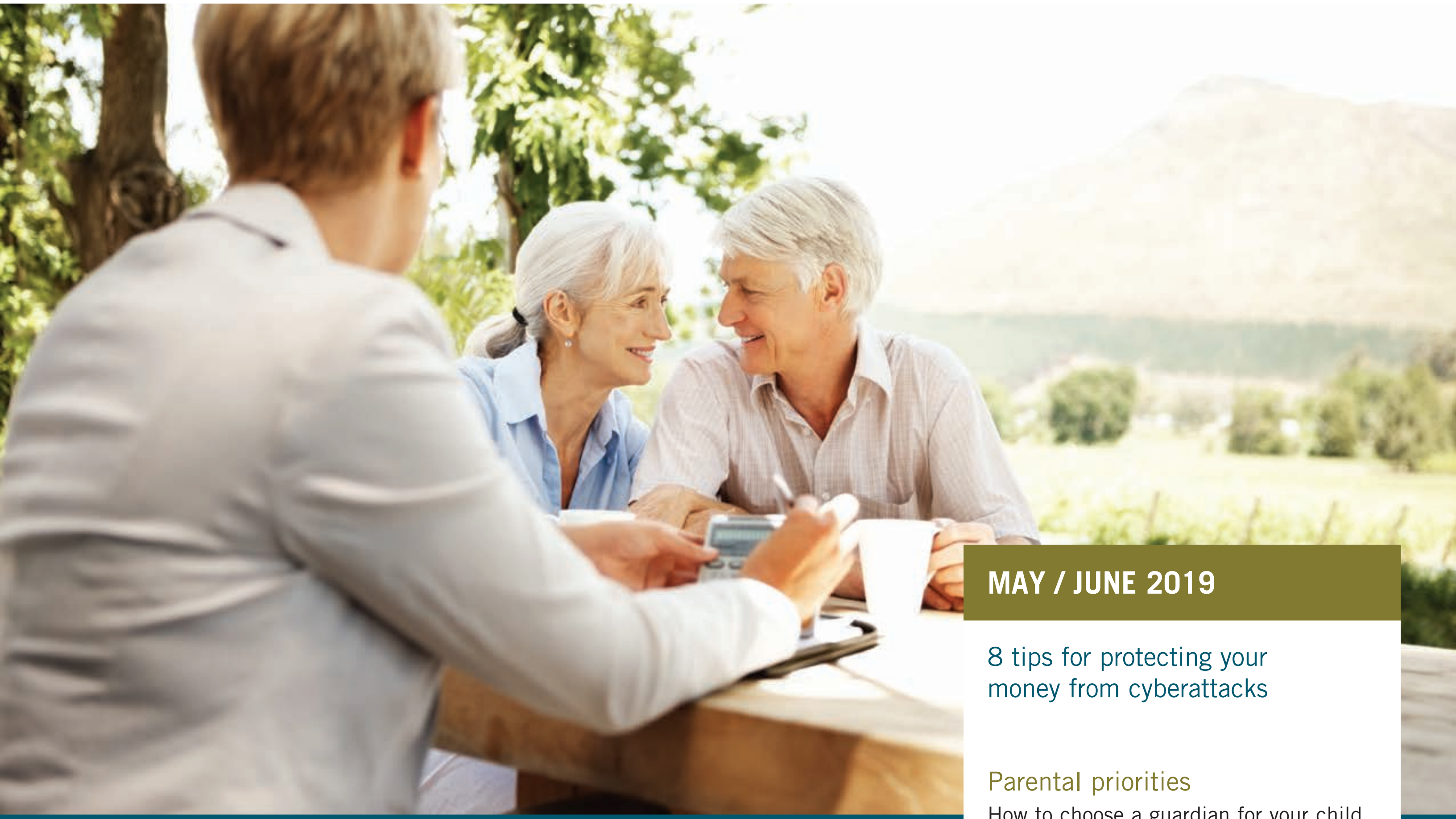
WEALTH MANAGEMENT ADVISOR



MAY / JUNE 2019

PLANNING FOR A TAX-EFFICIENT RETIREMENT

Planning for a tax-efficient retirement

Today's longer life expectancies mean that your retirement savings may have to stretch for more years than you anticipated. One strategy for making these dollars last longer is effective tax planning.

Review your income sources

The first step is to estimate your cash needs in retirement and evaluate your various income sources. Most people have a combination of taxable assets (mutual funds, brokerage accounts), tax-deferred assets (IRAs, 401k plans) and nontaxable assets (Roth IRAs, Roth 401k plans). It's also important to consider Social Security and pensions. Generally, you can begin receiving Social Security benefits at any time from age 62 to age 70. The longer you wait, the larger the benefits, although the ideal time to pull the trigger depends on a variety of factors, including your retirement plans, life expectancy, other income sources and marital status.

You'll want to coordinate Social Security benefits with other income sources because the higher your income, the more likely you are to be taxed on those benefits. For example, if you're married filing jointly, and you and your spouse have combined income of over $44,000, up to 85% of your Social Security benefits are taxable. Combined income is generally made up of your adjusted gross income (AGI), plus any tax-exempt bond interest, plus half of your Social Security benefits.

Remember RMDs

Another important factor is required minimum distributions (RMDs). When you reach age 70½, you're required to begin taking distributions from traditional (but not Roth) IRAs and employer-sponsored retirement plans, regardless of whether you need the money. It's possible to delay RMDs from an employer-sponsored plan, however, if you continue to work and meet certain other requirements.

Generally, the amount of your RMD is the account balance as of the end of the preceding year divided by your life expectancy, or, if your spouse is more than 10 years younger, your joint and survivor life expectancy. Note: You may be able to minimize the impact of RMDs by making qualified charitable distributions from your IRA. (See "The gift that gives back" on page 3.)

Planning before age 70

Once you hit your 70s, you'll have to start taking RMDs, as well as Social Security. This can trigger substantial taxes. But you can soften the blow with some planning during the early years of your retirement (assuming you retire before age 70).

THE GIFT THAT GIVES BACK

If you plan to make charitable gifts during retirement and are at least age 70½, qualified charitable distributions (QCDs) from a traditional IRA may be the most tax-efficient strategy. A QCD allows you to transfer up to $100,000 per year tax-free *directly* from an IRA to a qualified public charity and to apply it toward your RMDs.

A QCD bypasses your income, enabling you to reduce your taxes even if you don't itemize deductions. And because it's excluded from your adjusted gross income, it won't increase taxes on your Social Security benefits. Far fewer taxpayers itemize deductions under current law, so this strategy is gaining in popularity.

Many people avoid taking distributions from traditional IRAs and employer-sponsored plans until they have to because leaving assets in the accounts maximizes tax-deferred growth. But this strategy also increases the size of your RMDs, which can create tax issues down the road. Plus, in the early years of retirement, you'll likely be in a lower tax bracket, so it might make sense to accept some taxable distributions at that time.

One option is to take advantage of your lower tax bracket by converting a traditional IRA to a Roth IRA, either all at once or gradually over several years. You'll owe taxes on the amount converted, but you'll then enjoy tax-free growth and tax-free withdrawals from the Roth account, which will lower your taxes down the road.

Bucket challenge

Most retirees have their retirement savings allocated among three "buckets" of assets: taxable, tax-deferred and nontaxable. You should develop a plan for withdrawing these funds during retirement in the most tax-efficient manner.

Suppose, for example, that you're married filing jointly and your retirement savings are held in a traditional IRA, a Roth IRA and a brokerage account. Each year, you might withdraw funds from your traditional IRA until your taxable income reaches $78,950, the top of the 12% bracket (in 2019 for married filing jointly). Income above that level is taxed at 22% or more. This approach keeps current taxes low while reducing the amount of RMDs in the future.

Next, you might draw from your brokerage account, which will likely trigger long-term capital gains taxes at a 15% rate (assuming your modified adjusted gross income doesn't exceed certain thresholds, where the additional 3.8% net investment income tax, or the higher 20% capital gains rate, kicks in). You'll want to leave the Roth IRA untouched for as long as possible, to maximize tax-free growth.

Start now

It takes time to coordinate various income sources and map out an effective strategy for withdrawing retirement savings. To ensure that your plan is tax efficient, start working with your advisors as early as possible. ■

8 tips for protecting your money from cyberattacks

More and more banking and financial transactions are conducted online, which means that cyberattacks pose a significant threat to the wealth of many Americans. How can you mitigate this risk? Consider these eight tips.

1. Use strong, unique passwords. This may seem obvious, but according to a recent survey, the most common password is "123456." "Password" is in the top 10. Creating strong passwords for your online accounts — particularly banking, brokerage and email accounts — should be your first line of defense against hacking and other cybersecurity risks. It's also important to use different passwords for each account or website and to change passwords periodically. Consider using a password manager — such as 1Password or Dashlane — to make the process easier.

2. Employ dual-factor authentication. Many banking and other sites that contain sensitive information offer dual-factor (or "two-factor") authentication. This process requires you to enter a one-time verification code, typically sent via text message, in addition to your username and password. It's one of the most powerful protections available, because a hacker would not only need to obtain your login credentials but also access to your mobile phone.

3. Beware of phishing. Phishing involves emails designed to appear as though they're from a legitimate financial institution, but are, in fact, sent by criminals. Phishing emails attempt to steal your account numbers, login credentials, Social Security number or other sensitive information, or to take over your computer. Never click on links or open attachments in emails unless you're confident the messages are authentic. And keep in mind that banks, legitimate businesses and the IRS never ask for financial or personal information via email.

4. Be careful with wire transfers. It's common for sophisticated hackers to intercept legitimate wire transfer instructions and replace them with fraudulent directions to wire funds to an account they control. Always call the financial institution involved in a transfer — at a number you trust, not one listed in the email — and verify instructions over the phone.

5. Use a dedicated device for financial accounts. You might want to use a separate computer, tablet or other device solely for logging into financial accounts and conducting financial transactions. By refraining from using this device for other purposes — such as email, social media, Web surfing and shopping — you'll minimize the risk that it will be compromised by malware or other hacking tools.

6. Avoid unsecure Wi-Fi networks. If you log into accounts or send or receive email on unsecure networks — for example, at a coffee shop or airport — there's a risk that your login credentials or other information will be intercepted by hackers. If you have no other choice, use virtual private network (VPN) software to establish an encrypted network connection. Make sure your home Wi-Fi network is protected by firewalls and up-to-date security software, and install antivirus and antimalware software on your computers.

7. Freeze or lock your credit. Placing a freeze or lock on your credit helps prevent hackers from opening new credit card accounts, applying for a loan or conducting other fraudulent transactions in your name. The three major credit reporting bureaus make it relatively easy to freeze or lock your credit information on their websites or via a mobile app. The bureaus also enable you to temporarily unfreeze or unlock credit for legitimate transactions.

8. Set up alerts for your financial activities. Set up text or email alerts with your credit and debit cards, bank accounts, and other financial accounts. These alerts notify you of transactions above a specified threshold or if your balance falls below a certain level, enabling you to identify and address potentially fraudulent activity quickly.

In today's digital world, it's difficult, if not impossible, to avoid conducting financial transactions online. However, by taking precautions, you can minimize cyber risks. ■

Parental priorities

How to choose a guardian for your child

If you're a parent, naming a guardian for your minor children in the event something happens to you and your spouse isn't optional. You may know instantly whom you want to choose, or you may need to think about it. The important thing, if you haven't yet made this decision, is to formalize your choice as soon as possible with the help of an attorney.

Don't let the court decide

If you fail to name a guardian in your will, a court will appoint one should it become necessary. The court will base its decision on its assessment of the best interest of your child. But that assessment may be different from your own, and its selection may not be your first choice. So it's important to name your candidate. This is typically handled through a will, though procedures can vary from state to state.

When it comes to choosing the best candidate, you probably already have a short list consisting of members of your immediate family. This is an excellent start, but don't forget about extended family members and trusted friends.

Values and practicality

There are many issues you'll need to consider in making your decision. For example, your parents as guardians may seem a natural choice, but keep in mind that older parents may not be up to the task of raising a young child. Also remember to be practical. You may consider your sister an ideal surrogate parent, but what if she lives across the country and isn't in a position to move? Relocating could further traumatize your child.

Perhaps the most important issue to consider is whether you and your guardian choice share similar values, such as parenting philosophy, religious and moral beliefs, and educational values. Usually, a family member or friend who shares your values likely is a good candidate. But even if your brother, for example, doesn't share your religious beliefs, it doesn't mean you should cross him off your list. You likely won't find a person who shares *all* your values.

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Separate guardians

If you have more than one child, it's probably best to name the same guardian for each to ensure that they'll remain together. However, there can be circumstances when you might name separate guardians. For example, if you have a blended family, you may want to consider one guardian for your children with your ex-spouse and another for your children with your current spouse.

In other cases, it may make sense to name one guardian for your children's care and another for their assets. The person best suited to raise your children may not have the financial acumen to manage investments — or may simply have a different philosophy about money. Consider placing your financial assets in a trust for your children's benefit, so that a trustee will have responsibility for managing their financial affairs.

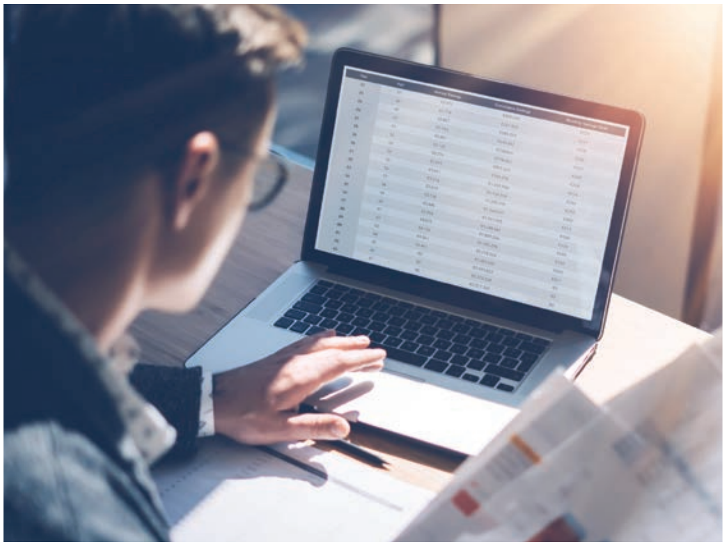
Making the decision

After giving it some hard thought, it's time to make a final decision. In addition to your first choice, select one or two alternatives. If your first choice decides he or she isn't up to the responsibility, you can turn to others. When asking the person to be your child's guardian, ensure he or she clearly understands your expectations and a guardian's responsibilities. Also, give the prospective guardian time to consider your proposal. It isn't a responsibility to be taken lightly.

Most parents select a guardian during the process of making a will or estate planning. Ensuring adequate financial support, including money for college, is just as important as naming a guardian. You may need to work with multiple advisors, including an attorney, financial expert and insurance agent. ■

Investment vs. speculation: The critical difference

Last year, the Harris Poll conducted a survey about investing for the American Institute of Certified Public Accountants (AICPA) — with sobering results. Almost half of the survey's respondents (48%) said they believed that "a volatile market gives them an easy opportunity to make a profit." In addition, 28% who said they're involved in household investment decisions perform *no* investment research, and the majority (63%) of those who perform research do it quarterly or less frequently.



These findings suggest that many Americans could use a refresher course in the difference between investing and speculating. A warning about the threat that the latter poses to an investor's wealth is also needed.

No promises

Benjamin Graham, known as the "father of value investing," described the difference between investing and speculating this way:

> An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative.

No investment truly promises safety of principal. There's always some risk involved. But investing strategies — including diversification, proper asset allocation and thorough research on specific companies, securities and sectors — advocated by Graham and other investing experts historically have been effective in reducing risk. It's also important to consider your risk tolerance and time horizon in determining the aggressiveness of your investments. A longer-term view substantially mitigates risk, even for more volatile investments such as stocks.

Speculation, on the other hand, often is based on market timing, hunches, tips and other strategies (including luck). Proponents attempt to earn significant profits based on short-term price swings. But the risk of loss is so high that speculation generally doesn't have a place in a financial plan focused on long-term wealth creation. There's substantial evidence that even professional investors, such as fund managers, generally lose money when they try to speculate.

Not necessarily bad

Speculation isn't always a bad idea. So long as most of your wealth is invested prudently, dedicating a small portion of funds to speculative activities may be acceptable. But you should understand the risk and be prepared for the possibility that you could lose some or all of your investment. In other words, don't speculate with money you need. Talk to your advisor about the most appropriate investments given your situation. ■