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Fialkow Financial Planning offers fixed-fee and hourly as-needed financial planning and advice as an alternative to traditional commission or percentage based fee approaches. I believe this is the most objective and prudent way to provide financial advice and mitigate conflicts of interest.

My clients retain control of their assets while I assist them in making sound financial decisions by providing advice based on their unique circumstances and desired outcomes.

To find out more, please visit my website at www.fialkowfp.com which includes information on how to schedule a no obligation consultation to determine if my services are a good fit for your financial planning needs.

Should you have questions on any of the topics in this newsletter, please don't hesitate to contact me, I would enjoy hearing from you.

Thanks,

Ira

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Your Personal Planner

Company Stock and Your Portfolio: Keep Your Eye on Concentration Risk

The opportunity to acquire company stock — inside or outside a workplace retirement plan — can be a lucrative employee benefit. But having too much of your retirement plan assets or net worth concentrated in your employer's stock could become a problem if the company or sector hits hard times and the stock price plummets.

Buying shares of any individual stock carries risks specific to that company or industry. A shift in market forces, regulation, technology, competition — even mismanagement, scandals, and other unexpected events — could damage the value of the business. Worst case, the stock price may never recover. Adding to this risk, employees who own shares of company stock depend on the same company for their income and benefits.

Time for a concentration checkup?

The possibility of heavy losses from having a large portion of portfolio holdings in one investment, asset class, or market segment is known as concentration risk. With company stock, this risk can build up gradually.

An employee's compensation could include stock options or bonuses paid in company stock. Shares may be offered at a small discount through an employee stock purchase plan, where they are typically purchased through payroll deductions and held in a taxable account. Company stock might also be one of the investment options in the employer's tax-deferred 401(k) plan, and some employers may match contributions with company stock instead of cash.

Investors who build large positions in company stock may not be paying attention to the concentration level in their portfolios, or they could simply be ignoring the risk, possibly because they are overly optimistic about their employer's future. Retirement plan participants might choose familiar company stock over more diversified funds because they believe they know more about their employer than about the other investment options.

What can you do to help manage concentration risk?

Look closely at your holdings. What percentage of your total assets does company stock represent? There are no set guidelines, but holding more than 10% to 15% of your assets in company stock could upend your retirement plan and your overall financial picture if the stock suddenly declines in value.

If you work for a big company, you may also own shares of diversified mutual funds or exchange-traded funds that hold large positions in your employer's stock or the stock of companies in the same industry.

Formulate a plan for diversifying your assets. This may involve liquidating company shares systematically or possibly right after they become vested. However, it's important to consider the rules, restrictions, and timeframes for liquidating company stock, as well as any possible tax consequences.

For example, special net unrealized appreciation (NUA) rules may apply if you sell appreciated company stock in a taxable account, but not if you sell stock inside your 401(k) account and reinvest in other plan options, or if you roll the stock over to an IRA. You could miss out on potential tax savings, because future distributions would generally be taxed at higher ordinary income tax rates.

An appropriate allocation of company stock will largely depend on your goals, risk tolerance, and time horizon — factors you may want to review with a financial professional. It may also be helpful to seek an impartial assessment of your company's potential as you weigh additional stock purchases and make decisions about keeping or selling shares you already own.

All investments are subject to market fluctuation, risk, and loss of principal. When sold, investments may be worth more or less than their original cost. Diversification is a method used to help manage investment risk; it does not guarantee a profit or protect against investment loss.

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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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.

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What are some tips for creating a budget and sticking to it?

It's a common problem for many individuals — wondering exactly where your paycheck goes each month. After paying expenses, such as your mortgage, utilities, and credit card bills, you may find little left to put toward anything else.

Creating a budget is the first key to successfully manage your finances. Knowing exactly how you are spending your money each month can set you on a more clear path to pursue your financial goals. If you become sidetracked when it comes to your finances, consider these tips for creating a budget and staying on the right path.

Examine your financial goals. Start out by making a list of your short-term goals (e.g., new car, vacation) and long-term goals (e.g, your child's college education, retirement) and prioritize them. Consider how much you will need to save and how long it will take to reach each goal.

Identify your current monthly income and expenses. Add up all of your income. In addition to your regular salary and wages, be sure to include other types of income, such as dividends, interest, and child support. Next, add up all of your expenses. Sometimes it helps to divide expenses into two categories: fixed (e.g., housing, food, transportation) and discretionary (e.g., entertainment, vacations). Don't forget to factor in any financial goals you would like to pursue.

Evaluate your budget. Once you've added your income and expenses, compare the two totals. Ideally, you should be spending less than you earn. If this is the case, you're on the right track, and you'll need to look at how well you use your extra income toward achieving your financial goals. On the other hand, if you are spending more than you earn, you should make some adjustments to your budget. Look for ways to increase your income or reduce your expenses, or both.

Monitor your budget. Finally, you should monitor your budget periodically and make changes when necessary. Keep in mind that any budget that is too rigid is likely to fail. Keep your budget flexible as your changing circumstances demand.

How can I lower my auto insurance premiums?

More and more, it's harder to keep up with the rising cost of auto insurance. According to one estimate, the average cost of auto insurance in 2017 for lower-risk drivers with good driving records was $1,178.[1]

Although the criteria vary from state to state, insurance companies may base auto insurance rates on a variety of factors, such as: your driving record, credit history, age, and gender; type of vehicle; number of miles driven; where you live/park your car; and number of claims filed. While the types and level of auto insurance coverage that you have (over and above your state's required minimum liability amounts) will primarily influence your premium costs, auto insurance premiums can vary widely. That's because premiums are customized for each policyholder using mathematical formulas that reflect the perceived level of risk.

Fortunately, there are things you can do if you think that your auto insurance costs are higher than normal. The following are some ways to help lower your premiums.

Raise your deductible. For the most part, the higher your deductible, the lower your premiums. Before you raise your deductible, though, you'll want to be sure you can cover the out-of-pocket expense should an accident occur.

Forgo any unnecessary coverage. If you have an older car with limited value, it may make sense to drop your collision and comprehensive coverage, because a claim paid by your insurance company may be minimal and might not exceed what you'd pay in premiums and deductibles. But keep in mind that this coverage may be required by a lender if you took out a loan to purchase the vehicle.

Take advantage of discounts. Depending on your circumstances, you may be eligible for one or more auto insurance discounts. For example, your insurer might provide discounts to those with a safe driving record or who insure more than one car with the company.

Shop around. Auto insurance rates vary from company to company, sometimes significantly. Compare the various rates offered by different insurers.

[1] AAA, Your Driving Costs, 2017

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