as in 2016: $5,500 for IRA owners who will be 49 and younger this year and $6,500 for IRA owners who will be 50 or older this year. These limits apply to both Roth and traditional IRAs.[1]

What if you own multiple IRAs? This $5,500/$6,500 limit applies to your total IRA contributions for a calendar year. So, for example, should you happen to have five IRAs, you could make an equal contribution of $1,100 (or $1,300) to each of them in 2017 or unequal contributions to them not exceeding the applicable $5,500/$6,500 limit.[2]

Keep in mind that you can fund your 2017 IRA(s) until April 17, 2018 (the 2017 federal income tax deadline). It is best to fund your IRA for a particular year right as that year starts, but if you procrastinated for any reason in 2017, you still have time.[2]

High earners may find their ability to make a full Roth IRA contribution restricted. This applies to a single filer or head of household whose adjusted gross income falls within the $120,000-135,000 range and to married couples whose AGIs land between $189,000-199,000. If your AGI exceeds the high ends of those phase-out ranges, you may not make a 2018 Roth IRA contribution. (For tax year 2017, the respective phase-out ranges are $118,000-133,000 and $186,000-196,000.)[2,3]

401(k)s, 403(b)s, and 457s. Each of these employee retirement plans have 2018 contribution limits of $18,500. The 2018 contribution limit is $24,500, however, if you will be 50 or older this year – that means you are eligible to make a "catch-up" contribution of up to $6,000 above the usual limit.[1,3]

Both 403(b) and 457(b) plans offer savers special catch-up contribution opportunities. If you participate in a 403(b) plan, you can also opt to take advantage of its 15-year rule: if you have 15 or more years of tenure and your average yearly contribution to the plan has been $5,000 or less, you can direct an extra $3,000 per year into the plan. If you are enrolled in a 457(b) plan sponsored by a state or local government agency, you can contribute up to double the standard annual limit each year if you are within three years of normal retirement age (as the plan defines). In 2017, that meant that you could put up to $36,000 into your 457(b) plan in that circumstance; in 2018, the limit becomes $37,000. You can make this "double contribution" and the standard catch-up contribution of up to $6,000 if you are 50 or older in 2018.[4]

SIMPLE IRAs and SEP-IRAs. In 2018, the contribution limit for a SIMPLE IRA is $12,500; those who will be 50 or older this year may contribute up to $15,500. Business owners need to match these annual employee contributions to at least some degree. Self-employed individuals can contribute as an employee and employer to a SIMPLE IRA.[5]

Business owners and the self-employed can also contribute to SEP-IRAs. All contributions to these accounts have to come from the business, and all contributions are tax deductible. The annual contribution limit on a SEP-IRA is very high – in 2018, it is either $55,000 or 25% of the business owner's net self-employment income, whichever is lower.[5]

Citations.

1 - cbsnews.com/news/irs-allows-higher-retirement-savings-account-limits-in-2018/ [10/24/17]
2 - fool.com/retirement/2017/10/22/heres-the-2018-ira-contribution-limit.aspx [10/22/17]
3 - tinyurl.com/ybbqgf26 [10/20/17]
4 - investopedia.com/articles/personal-finance/111615/457-plans-and-403b-plans-comparison.asp px [12/18/17]
5 - tickertape.tdameritrade.com/retirement/2017/11/retirement-plans-small-entrepreneur-13586 [11/22/17]