MILESTONE
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Countdown To Retirement: Seven Steps To Get Ready

Are you among the millions of Baby Boomers counting down the days to retirement? Before you move into the next stage of life, it's important to get all of your financial ducks in line. To prepare yourself, consider these seven practical suggestions.

1. Rebuild the budget. You've probably been living on a monthly budget that takes into account your usual expenditures and income. But that's about to change in a big way. For example, once you stop working, your expenses for a business wardrobe and commuting will also end, but so will the regular paychecks you've been living on.

Come up with a new plan. Identify what you expect to have coming in and going out. Remember that you won't be able to rely on 401(k) deferrals to reduce your taxable income after retirement, but you should still keep saving.

2. Zone in on a homestead. You could be planning to pull up stakes and move to a smaller home, perhaps downsizing from the place where your kids grew up and you might hope to end up in a warmer climate or in a less expensive area (or both). Or perhaps you're contemplating a move to a retirement community. But this kind of upheaval isn't for everyone, and you just might decide to stay put. In any event, your choice will affect numerous other aspects of retirement.

Also, don't assume that you and your spouse share the same vision. If you haven't talked about it yet, bring up the subject before you call it quits.

3. Review your investments. As you head into the home stretch before retirement, compile a list all of the investment assets you own, including amounts parked in taxable accounts, bank savings or checking accounts, and tax-favored retirement accounts such as 401(k)s and IRAs. Consider whether you will want to keep retirement plan assets where they are when you retire or consolidate them into other accounts. Similarly, consider the best use of life insurance policies.

One thing to think about is whether to convert your traditional IRAs to a Roth IRA. Although the conversion is taxable, your future withdrawals from the account will normally be tax-free. Check with a professional to crunch the numbers.

4. Settle on Social Security. If you retire before full retirement age (FRA)—age 66 for most Baby Boomers—you'll receive less in monthly Social Security benefits. You can apply for benefits as early as age 62. Waiting until after you reach FRA, on the other hand, can result in bigger monthly benefits. The longer you wait, until you turn 70, the larger your benefit checks will be.

But if you and your spouse will both receive Social Security payments, there

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This First Year Under The New Law Requires Planning

The new federal tax code affects the return you'll file in Spring 2019.

The standard deduction, the amount you can subtract from your taxable income if you don't itemize, nearly doubles from $12,700 for joint-filers to $24,000, and from $6,350 for singles to $12,000. That's big.

Fewer than half of those who itemized their 2017 return are expected to itemize in 2018. If you have never used the standard deduction before, preparing your return will be much simpler. A joint-filer with more than $24,000 of itemized deductions will still want to itemize.

If you are still going to be itemizing in 2018, medical expense deductions will be more generous. For tax years 2017 and 2018, medical outlays in excess of 7.5% of adjusted gross income are deductible. However, Congress is considering extending the 7.5% threshold on medical expenses or making it permanent. Stay tuned.

The Alternative Minimum Tax — a despised set of parallel tax rules — will zap fewer Americans in 2018. The AMT started in 1982 as an effort to close loopholes, but it gradually affected more individuals and, in the 1990s, Congress stiffened the AMT rate. Under the AMT, the standard deduction and deductions for state and local income taxes are lost. The AMT exemption is much higher under the new law. Starting in 2019, the threshold income level subject to AMT rises to 10%.

This is an unusual period of adjusting to the new tax law and it requires professional care. Please contact us with your questions.

Q's And A's About Financial Aid

Will your teenaged child be applying to colleges soon? Although you may be concerned about the ever-rising cost of higher education, your student may qualify for financial aid through various sources. In fact, billions of dollars are handed out each year, and more than half of full-time students get aid through grants and scholarships and roughly one-third via loans.

Here are the answers to some common questions about financial aid:

Q. Do we make too much money to qualify?

A. This is a concern for many parents, but don't assume you won't qualify for aid, which can come in many different forms. Your child's eligibility will depend on your family income, whether you have other family members, medical expenses, and other circumstances. Your chances may be better than you think.

Q. How do we apply for aid?

A. If you want to get financial help, your child needs to submit a Free Application for Federal Student Aid (FAFSA). The FAFSA determines eligibility for federal and state grants to students, work-study programs, and federal loans. You should complete the form as soon as possible after October 1 of the year before your child will enter college.

Q. Are there other forms to complete?

A. Possibly. Some schools also require students to submit the CSS Financial Aid PROFILE. And certain colleges and state agencies may request that other forms be filled out.

Q. How can I estimate the financial aid we will receive?

According to the College Board, the best way to estimate how much financial aid a college will offer you is to use the college's "net price" calculator, usually posted on its website. A net price calculator provides an estimate of your net price at the college (i.e., the cost of attendance minus the financial aid).

Q. Does my child have to be an A student to receive aid?

A. Not necessarily. While some colleges offer merit scholarships based on performance in high school, most governmental aid is need-based. But your kid can't be flunking out, either. In addition, to retain financial aid through college, your child needs to remain in good academic standing.

Q. Does applying for financial aid affect the chances of being admitted?

A. Usually not, although some schools may favor applicants who can pay the full cost of education. Normally schools base admission decisions on other factors, including academic performance and activities. But keep in mind that a school's available aid can be exhausted quickly, so have your child apply promptly.

Q. Can financial aid be revised?

A. Yes. This year's determination may not apply to future years, and colleges may review your financial aid package if your personal situation changes. If you have a pressing need for additional aid, you should let the financial aid office know. ●

Giving More To Loved Ones – Tax-Free

While it may be better to give than to receive, as the adage contends, both givers and receivers should be happy with the new tax law. The annual amount you can give someone tax-free has been raised to $15,000, from $14,000 in 2017.

Exempting $15,000 annually from gift tax, over time, transfers a lot of wealth to those you care about during your lifetime, while avoiding the tender mercies of the tax man, and married couples can have double the fun.

Take the example of a husband and wife with three married children and six grandchildren. The husband can give $15,000 each to his married children and the same amount to their spouses, and also $15,000 to the half-dozen grandchildren — totaling $180,000 — and his wife can do the same for the same 12 beneficiaries. The grand total is $360,000 per year. No federal tax will be levied on these transfers of your wealth to family as well as friends.

In addition, you can give more than the annual exemption caps for college savings. The Tax Cuts and Jobs Act (TCJA) permits bunching five years of $15,000 annual gifts into one year, by plugging it into a 529 college savings plan for a child or grandchild. That's $75,000 in total. Assets in 529 savings plans grow tax-free, if used to pay qualified education expenses.

Gifts made during your lifetime reduce your exemption from tax on your estate. The TCJA more than doubled the estate tax exemption in 2018 from $5.5 million to $11.2 million for individuals, and from $11 million to $22.4 million for couples. All of these new levels will increase with inflation, though the formula annually adjusting inflation is less generous than before.

Lifetime gifts can be made directly

Investing For The Long Run Amid Volatility

1926-2016	US Large Stock	US Small Stock	US Bonds	US Cash	4-Asset Portfolio Rebalanced Annually
Annualized Return	10.04%	11.31%	5.32%	3.45%	9.64%
Standard Deviation of Returns	19.9%	31.5%	5.7%	3.2%	16.6%

91-Years, 1926-2016

* Diversified portfolio rebalanced annually.

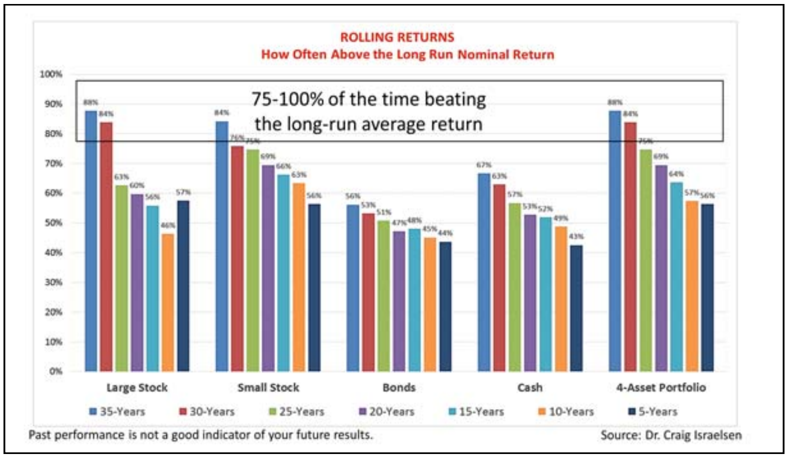
Source: Dr. Craig Israelsen, low-expense portfolio design consultant.

With stocks surging one moment and plunging the next, it's good to remember that, from 1926 through 2016, a portfolio diversified across stocks, bonds and cash averaged a 9.6% annual return, with a better risk-reward ratio than any one of the four investments with large liquid markets.

Ninety-one years goes back to when stock returns were first recorded on Wall Street, but most people don't invest for 91 years. The bar chart shows returns of the four investments versus the diversified four-asset portfolio over more realistic holding periods.

Over 35 years, large-company stocks beat their long-term average return over 91 years in a whopping 88% of the 35-year rolling periods! In contrast, over all of the 10-year rolling periods between 1926 and 2017, large-company stocks beat their 91-year return in only 46% of the 12-month rolling period.

In addition, the longer you stayed in the diversified portfolio, the more likely you were to experience the 91-year results. While holding the diversified portfolio for five years beat the 91-year return of 9.6% in 56% of the 12-month rolling periods over the 91 years, holding the four-asset portfolio for 35 years beat the 91-year results in 88% of the 12-month rolling periods. Diversification neither assures a profit nor guarantees against loss in a declining market and past performance is not a guarantee of future results, but these results show that the longer you invest, the more likely you are to experience the 91-year return and risk statistics.



Recently, volatility surged after investors were spooked by rising inflation and lending rates, and growing concern over the long-term U.S. debt. Statistically, the chance of a bear market decline of 20% or more increases as the eight-and-a-half-year bull market grows older, and the new tax law increased the chance of a Federal Reserve interest-rate policy mistake quashing growth for allowing inflation to surge. Fed mistakes caused every recession in post-World War II history.

However, earnings drive stocks and earnings expectations have recently surged. When the tax law was signed on December 22, 2017, the average company in the S&P 500 was expected to earn $131 a share in 2018, but that was revised to $152 and could be boosted again. S&P 500 operating earnings per share as of February 7, 2017 were $132.40 for 2017, $155.26 in 2018, and $170.93 in 2019, according to data from Yardeni Research, Inc. and Thomson Reuters I/B/E/S. According to independent economist Fritz Meyer, 2018 and 2019 estimates were revised up in December 2017 from, respectively, $146.19 and $160.69.

With real wages continuing to grow, consumers are spending and consumers account for 69% of economic growth. So, despite the recent correction, the bull market and economic expansion could strengthen and last many months longer. ●

US Large Cap represented by S&P 500 Total Return Index; US Small Cap represented by S&P Small Cap600 Total Return Index; US Bonds represented by Barclays US Aggregate Bond Index TR USD; Cash represented by USTREAS Stat UST-Bill 90 Day TR.

or through trusts. With a trust, you place the gift of cash, securities, or other assets in an entity set up to make the transfer of wealth after you die. The assets in the trust avoid probate court, and makes the transfer faster, less costly, less likely to be contested, and generally more sure-footed. Trusts can influence the values of your progeny by requiring the money you leave to be spent for religious, philosophical, or any variety of educational activities.

A trust also shields assets left to your heirs from lawsuits and business creditors. Should your grandchild get divorced, the trust money is shielded.

The friendlier tax treatment of transfers under the TCJA affects your estate plan and how your assets will be spent after you are gone, but it also may change your plan for gifting during your lifetime. Giving assets during your lifetime can be satisfying because you can witness your impact and influence on the future of your family. ●

6 Ways To Close The Retirement Gap

According to a recent article in *The Washington Post*, 71% of Americans aren't saving enough for retirement. If you're in this predicament, what can you do to close the gap? Here are six practical suggestions.

1. Bolster your 401(k). Much as it may pain you, try to allocate more of your paycheck to your 401(k) account or similar retirement plan. In addition, to supplement an employer-based plan, you might contribute to an IRA. The tax law allows generous contribution limits. Contributions grow and compound tax-deferred until you're ready to make withdrawals.

2. Invest wisely. If you can, investing additional money outside your retirement accounts can be very helpful. For taxable accounts, you may want to emphasize assets that don't produce a lot of taxable income in the form of mutual fund distributions, stock dividends, and bond interest. Although the fundamental principles of asset allocation and diversification aren't foolproof—there are no guarantees against loss of principal, especially in a declining market—they have performed well historically.

3. Don't squander your tax refund. The IRS says that the average tax refund received in 2017 (for the 2016 tax year) exceeded $3,000. What did you do with your refund? Instead of spending most or all of it each year, you might plow part of it back into savings earmarked for your retirement years. This money, along with some of your periodic pay raises, can help you fund your 401(k), IRA, and taxable accounts.

4. Get your tax money faster. Of course, money that's refunded to you after you file your taxes was really yours all along, and adjusting your withholding can reduce the size of your interest-free loan to the government. For example, rather than getting a $5,200 refund, you could take home an additional $100 each week. It's easy to fill out a new W-4 for your employer.

5. Bank the raise. Salary increases may be needed to help you keep up with inflation. But to the extent you can, set aside some of your raise. Again, that could go to increase your 401(k) contributions. If you get a 3% raise, say, you might use a third of it to boost your salary deferral by a percentage point—maybe from 12% of your salary to 13%. Some of the money might also go to bolster the emergency fund that's there to tide you over if you have a big expense or lose your job. Year-end bonuses can be helpful in a similar way.

6. Reduce monthly expenses. Finally, don't assume that your monthly budget is fixed in stone. If you take time to examine how and where you're spending your money, you might find some expenses that could be pared back almost painlessly. Costs for cable television, mobile phones, and other electronics can be good candidates for reductions, and you might also be able to reduce dining expenses.

These odds and ends add up over time and can help you come from behind to achieve real retirement security. ●

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will be other factors to consider. For instance, a higher-earning spouse might wait longer to claim benefits to provide greater protection for a surviving spouse if the higher-earning spouse dies first.

5. Learn all about Medicare. Usually, retirees opt to be covered by Medicare once they become eligible at age 65. But you will have a number of options to consider, so it's best to familiarize yourself with the key elements of Medicare before then. Estimating your future out-of-pocket costs, including premiums, deductibles, and prescription drug costs will help you decide which Medicare benefits to opt for and whether you'll need to supplement Medicare with coverage from a private insurance plan. Try to investigate all of the possibilities before the time comes to make your decisions.

6. Develop a draw-down strategy. Control the distribution of funds in your retirement by deciding which accounts you want to tap first. Although everyone's circumstances are different, often the best plan is to withdraw funds from your taxable accounts first (because you'll owe only capital gains taxes, which are usually much lower than taxes on distributions from 401(k)s and traditional IRAs), then from those other tax-deferred accounts, and finally from your Roth IRAs. This sequence enables you to benefit from tax-free compounding of investment income within a Roth for as long as possible.

But taxes aren't the only consideration. You may have other reasons for withdrawing funds from some accounts and holding onto others.

7. Meet with your financial advisor. As you can see, you'll be facing some difficult decisions during your countdown to retirement, and the financial consequences can be significant. But you don't have to do it all by yourself.

Schedule a meeting with your advisor to assess and review your situation well before your expected retirement. The countdown to retirement won't be as nerve-wracking if you're well prepared. ●

Milestone Financial Planning, LLC
2 Commerce Drive • Bedford, NH 03110 • (603) 589-8010