CORDASCO
FINANCIAL NETWORK

2020 FINANCIAL PLANNING GUIDE

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SEEING THE BIGGER PICTURE

A thoughtfully constructed financial plan takes a holistic view of wealth management and understands how each puzzle piece interacts with the others.

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NOTABLE UPDATES FOR 2020

No Clawback (November 2019)

The Treasury Department and IRS issued final regulations that individuals utilizing the increased gift and estate tax exemption amounts from 2018 to 2025 would not be adversely impacted after 2025, should the exemption revert to pre-2018 levels.

The SECURE Act (December 2019)

In late December, the SECURE Act was passed in conjunction with an appropriations bill in late December and is considered to be one of the more significant pieces of retirement legislation to be passed in the last decade. Individual retirement provisions and employer incentives are among a few of the many important changes included in the SECURE Act.

Goodbye, Stretch IRA (December 2019)

The SECURE Act largely eliminates the “stretch IRA” (with limited exceptions), as beneficiaries of a retirement account owner who died after 2019 will generally be required to spend down the inherited account within 10 years.

Kiddie Tax, “Take Two” (December 2019)

Under the Tax Cuts and Jobs Act (TCJA), a portion of unearned income for children under age 19 (or full-time college students under age 24) was subject to trust and estate income tax rates. Under the SECURE Act, such unearned income as of 2020 reverts to the ‘old rules’ with the income generally taxable at the parent’s marginal tax rate. Taxpayers can elect to apply the old rules to the 2018 and/or 2019 tax year(s).

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NOTABLE UPDATES FOR 2020

Expiring Tax Provisions Get Extended (December 2019)

The Consolidated Appropriations Act extended a number of popular individual tax provisions:

- Medical and dental expense deduction AGI floor set at 7.5 percent for 2019 and 2020
- Above-the-line qualified tuition and related expenses deduction extended through 2020
- Mortgage insurance premiums (PMI) deduction retroactive to 2018 and extended through 2020
- Cancellation of debt for qualified principal residence retroactive to 2018 and extended through 2020

Unlikely, but Possible Changes Ahead for the SALT Deduction (December 2019)

By a narrow margin, the House voted to raise the state and local tax ('SALT') deduction from $10,000 to $20,000 for married filing jointly couples for 2019 and to repeal the $10,000 cap for tax years 2020 and 2021. As an offset, the bill calls for the top marginal income tax rate to increase from 37 percent to 39.6 percent. Senate leaders have indicated they will not bring up the bill, while the White House has threatened to veto such legislation. The bill signals that congressional leaders from high tax states have keen interest in revising the current limit for the SALT deduction.

Yet Another Major Data Breach (2019)

In late July, the Capital One data breach was reported when a hacker gained access to more than 100 million Capital One customers' accounts and credit card applications. As such breaches are unfortunately becoming a common occurrence, individuals should regularly monitor all financial accounts, review a credit report at least annually, frequently change passwords and set up two-factor authentication where available.

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2020 FEDERAL TAX PROVISIONS

Federal Income Tax Brackets

Marginal Tax Rate	Single Filers	Head of Household	Married Filing Jointly	Trusts and Estates
10%	0 - 9,875	0 - 14,100	0 - 19,750	0 - 2,600
12%	9,875 - 40,125	14,100 - 53,700	19,750 - 80,250	
22%	40,125 - 85,525	53,700 - 85,500	80,250 - 171,050	
24%	85,525 - 163,300	85,500 - 163,300	171,050 - 326,600	2,600 - 9,450
32%	163,300 - 207,350	163,300 - 207,350	326,600 - 414,700	
35%	207,350 - 518,400	207,350 - 518,400	414,700 - 622,050	9,450 - 12,950
37%	518,400 +	518,400 +	622,050 +	12,950 +

Source: Tax Foundation. November 2019

Alternative Minimum Tax (AMT)

	AMT Exemption	AMT Exemption Phaseout
Single and Head of Household	$72,900	$518,400
Married Filing Jointly	$113,400	$1,036,800

The AMT exemption is reduced by $0.25 for each dollar that a taxpayer's Alternative Minimum Taxable Income (AMTI) exceeds the phase-out threshold

Long-Term Capital Gains Tax Rates

Taxable Income:

0% < $40,000 Single
$53,600 Head of Household
$80,000 Married Filing Jointly

15% *between* $40,000 - 441,450 Single
$53,600 - 469,050 Head of Household
$80,000 - 496,600 Married Filing Jointly

20% > $441,450 Single
$469,050 Head of Household
$496,600 Married Filing Jointly

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2020 FEDERAL TAX PROVISIONS

Standard Deduction vs. Itemized Deductions

Taxpayers may take the greater of the standard deduction or total itemized deductions

Standard Deduction

- $12,400 Single
- $18,650 Head of Household
- $24,800 Married Filing Jointly

Itemized Deductions

- Medical expenses greater than 7.5 percent of adjusted gross income are deductible
- SALT Deduction capped at $10,000 for *the sum of*: 1) property taxes *and* 2) *greater of* state and local income taxes *or* sales taxes
- Home mortgage interest on mortgages up to $750,000. (*Note: Mortgages before12/15/2017 up to $1 million grandfathered.)*
- Charitable contributions up to 60 percent of adjusted gross income *(Note: certain contributions may have a 20 percent or 30 percent AGI limit)*

"Must Know" Healthcare Taxes

Net Investment Income Tax (NIIT):

3.8%

On the *lesser of* net investment income *or* Modified AGI above threshold:

$200,000 for Single/Head of Household
$250,000 for Married Filing Jointly

Note: These threshold amounts are not indexed for inflation.

Investment income includes, but is not limited to:

- Interest
- Dividends
- Capital Gains
- Rental/Royalty Income
- Non-Qualified Annuities
- Business involved with Financial Trading
- Passive Activities

Medicare Surtax:

0.9%

On *earned* income above:
$200,000 for Single
$250,000 for Married Filing Jointly

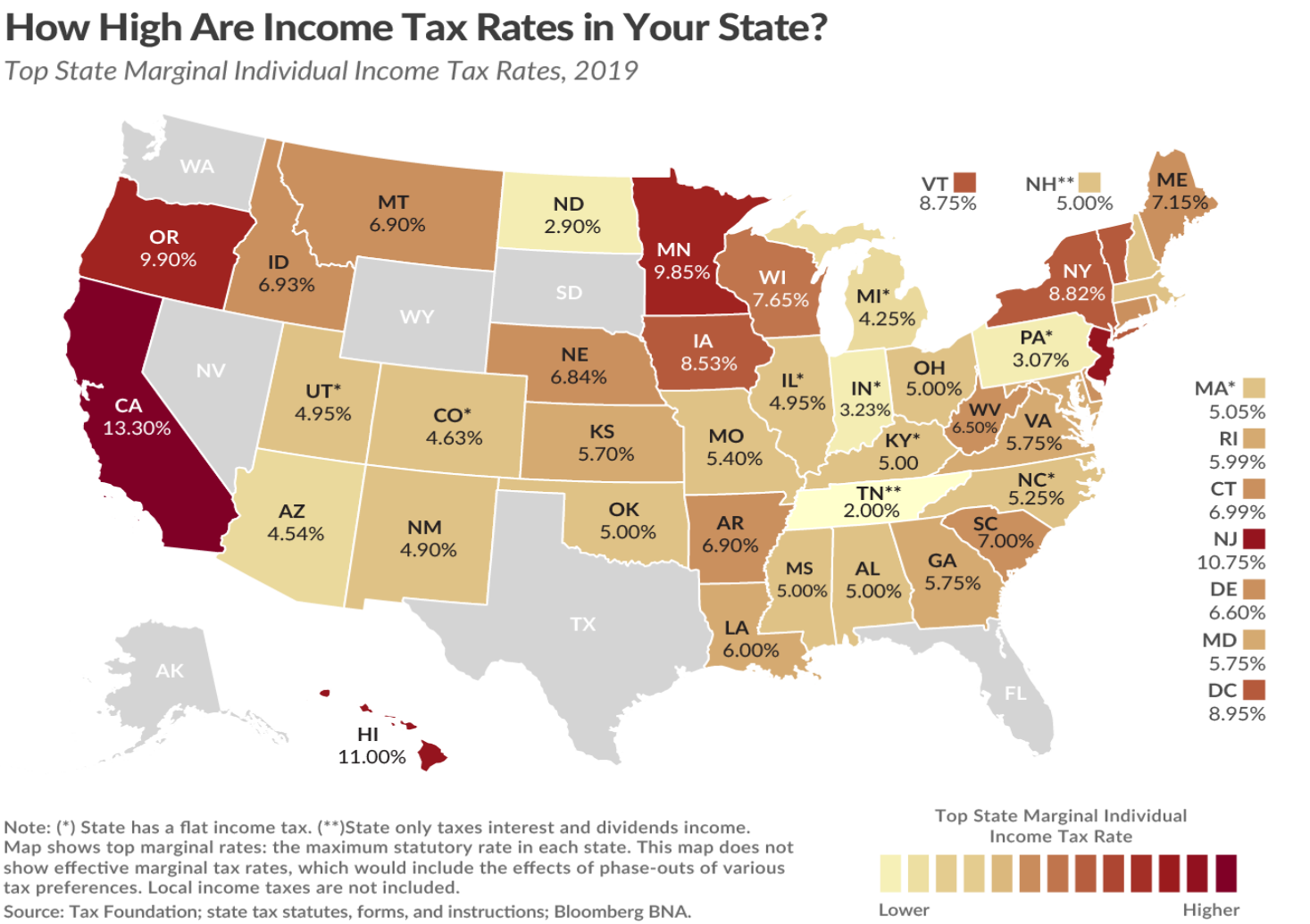
These threshold amounts are not indexed for inflation.

STATE TAX PROVISIONS

41 States with individual income taxes

2 States that only tax dividends and interest (New Hampshire, Tennessee)

7 States with no individual income tax (Alaska, Florida, Nevada, South Dakota, Texas, Washington, Wyoming)



Source: Tax Foundation. 2018.

ASSET LOCATION

Planning Tip

- The taxation of portfolio income varies by asset class. Taxable bond and REIT income is taxed unfavorably at ordinary income rates, while equity dividends are taxed favorably at lower qualified dividend rates.
- An investor who has a combination of taxable accounts, Traditional 401(k)/IRAs and Roth 401(k)/Roth IRAs can optimize a portfolio's allocation to minimize tax drag, thus enhancing long-term after-tax returns.

More Tax-Efficient	**Municipal Bonds**	*Income is federally tax-exempt and may be state tax-exempt*
	Energy-Infrastructure MLPs	*Higher yields but mixture of return of principal & qualified dividends*
	Equities, Low-Turnover	*Qualified dividends with limited capital gains*
	Equities, High-Turnover	*Qualified dividends but may produce higher capital gains*
	Taxable Bonds with Lower Yields *(TIPS, Int'l Bonds, Core U.S. Bonds)*	*Lower yields but taxed as ordinary income*
	REITs	*Non-qualified dividends with capital gains*
Less Tax-Efficient	**Taxable Bonds with Higher Yields** *(High Yield Bonds, EM Bonds)*	*Higher yields and taxed as ordinary income*

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ACCELERATED CHARITABLE GIVING

Planning Tip

The charitable giving landscape changed substantially in 2018, as the Tax Cut and Jobs Act nearly doubled the standard deduction but capped the state and local tax (SALT) deduction at $10,000 and eliminated "miscellaneous two percent itemized deductions". Due to the new changes, taxpayers should evaluate if a portion of charitable giving would not produce a tax benefit. Taxpayers might benefit from **accelerating ("bunching") charitable gifts** to maximize itemized deductions in a single tax year while taking the standard deduction in other years.

Scenario #1: Married Filing Jointly, Level Annual Charitable Giving

	2020	2021	2022	2023	TOTAL
Mortgage Interest	$9,000	$9,000	$9,000	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	$10,000	$10,000	$10,000	**$40,000**
Charitable Gifts	$30,000	$30,000	$30,000	$30,000	**$120,000**
Itemized Deduction Total	**$49,000**	**$49,000**	**$49,000**	**$49,000**	**$196,000**
***Greater of:* Itemized Deductions *or* $24,800 Standard Deduction**	**$49,000**	**$49,000**	**$49,000**	**$49,000**	**$196,000**

Scenario #2: Married Filing Jointly, Accelerated Charitable Giving

	2020	2021	2022	2023	TOTAL
Mortgage Interest	$9,000	$9,000	$9,000	$9,000	**$36,000**
State & Local Tax (SALT)	$10,000	$10,000	$10,000	$10,000	**$40,000**
Charitable Gifts	$120,000	$0	$0	$0	**$120,000**
Itemized Deduction Total	**$139,000**	**$19,000**	**$19,000**	**$19,000**	**$196,000**
***Greater of:* Itemized Deductions *or* $24,800 Standard Deduction**	**$139,000**	**$24,800**	**$24,800**	**$24,800**	**$213,400**

In this example, the couple's itemized deductions before charitable gifts totals $19,000. Since the MFJ standard deduction is $24,800, the first $5,800 of charitables will not produce a tax benefit.

In Scenario #2, the couple accelerates charitable giving into a single year (2020) to maximize itemized deductions and takes the standard deduction in subsequent years (2021-2023). ***The composition of itemized deductions is the same under both scenarios, yet Scenario #2 produces a greater tax deduction of $17,400 over the four-year period.***

This planning strategy can be particularly effective for charitably-inclined taxpayers without deductible medical expenses (> 7.5 percent of AGI) and with no/minimal mortgage interest.

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QUALIFIED CHARITABLE DISTRIBUTIONS

Planning Tip

The QCD provision may be beneficial for individuals who are charitably inclined and who would receive a greater tax benefit from the standard deduction rather than itemized deductions.

- Available to taxpayers over age 70½
- Taxpayers can gift up to $100,000 from an IRA directly to 501(c)(3) charities
  - Donor-advised funds, private foundations and supporting organizations are *not* eligible recipients under the QCD rules
- The distribution does *not* count as income and does *not* count as a charitable deduction
- The distribution counts towards satisfying the RMD for that tax year
- This strategy also has the added benefit of reducing Adjusted Gross Income (AGI) which may result in lower Medicare premiums, depending on taxpayer's income

Note: While the SECURE Act pushed back the beginning RMD age to 72 (for those turning age 70½ after 2019), ***the QCD rules were not impacted by the SECURE Act.***

QUALIFIED OPPORTUNITY ZONES

Planning Tip

- The Tax Cuts and Jobs Act (enacted in December 2017) contained a provision with special tax incentives for taxpayers making investments in economically distressed communities ("opportunity zones"). To-date, over 8,700 low-income communities have been designated as qualified opportunity zones.
- A taxpayer may defer realized gains on appreciated property (typically a capital gain) by investing the "deferred gain amount" (DGA) in a qualified opportunity fund ("QOF").
- Among other requirements, a Qualified Opportunity Fund must hold at least 90 percent of its assets in property located within a Qualified Opportunity Zone (QOZ).
- The deferred gain amount must be invested in a QOF within 180 days of the property's date of sale.
- Once the DGA has been invested in a QOF, the gain is deferred until *the earlier of:* the date the investor sells the QOF investment *or* December 31, 2026.
  - A QOF investment must have been made by 12/31/2019 to receive the special seven-year holding tax benefits.
  - A QOF investment must be made by 12/31/2021 to receive the special five-year holding tax benefits.

Qualified Opportunity Fund (QOF) Holding Period	Tax Benefits	
	Deferred Gain Amount (DGA)	Qualified Opportunity Fund (QOF)
Less than 5 Years	Deferral of gain	n/a
Between 5-7 Years	Deferral of gain, *plus* gain reduced by 10 percent of the deferred gain amount	n/a
More than 7 Years	Deferral of gain, *plus* gain reduced by 15 percent of the deferred gain amount	n/a
More than 10 Years	*Not applicable since the latest potential date for gain deferral is December 31, 2026*	Taxpayer can elect to fully exclude the QOF's gain

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CHARITABLE GIVING VEHICLES

Planning Tip: Donor-Advised Funds vs. Private Foundations

There are numerous considerations to evaluate whether a donor-advised fund or a private foundation (or a combination) might be an effective charitable giving vehicle. The table below provides an abbreviated comparison.

	Donor-Advised Fund	Private Foundation
Start-up Time	Immediate	May take several weeks or months
Start-up Costs	None	Legal and other fees
Initial Contribution/ Minimum	Varies by sponsor, but often as low as $5,000 - $10,000	No minimum, though due to start-up and ongoing administrative expenses, a larger starting balance (several million dollars) is generally advisable
Minimum Grant to Charity	Varies by sponsor, but often as low as $50-$100	No minimum
Ability to Give Anonymously	Yes, donor can choose whether to give publicly or anonymously	No, IRS Form 990 must report gifts
Ongoing Administrative Expenses	Varies by sponsor, but typically starts ~0.60 percent	Various tax & other expenses
Underlying Investment Expenses	Varies by sponsor, with some investment options as low as 0.03 percent	Varies based on investments chosen & advisor
Tax Deduction for Gifts	Up to 60 percent of AGI for cash gifts Up to 30 percent of AGI for long-term securities	Up to 30 percent of AGI for cash gifts Up to 20 percent of AGI for long-term securities
Annual Distribution Requirement	None	IRS requires minimum 5 percent annual distribution based on prior year's net average assets
Tax Reporting	Handled by the sponsor; donors do not report charitable grant activity	Responsible for tax filings and must annually file IRS Form 990
Excise Taxes	None	1-2% each year

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TAX PLANNING CHECKLIST

What we are doing to help clients

1. Tax-Aware Investing/Asset Placement
2. Tax-Efficient Securities and Active Management Considerations
3. Tax Loss Harvesting/Thoughtful Rebalancing
4. Tax-Aware Recognition of Capital Gains
5. Capital Gain Dividend Distribution Analysis

How your tax advisor can help

1. Recognition and Timing of Income
2. Review Estimated Tax Withholding
3. AMT Considerations
4. Manage State and Local Income Tax Deductions
5. Review Property Tax Deductions
6. Additional State Tax Considerations

Areas that we can offer perspective

1. **Evaluating and Minimizing Capital Gain Implications** amid a portfolio repositioning considering factors such as potential step-ups in cost basis, asset placement, etc.
2. **Evaluating Family Gifting Strategies** according to desired gifting goals and, once determined, coordinating the gifting transfers.
3. **Gifting Long-Term Appreciated Securities** rather than cash for charitable contributions, which avoids capital gains taxes on the appreciated securities.
4. **Charitably Gifting the Required Minimum Distribution of an IRA**, which avoids the IRA distribution being treated as taxable income. Given the meaningful increase to the standard deduction, this can be an effective strategy for some taxpayers.
5. **Weighing the Differences between a Lump Sum Option or Annuity** income stream for Defined Benefit Plan or Cash Balance Pensions.
6. **Evaluating Tax Bracket Breakpoints and Stock Volatility** when minimizing single stock concentrations.
7. **Reviewing Social Security** income options.

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RETIREMENT PLANNING 101

15% Target annual investment savings*
(employee contribution + employer match)

4-7% Americans' average annual savings rate**

70-85% Approximate income replacement ratio for estimating future retirement expenses

1 in 3 Number of workers who will have saved enough for a comfortable retirement by age 67**

Common Retirement Mistakes

- Retiring too early/Saving too little
- Filing for early (reduced) Social Security benefits despite expected longevity
- Assuming too little or too much risk pre- and/or post-retirement
- High concentration risk with individual securities or company stock
- Attempting to time the market
- Underestimating future healthcare expenses
- Spending beyond one's means, particularly early in retirement

Factors that might require individuals to save more for retirement and/or delay retirement

- Starting to save/invest too late
- Investing portfolio assets too conservatively (lower expected returns require greater savings)
- Anticipating a life expectancy well beyond actuarial calculations
- Experiencing a significant portfolio drawdown shortly before retirement

** General rule of thumb; target savings rate may be higher or lower depending on age, existing savings, anticipated retirement.*
*** Source: Aon "The Real Deal: 2018 Retirement Income Adequacy Study"*

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RETIREMENT PLANNING UPDATES

The SECURE ACT

The "Setting Every Community Up for Retirement Enhancement Act" was attached to a fiscal year 2020 appropriations bill and was passed by Congress in late December 2019. The Act represents one of the more significant pieces of retirement legislation to be passed over the last decade, with a number of notable changes.

Select Provisions for Individuals:

	Old Provision	New Provision	Applicability
IRA Contributions	No contributions to IRAs after age 70½	No longer an age limit; contributor must have earned income	Tax year 2020 and beyond
Starting Age for Required Minimum Distributions (RMDs)	Age 70½	Age 72	Age 72 provision for individuals who had not yet reached 70½ as of 2019
RMDs for Inherited Retirement Accounts	Beneficiaries can take RMDs based on their life expectancy	With limited exceptions, beneficiaries are required to fully withdraw assets within 10 years after account owner's death	Beneficiaries of account owners who died after 2019
Penalty-Free Withdrawal for Birth/Adoption	10% early withdrawal penalty for individuals under age 59½ (with some exceptions)	Individuals can withdraw up to $5,000 penalty-free within 12 months after a birth or qualified adoption of a child	Tax year 2020 and beyond

RETIREMENT PLANNING UPDATES

The "Stretch IRA"

The SECURE Act largely eliminated the "stretch IRA" as most beneficiaries will now be required to fully withdraw inherited retirement account assets within 10 years of the account owner's death, whereas previously such beneficiaries could take withdrawals based on their life expectancy.

Who still gets a long stretch

Many future heirs of IRAs, such as grandchildren, will be required to drain the accounts within 10 years of receiving the IRA, but some individuals will still be able to stretch payouts over decades.

Who's eligible for the longer payout period:

- Heirs of IRAs whose original owners died *before* 2020
- Surviving spouses
- Chronically ill or disabled heirs
- Heirs within 10 years of age of the original owner
- Minor children of the account owner, up to the age of majority or age 26 if the child is still in school; at that point, the 10-year payout begins

Source: The Wall Street Journal, SECURE Act, Ed Slott

Beneficiaries do not need to withdraw inherited assets each year over the 10-year period. As such, beneficiaries may consider deferring withdrawals until a given tax year when taxable income will be lower.

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RETIREMENT CONTRIBUTION LIMITS

Retirement Benefit Limits

	2019	2020
Contribution Limits for 401(k)/403(b) Plans	$19,000	$19,500
Age 50+ Catch-up	$6,000	$6,500
Contribution Limits for SIMPLE IRA Plans	$13,000	$13,500
Age 50+ Catch-up	$3,000	$3,000
Contribution Limits for IRAs	$6,000	$6,000
Age 50+ Catch-up	$1,000	$1,000
Contribution Limits for Defined Benefit Plans	$225,000	$230,000
Contribution Limits for SEP IRA and Solo 401(k)	$56,000	$57,000

Modified Adjusted Gross Income (MAGI) Limitations for IRA Contributions

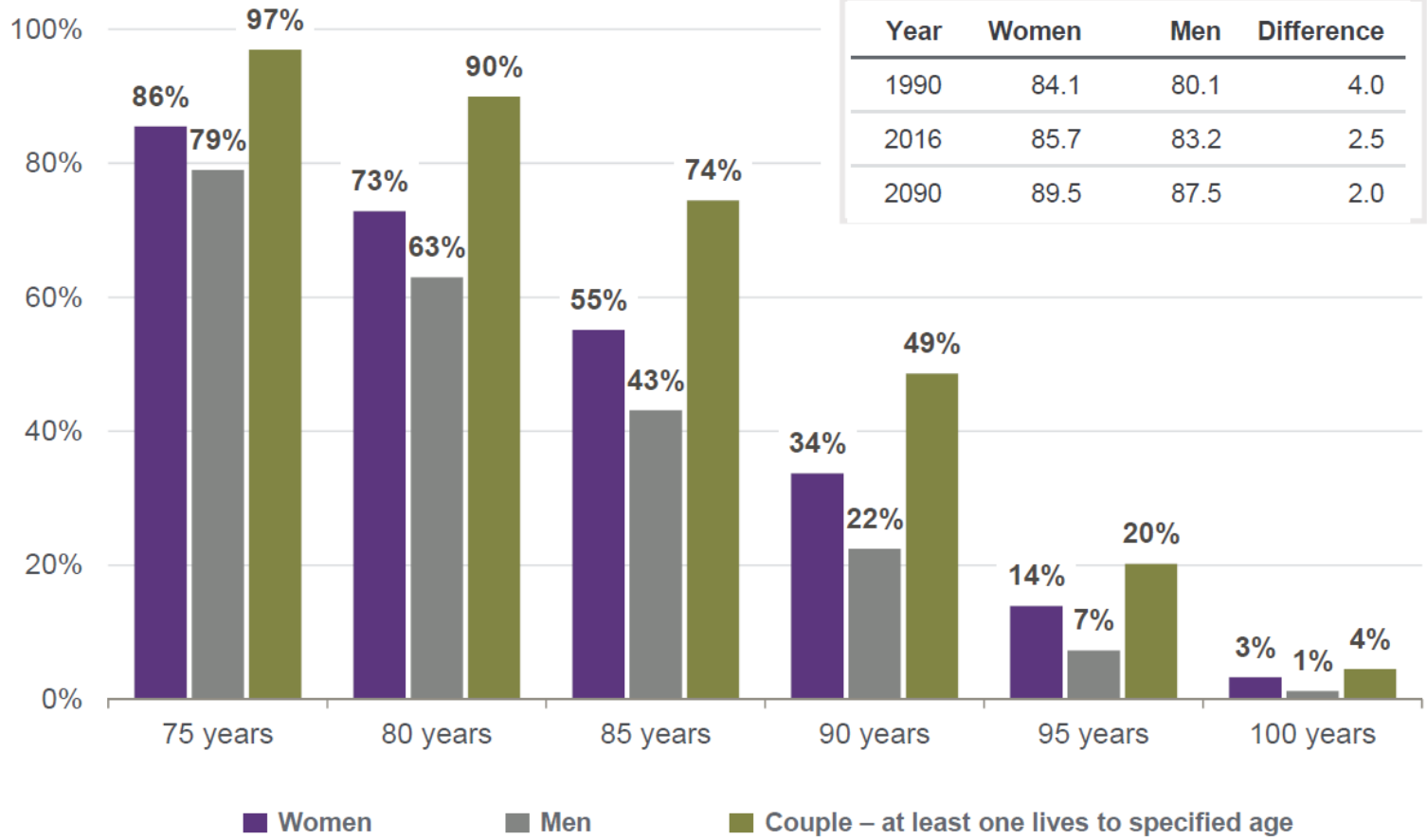
	2019	2020
Traditional IRA		
Single, Head of Household	$64,000 - 74,000	$65,000 - 75,000
Married Filing Jointly	$103,000 - 123,000	$104,000 - 124,000
Roth IRA		
Single, Head of Household	$122,000 - 137,000	$124,000 - 139,000
Married Filing Jointly	$193,000 - 203,000	$196,000 - 206,000
Roth Conversions	None	None

Source: Internal Revenue Service

PLANNING FOR A LONG RETIREMENT

The Challenge: Individuals are living longer and forward-looking returns are likely to be lower than in the past.

If you're 65 today, the probability of living to a specific age or beyond



Average life expectancy at age 65

Year	Women	Men	Difference
1990	84.1	80.1	4.0
2016	85.7	83.2	2.5
2090	89.5	87.5	2.0

Source: Social Security Administration (2017 OASDI Trustees Report)

SAVING FOR RETIREMENT

Types of Savings Accounts

Account Examples	**Individual/Joint/Trust accounts**	**Pre-Tax 401(k), Traditional IRAs (funded with deductible contributions)**	**Roth 401(k), Roth IRAs**
Taxable Income	Interest, Dividends and Capital Gains	Account Withdrawals	Earnings/Withdrawals not taxable
Tax Deductions	Contributions Not Tax-Deductible	Contributions Tax-Deductible	Contributions Not Tax-Deductible
Contribution Limits	None	Yes, specific to type of account	Yes, specific to type of account

Ways to maximize retirement savings:

1. Maximize contributions to Retirement Plans (401(k), 403(b)), deferring at least your company's match
2. Maximize after-tax assets in your portfolio:
   - Maximize contributions to after-tax accounts
   - Consider Backdoor Roth IRA contributions
   - Consider Roth IRA conversion
3. Consider establishing a Spousal IRA
4. If self-employed, maximize retirement savings by contributing to a SEP-IRA, Keogh, Defined Benefit Plan or Solo 401(k)

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ON TRACK FOR RETIREMENT?

Use the table below to assess current retirement savings

- Household income is assumed to be gross income (before tax and savings).
- Go to the intersection of your current age and your closest current household income.
- Multiply your salary by the checkpoint shown. This is the amount you should have saved today, assuming you continue contributions of 10% going forward.
- Example: For a 40-year-old with a household income of $100,000: $100,000 x 2.9 = $290,000

	Current Household Annual Income						
	$50,000	$75,000	$100,000	$150,000	$200,000	$250,000	$300,000
Current Age	***Savings Checkpoint (x Current Household Income)***						
25	-	0.3	0.6	1.0	1.3	1.5	1.7
30	0.3	0.9	1.2	1.7	2.1	2.4	2.5
35	0.9	1.6	2.0	2.6	3.0	3.4	3.5
40	1.6	2.4	2.9	3.6	4.2	4.6	4.8
45	2.5	3.4	4.0	4.8	5.5	6.0	6.2
50	3.5	4.6	5.3	6.3	7.1	7.7	8.0
55	4.7	6.0	6.9	8.1	9.1	9.7	10.1
60	6.2	7.7	8.8	10.2	11.4	12.2	12.6
65	8.1	10.0	11.3	13.0	14.5	15.5	16.0

Model Assumptions

10%* Annual Savings Rate

6.0% Pre-Retirement Return

5.0% Post-Retirement Return

2.25% Inflation Rate

Retirement age –
Age 65 Primary earner
Age 62 Spouse

30 Years in Retirement

**10 percent is approximately twice the U.S. average annual savings rate*

Source: J.P. Morgan Asset Management, 2018 Guide to Retirement

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TRADITIONAL VS. ROTH ACCOUNTS

Investors should review objectives and marginal income tax bracket to evaluate whether to contribute to a Traditional retirement account, a Roth retirement account or a combination of both.

	Traditional IRA	Traditional 401k/403b	Roth IRA	Roth 401k/403b
Tax Benefits	Tax-deferred growth		Tax-free growth and tax-free qualified withdrawals	
Tax Deduction	Contributions may be tax-deductible depending on AGI	Yes, for current year contributions	No, funded with after-tax contributions	
Taxation of Withdrawals	Taxed as ordinary income		Qualified withdrawals are tax-free	
Early Withdrawal Penalties	With limited exceptions, withdrawals prior to age 59½ result in a 10 percent penalty (in addition to the distribution being treated as ordinary income)		Contributions can be withdrawn penalty-free while earnings are taxable and may be subject to a 10 percent penalty	The earnings portion of a non-qualified distribution will be taxable and may be subject to a 10 percent penalty
Income Limits for Contributions	No, but deductibility is subject to income limits	None	Yes	None
Age Limits for Contributions	As of 2020, none	None	As of 2020, none	None
Eligibility to Contribute	Must have earned income	Actively employed	Must have earned income	Actively employed
Deadline to Contribute	April 15th of the following tax year	December 31st	April 15th of the following tax year	December 31st

Tax Diversification: Individuals may consider utilizing a combination of both Traditional and Roth retirement accounts as a 'tax hedge' given uncertainty over future income tax rates.

ADDITIONAL ROTH CONSIDERATIONS

Planning Tip: Backdoor Roth Contributions

If a taxpayer's income is higher than the noted thresholds for contributing to a Roth IRA, a taxpayer may fund a Traditional IRA with a "non-deductible" contribution. This contribution may, in turn, be converted to a Roth IRA tax-free, provided the taxpayer does *not* have any other holdings in a Traditional IRA. If a taxpayer has an outstanding Traditional, SEP or SIMPLE IRA balance, a portion of the conversion will be treated as taxable income.

Example:

- John is a single taxpayer, age 55, with a modified adjusted gross income of $450,000 which prevents him from directly contributing to a Roth IRA.
- John currently has a 401(k) but no Traditional IRA.
- John makes a $7,000 non-deductible contribution to a Traditional IRA and leaves the entire contribution in cash.
- John waits 30+ days and then converts the non-deductible contribution to a Roth IRA.
- Since John had no Traditional IRA holdings and only converted a non-deductible contribution (which had no earnings over the 30-day period), the conversion is not taxable.

Planning Tip: Roth Conversions

Unlike income limits for Roth IRA contributions, there are no such income limitations for completing a Roth conversion. Taxpayers should recognize that converting a Traditional IRA to a Roth IRA typically produces taxable income. Individuals should evaluate their income tax picture to compare how their current tax bracket might compare to a future tax bracket:

- Individuals might consider a partial conversion where income is recognized up to a certain tax bracket.
- For ultra-high net worth individuals that will otherwise have a taxable estate, a Roth conversion may make sense as it reduces the size of the taxable estate by the amount of taxes paid on conversion while eventually leaving a more beneficial asset to heirs (i.e. inheriting a Roth IRA is preferable to inheriting a Traditional IRA).

Source: Social Security Administration (2017 OASDI Trustees Report)

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RETIREMENT PLANNING CHECKLIST

Preparing for a comfortable retirement requires diligence and discipline.

Review What Has Changed
- Tax Laws
- Retirement Goals
- Health/Longevity

Assess whether Savings are "On Track"
- Compare current savings versus checkpoints
- Review portfolio allocation and asset location
- Look for opportunities to increase/optimize savings across account types
- Determine if retirement goals need to be adjusted

Plan Ahead
- Periodically review estate plans
- If nearing retirement, review Social Security benefits and determine an appropriate claiming age/strategy
- Enroll for Medicare prior to age 65

Review Beneficiary Designations
- Periodically review beneficiary designations to ensure listed beneficiaries are as intended
- Especially important upon life events such as marriage, divorce, birth/adoption, etc.

76%

of Americans who consider themselves "planners" **don't have a retirement plan** in place

82%

of the general population don't have a plan in place

Source: Fidelity Investments "Retirement Mindset Study"

SOCIAL SECURITY CONSIDERATIONS

The Basics:

When

You may start receiving your Social Security retirement benefits as early as age 62 or as late as age 70.

You can apply for benefits no more than four months in advance of your benefit start date.

How

You can apply online for retirement benefits or spousal benefits directly online at https://www.ssa.gov.

Amount

Check your Social Security statement for a current estimate of your benefits at https:www.ssa.gov.

Your monthly benefits will be reduced if you start any time before "full retirement age." Conversely, your monthly benefits will be increased if you start after your "full retirement age."

Source: SSA.gov

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SOCIAL SECURITY CONSIDERATIONS

Full Retirement Age (FRA) vs. Early Retirement vs. Late Retirement

Year of Birth *	Full Retirement Age (FRA)
1937 or earlier	65
1938	65 and 2 months
1939	65 and 4 months
1940	65 and 6 months
1941	65 and 8 months
1942	65 and 10 months
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 and later	67

Early Retirement

- Retiree can elect to receive benefits as early as age 62 (**For a retiree taking benefits five years early, the reduction = 30 percent**)
- For the first 36 months, the FRA benefit is reduced by 5/9th of one percent for each month before full retirement age (FRA).
- Beyond 36 months, the FRA benefit is further reduced by 5/12th of one percent for each early month.

Delayed Retirement Credit

(i.e. Benefits after FRA, up to age 70)

Year of Birth	Credit per Year
Before 1937	Varies
1937-38	6.50%
1939-40	7.00%
1941-42	7.50%
1943 and later	8.00%

Source: SSA.gov – "Early or Late Retirement?"
** Persons born on January 1 of any year should refer to the previous year*

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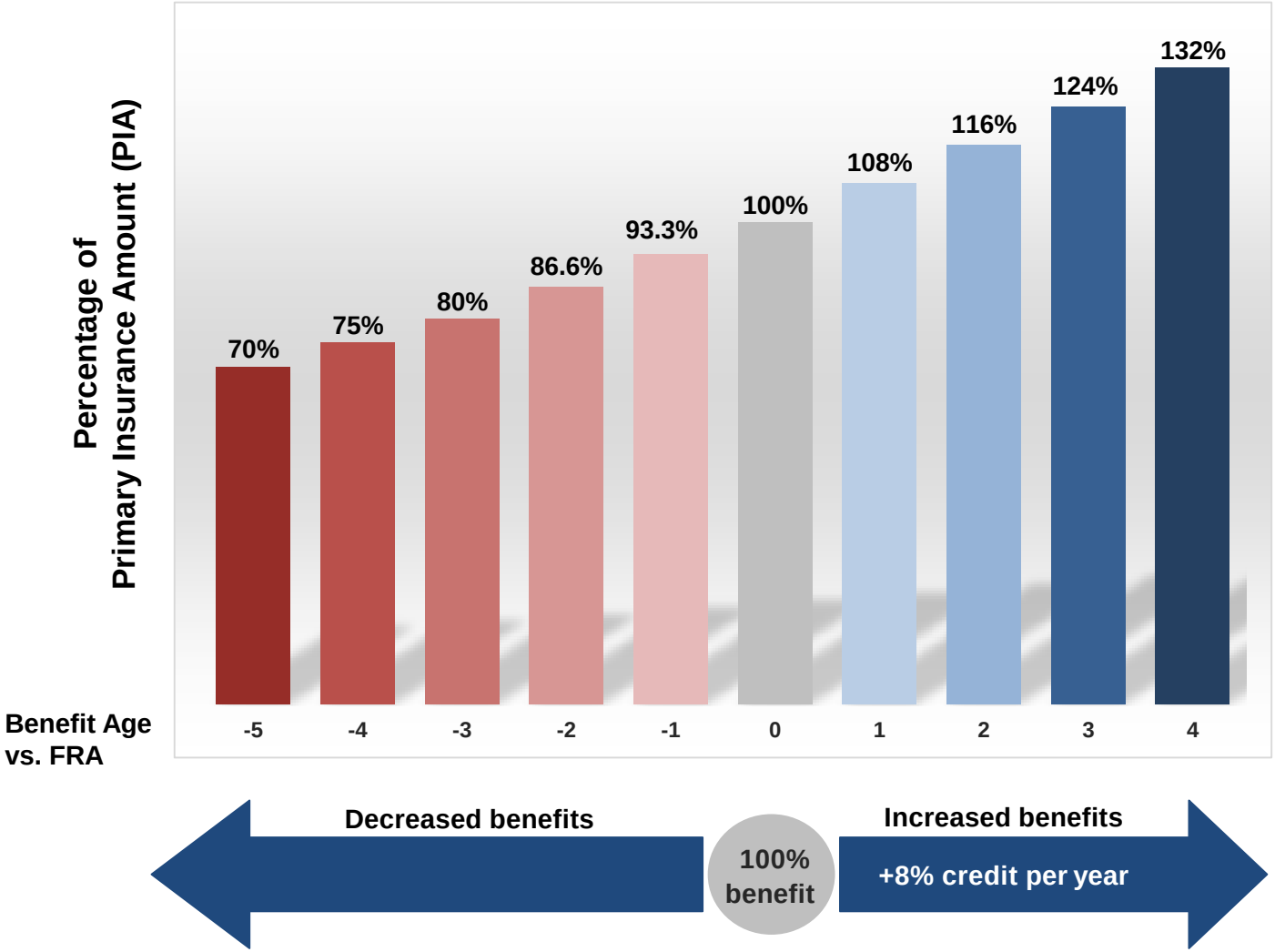
EARLY VERSUS DELAYED BENEFITS

Full Retirement Age (FRA) vs. Early Retirement vs. Late Retirement



Notes:

1) PIA = Primary Insurance Amount, which reflects the benefit available at Full Retirement Age (FRA).

2) Benefits are permanently reduced for benefits commencing before Full Retirement Age.
   - *For the first 36 months prior to FRA, the benefit is reduced by 5/9th of one percent for each month before full retirement age (FRA).*
   - *Beyond 36 months, the benefit is further reduced by 5/12th of one percent for each early month.*

3) Delayed retirement credits apply for benefits deferred past Full Retirement Age, up to age 70.
   - *For individuals born in 1960 or later, FRA is age 67 with a maximum possible deferral period of three years (maximum +24 percent improvement).*

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CHOOSING WHEN TO BEGIN BENEFITS

3 Key Factors for Evaluating whether to Take Benefits Early or Late:

1. Life expectancy (single or joint)/health issues
2. Income needs
3. Change in employment /retirement planning

Consider taking benefits earlier if…	Consider taking benefits later if…
You are no longer working and find it difficult to cover annual expenses.	You are still working and make enough to impact the taxability of your benefits.
You are in poor health and do not expect the surviving member of the household to make it to average life expectancy.	You are in good health and expect to exceed average life expectancy.
You are the lower-earning spouse and your higher-earning spouse can wait to file for a higher benefit.	You are the higher-earning spouse and want to be sure your surviving spouse receives the highest possible benefit.

Source: Charles Schwab – "When Should You Take Social Security?" (Feb 2019)

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CHOOSING WHEN TO BEGIN BENEFITS

Income Earned ***Before*** Full Retirement Age (FRA)	Income Earned ***During*** the Year of Full Retirement Age (FRA)	Income Earned ***After*** Full Retirement Age (FRA)
• For retirees collecting Social Security benefits before FRA, Social Security will take back $1 of benefits for every $2 over the earnings limit. • For 2020, the earnings limit before FRA is $18,240.	• During the year you reach FRA and up to the month you reach FRA, Social Security will deduct $1 of benefits for every $3 over the earnings limit. • During this year, Social Security only counts earnings that you receive before the month you reach FRA. • For 2020, the earnings limit in the year of FRA is $48,600.	• There is no earnings limit after an individual reaches full retirement age.

Note: Benefit reductions due to the earnings limit are only temporary, as the monthly benefit will be recalculated upon full retirement age to give credit for previously withheld payments.

Taxable Portion of Social Security Benefits	Taxable Income	
	Single, Head of Household	Married Filing Jointly
0%	Less than $25,000	Less than $32,000
Up to 50%	$25,000 - 34,000	$32,000 - 44,000
Up to 85%	Over $34,000	Over $44,000

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SOCIAL SECURITY CLAIMING STRATEGIES

Planning Tip: The Restricted Application

While 'file-and-suspend' is no longer an available claiming strategy, some individuals may be able to file a 'restricted application' allowing a filer to claim a spousal benefit while deferring their own benefit in order to receive delayed retirement credits. This strategy can be useful for couples where both spouses have notable earnings records and who have the financial resources to forego the higher benefit for a few years.

Eligibility for Filing a Restricted Application:

1) 'Spouse A' was born before 1/2/1954 and has reached full retirement age (FRA), ***AND***
2) 'Spouse A' is not currently collecting a retirement benefit based on Spouse A's earnings record, ***AND***
3) 'Spouse B' is currently collecting a retirement benefit based on Spouse B's earnings record

Example:

- John is currently age 67 and is not currently collecting his Social Security retirement benefit. At full retirement age (66), John was entitled to a benefit of $3,000/month.
- Jane is age 67 and is currently collecting her Social Security retirement benefits. At her full retirement age (66), Jane began receiving a $2,000 monthly benefit based on her earnings record.
- John files a restricted application that restricts the scope to spousal benefits only, which entitles John to a spousal benefit of $1,000/month.
- John defers his benefit until age 70, at which point he switches from the spousal benefit to his own retirement benefit.
- By waiting to collect the benefit from his earnings record, John's age-66 retirement benefit of $3,000/month grows to $3,960/month at age 70 (calculated as $3,000/month x (1 + (8 percent delayed retirement credit/year x 4 years)).
- Under this strategy, John was able to collect a spousal benefit of $12,000 per year while allowing his own benefit to grow via delayed retirement credits.

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SPOUSAL & FAMILY BENEFITS

Upon starting Social Security retirement benefits, some members of your family may also be entitled to receive benefits from your Social Security earnings record or you may qualify to receive benefits from their earning record.

Spousal Benefits

Start between spouse's age 62 and FRA:

- Permanently reduces monthly benefit
- May be affected by the earnings test if still working

Start after spouse's FRA, receives the greater of:

- 50 percent of your monthly benefits based at your FRA (no delayed credit)
- Spouse's FRA personal monthly benefit with delayed credit

Children Benefits

Eligible children, including biological, adopted, stepchildren, and/or dependent grandchildren may also be eligible for benefits, provided they meet the following qualifications:

- Unmarried and
- Under age 18 or
- Age 18-19 and full-time student (no higher than grade 12) or
- Greater than age 18 and disabled from a disability that started before age 22

Ex-Spouse Benefits

You may be entitled to benefits from your ex-spouse's record if you meet the following qualifications:

- Marriage lasted more than 10 consecutive years
- You have not remarried
- You and your ex-spouse are at least age 62

***Maximum Family Benefit**: If one of your children also qualifies for benefits, generally the total amount you and your family may receive is about 150 to 180 percent of your full retirement benefit.*

An Ex-Spouse benefit does not affect the benefit you or your family may receive.

Source: SSA.gov

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MEDICARE CONSIDERATIONS

Medicare benefits do not require annual enrollment. Key dates for first-time enrollment and changes are highlighted below.

Important Dates

Date	Important Date
Initial enrollment period	Initial enrollment period begins three months prior to the month turning age 65 and ends three months after the month turning age 65
January 1	New coverage begins; Monthly premium adjustments go into effect
January 1 to March 31	If enrolled in a Medicare Advantage plan, enrollee receives one-time opportunity to: • Switch to a different Medicare Advantage plan • Drop Medicare Advantage plan and return to Original Medicare • Sign up for Medicare Part D (if returning to Original Medicare)
October 15 to December 7	Open enrollment period / annual election period (for the next year)

Parts of a Medicare Plan

- Part A (Hospital Insurance)
  - Free for people age 65 and older who paid payroll tax for 40+ quarters (about 10 years)
  - Helps cover in-patient hospital care, skilled nursing facility care, hospice care, and home health care

- Part B (Medical Insurance)
  - Anyone eligible for Part A is eligible to enroll in Part B and pay a monthly premium
  - Helps cover doctor and health care services, outpatient care, home health care, preventive services, and durable medical equipment

- Part D (Prescription Drug Coverage)
  - Run by private insurance companies that follow rules set by Medicare
  - Helps cover the cost of prescription Drugs

Source: Medicare.gov, 2018.

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MEDICARE CONSIDERATIONS

Ways to Obtain Medicare

- **Original Medicare**
  - Care options: visit any doctor that accepts Medicare; in most cases, no referral is needed for a specialist
  - Cost: no yearly out-of-pocket limit; usually pay 20 percent of Medicare-approved amount after meeting deductible
  - Coverage: Part A and Part B included, Part D added separately; supplemental coverage allowed
- **Medicare Advantage (also known as Part C)**
  - Care options: seek doctors only in plan network; a referral may be needed to visit a specialist
  - Cost: Varying out-of-pocket costs, but will not pay additional costs in a year after reaching plan limit
  - Coverage: plans must cover all services Original Medicare covers and may offer additional benefits; prescription drug coverage (Part D) is included in most plans; cannot buy or use separate supplemental coverage

Modified Adjusted Gross Income (MAGI) Thresholds for Additional Premiums

- With higher reported Modified Adjusted Gross Income (MAGI), additional premiums are added to taxpayers receiving Medicare
- Adjusted Gross Income (AGI) is found on the first page of a tax return. The most applicable deductions added back to calculate MAGI are: one-half of self-employment tax, passive income/loss, IRA contributions and taxable Social Security payments.

Single Filers	Married Filing Jointly	Total Standard Annual Premium
$0 - 87,000	$0 - 174,000	$1,735
$87,001 - 109,000	$174,001 - 218,000	$2,429
$109,001 - 136,000	$218,001 - 272,000	$3,470
$136,001 - 163,000	$272,001 - 326,000	$4,512
$163,001 - 500,000	$326,001 - 750,000	$5,552
$500,001 +	$750,001 +	$5,899

MAGI as of 2018 determines Medicare 2020 premium

Options to Lower MAGI

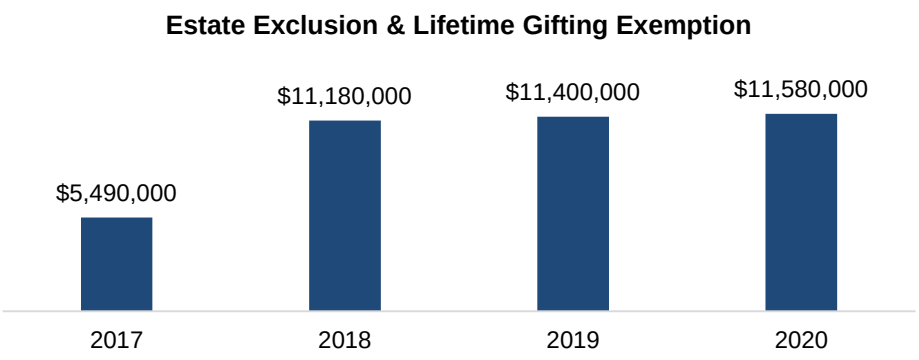
- Spend from taxable accounts, minimize amount withdrawn from a tax-deferred account
- Make a Qualified Charitable Distribution from an IRA
- Harvest losses in taxable accounts to offset realized capital gains

Source: Centers for Medicare & Medicaid Services, 2018

ESTATE PLANNING UPDATES

Federal Estate Planning Limits

	2019	2020
Estate Exclusion	$11,400,000	$11,580,000
Maximum Estate Tax Rate	40%	40%
Lifetime Gifting Exemption	$11,400,000	$11,580,000
Maximum Gift Tax Rate	40%	40%
Annual Exclusion Gift	$15,000	$15,000
Annual Gifting Limit to U.S. Citizen Spouse	Unlimited	Unlimited
Annual Gifting Limit to Non-U.S. Citizen Spouse	$155,000	$157,000



No Clawback

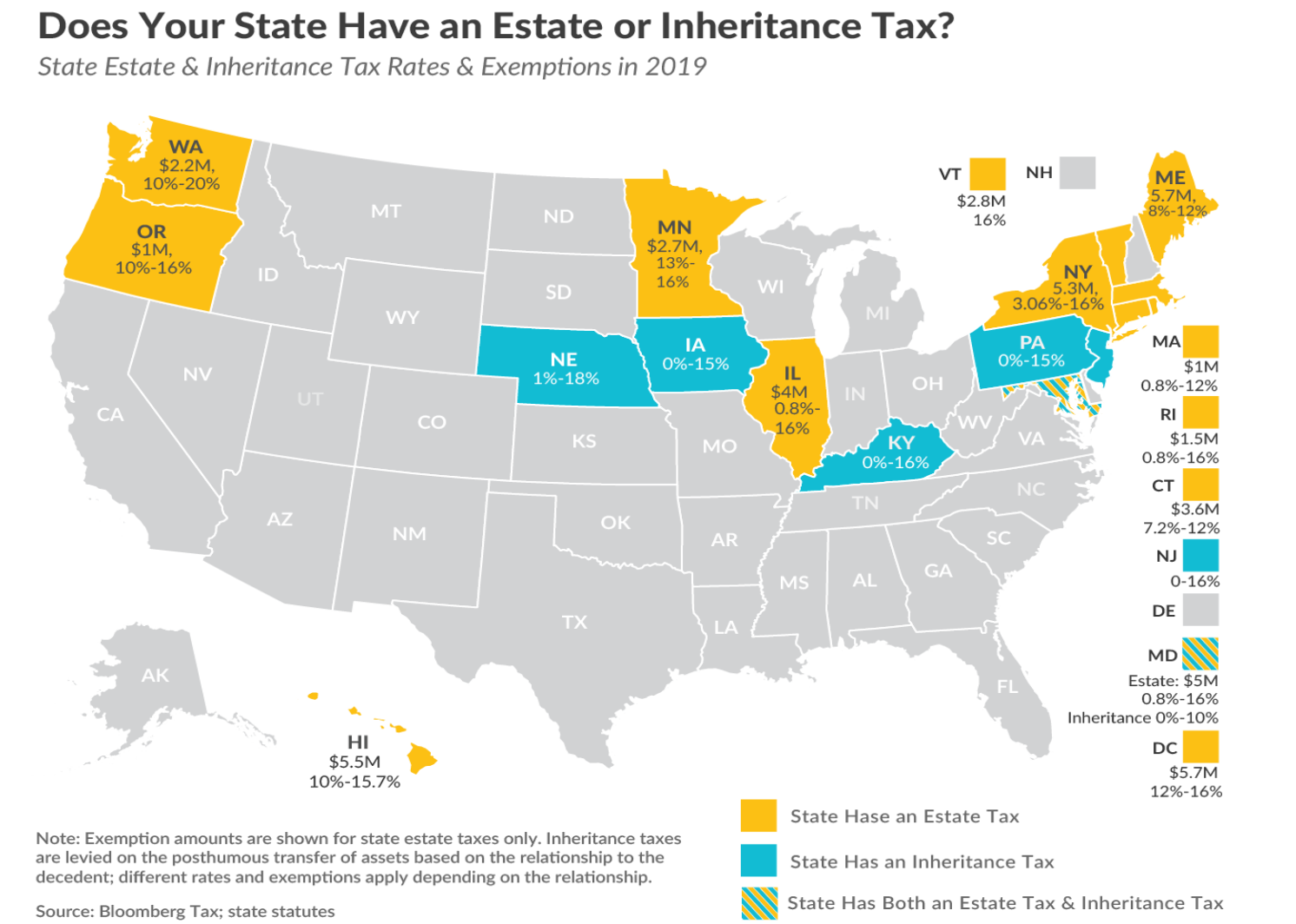
- The Tax Cuts and Jobs Act (TCJA) significantly increased the estate exclusion amount (presently $11.58 million for 2020), though there had been concern that individuals taking advantage of the higher exclusion amount might one day owe additional tax for prior gifts, should the estate exclusion decrease after 2025.
- Last November, the Treasury Department and IRS issued final regulations that individuals utilizing the increased gift and estate tax exclusion amounts from 2018 to 2025 would *not* be adversely impacted after 2025, should the exclusion revert to pre-2018 levels.
- ***Key Takeaway:*** Individuals who have – or are likely to have – a taxable estate *and* who have sufficient assets for retirement may want to consider gifting additional assets to loved ones while the exclusion amount stands at an increased level.

ESTATE PLANNING UPDATES

Don't Forget Estate Tax at the State Level!

Many states have estate exclusions far below the federal level which may result in state estate taxes.

Older estate plans should be reviewed to ensure trust provisions incorporate current federal and state estate tax limits.



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GUIDE TO ESTATE PLANNING

Level One (Must Haves)

Planning for and documenting the transfer of assets with minimized tax and transfer cost. Review upon life events (marriage, divorce, birth, adoption, etc.)

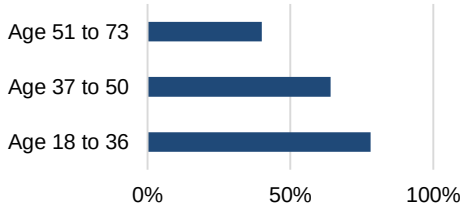
- A Will appoints guardians for your children and spells out specifically how you want your property split
- A Living Trust avoids probate, allows for privacy, and designates how assets are to be divided upon your death
- A Healthcare Power of Attorney allows you to designate a Healthcare agent to make healthcare decisions in the event you are unable to make decisions for yourself
- A Financial / Property Power of Attorney allows you to designate an agent to make financial decisions in the event you are unable to make decisions for yourself
- Joint accounts transfer to a designated person upon death, it is important to review co-ownership provisions and the titling of accounts
- Some assets (such as IRAs, Life Insurance, and Annuities) pass to your designated Beneficiaries. It is very important to periodically review beneficiary designations

Level Two (Considerations)

Further enhance the direction of assets, minimize Estate Taxes or increase Asset Protection

- Grantor Retained Annuity Trusts (GRAT) seek to pass assets to beneficiaries free of estate and gift tax that have appreciated over the IRS Section 7520 interest rate
- Explore Charitable Trust, Donor-Advised Fund and Foundation Options
- Since Life Insurance is not necessarily estate tax-free, consider establishing an Irrevocable Life Insurance Trust
- Qualified Personal Residence Trust (QPRT)
- Intra-Family Loans can provide family members lower borrowing rates than traditional financing options
- Special Needs Trusts ensure the proper passing of assets to ensure beneficiaries with special needs are not disqualified from entitled benefits

American Adults Without A Will



Source: Caring.com, 2017 Survey

Level Three + (Advanced)

For Complex Estate Tax Issues or Liability Concerns

- Domestic and Offshore Asset Protection Trusts offer those in high liability fields of work and those with high estate tax brackets options to reduce liability
- Self-Cancelling Notes allow the exchange of property for periodic payments based upon mortality
- Family Limited Partnerships and Family LLC's provide legal, financial, and tax structure to family businesses

Concept Check: Portability

Portability allows you to use your spouse's unused estate tax exclusion. While portability was made permanent for federal estate tax purposes, you should check if your resident state also allows for portability of a deceased spouse's unused estate exclusion. In the event your resident state does not allow for portability, it may make sense for both spouses to have assets in their respective name (or trust's name) up to the resident state's estate exclusion amount.

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HOW ASSETS PASS UPON DEATH

Probate vs Non-Probate Assets

Probate is a public-court process that helps settle legal and financial matters upon death according to a will, if written.

Court costs, length of time, the lack of privacy and family disagreements are all potential issues that may arise within the probate process. With proper estate planning, you can limit the amount of assets that pass through probate.

How assets pass upon death

Assets That Bypass Probate			Probate Assets
Jointly Held Assets	**Assets w/ Beneficiaries**	**Assets held in Trust**	Individually-owned assets with no beneficiary (ex. cars, home, bank account and personal belongings). Assets titled Tenancy in Common
Joint Accounts JTWROS Tenancy by the Entirety	Retirement Accounts IRA and Annuities Transfer on Death Life Insurance	Trust Agreements	
			Last Will & Testament
To Joint Owner	**To Named Beneficiary**	**To Trust Beneficiary**	**To Will Beneficiary**

Digital Assets: *Nearly all 50 states have passed a version of the Uniform Law Commission's Fiduciary Access to Digital Assets Act, Revised that legally allows for an executor, trustee, etc. to access a deceased's digital accounts. Consider discussing your digital estate with your attorney and the potential need to share online access information with your executor.*

Source: Uniform Law Commission, 2019

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HOW ASSETS PASS UPON DIVORCE

Marital vs Non-Marital Assets

Estate planning is not divorce planning. Without a pre- or post-nuptial agreement, marital assets are subject to equitable division in a divorce proceeding.

Effective for divorces finalized after January 1, 2019, alimony payments will no longer be tax-deductible by the paying spouse and will not be added to the taxable income of the receiving spouse.

How assets pass upon divorce

Marital Assets	Non-Marital Assets
Property Acquired During Marriage	**Property Acquired Before Marriage**
Any property, real or personal, the couple acquires during the course of the marriage, regardless of title or who paid for it. Typical examples include: • Retirement and Investment Accounts • Pensions • Homes and Vacation Homes	Any property, real or personal, acquired prior to the marriage, also including specific instances of property acquired during the course of the marriage by one spouse. Typical examples include: • Inheritances • Gifts • Any property owned prior to marriage
Subject to Equitable Division	**Not Subject to Equitable Division**

Tainting of Assets: *Non-marital assets may be tainted during the course of a marriage and may be treated as marital assets in a divorce proceeding. For example, if a spouse deposits a personal inheritance into a joint account or uses income from an inheritance to support the couple's lifestyle, this non-marital asset may be treated as a marital asset.*

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GUIDE TO RISK MANAGEMENT

A thoughtful risk management (insurance) plan requires periodic evaluations to reassess objectives and sufficiency of coverages.

Life	• Review the reasons, necessity and beneficiaries of life insurance policies as circumstances and objectives may have changed since the original purchase.
Disability	• Disability Insurance generally replaces up to 60 percent of income in the event of disability and can vary upon length. It is important to understand the definition of disability in your policy and whether it covers your own-occupation or any-occupation, particularly for those who are in careers with high specialization (ex. Surgeon, Medicine, Construction, etc.).
Property & Casualty	• It is important to review your Auto and Homeowners policies to ensure you are adequately covered. Purchasing an umbrella liability policy to augment existing home and auto policies may be beneficial. Umbrella insurance can help protect against major claims and lawsuits. It is advisable to purchase a coverage amount that equals current net worth (at a minimum) and perhaps also factors anticipated future increases to net worth.
Health	• It is important to review coverage options, particularly those who are retiring early. Insurance options are available on healthcare exchanges while eligibility for Medicare begins at age 65. While Medicare provides basic medical coverage, purchasing additional coverage such as a Medigap or a supplemental policy may make sense.
Long-Term Care	• Protects against prolonged illness, accident and disability – not covered by traditional health insurance. It may be advantageous to start the conversation at age 50, review by age 60 but likely no later than age 70.

PROPERTY & CASUALTY INSURANCE

Common mistakes

1. Failing to understand policy coverage terms
2. Purchasing coverage that does not cover the full replacement or fair value of an asset
3. Not revisiting/updating coverage as net worth changes over time

Umbrella Liability Coverage

- Provides additional liability coverage against judgments in lawsuits in excess of primary home and auto insurance liability coverages

Scenario #1: No Coverage Gaps

Automobile Liability	Auto Insurance Policy	Umbrella Insurance Policy
Homeowners Liability	Homeowners Policy	Umbrella Insurance Policy

Scenario #2: Coverage Gaps

Automobile Liability	Auto Insurance Policy	Liability / Exposure	Umbrella Insurance Policy
Homeowners Liability	Homeowners Policy	Liability / Exposure	Umbrella Insurance Policy

$100k $300k $500k …. $5MM

Art, Jewelry and Collectibles Insurance

- Insure art, jewelry and collectibles with adequate insurance coverage with your property and casualty provider.
- In the case of modern artwork, more timely appraisals may be needed to keep pace with potentially rapidly changing values.

John Smith, Modern Painter
Painting X
Purchased 01/01/2018
Fair Value $30,000

John Smith, Modern Painter
Painting Y; Painting Z
02/28/18 Sale $200,000;
05/01/18 Sale $400,000

John Smith, Modern Painter
Painting X
06/30/18 New Fair Value
$250,000

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HEALTH INSURANCE

Insurance costs have increased by 740 percent since 1984 – Picking the right insurance plan matters*

Types of Plans	Description
Health Maintenance Organization (HMO)	Typically less expensive annual premiums, lower-to-no deductible, out-of-network doctors are not covered, and many plans require primary care physician to provide a referral to see a specialist.
Preferred Point Provider (PPO)	Premiums tend to be higher, higher deductible, out-of-network doctors/hospitals may be covered, and specialists can generally be seen without a referral from a primary care physician
High Deductible Health Plan (HDHP)	Lowest monthly premiums of the main plans, higher annual deductibles and out-of-pocket maximum limits, and ability to contribute to a Health Savings Account

Medical Savings Plans

- Health Savings Account (HSA)
  - Available only to individuals covered by a qualified High Deductible Health Plan (HDHP)
  - Contributions limited to $3,550 self/$7,100 family; additional $1,000 limit for age-55+ catch-up contributions
  - Contributions are tax-deductible
  - Earnings grow tax-free and distributions for qualified medical expenses are tax-free
  - Unused balances roll over to the next year

- Flexible Savings Plan (FSA)
  - Available to individuals with benefits package from employer
  - Pre-tax payroll deduction; contributions limited to $2,750
  - Unused annual balances are forfeited, unless employer offers rollover

**Source: Analysis of Bureau of Labor Statistics Consumer Expenditures Survey by data company Clever.*

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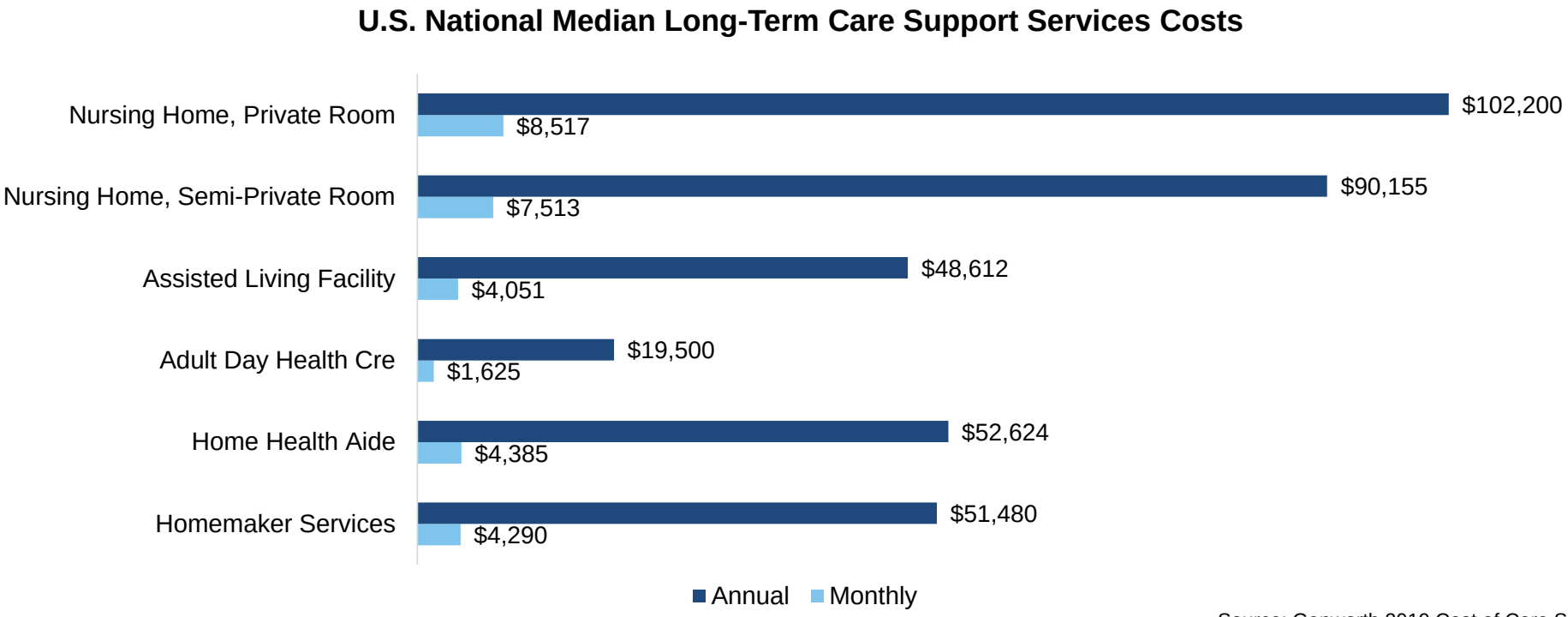
LONG-TERM CARE INSURANCE

With 10,000 Baby Boomers turning age 65 every day, cost of care is increasing to keep up with demand.



Source: Genworth 2019 Cost of Care Survey

Ways to Cover Long-Term Care Needs

1. Medicare (max 100 days) and Medicaid
2. Self-Insure
3. Long-Term Care Insurance
4. Hybrid Life Insurance/Accelerated Death Benefits

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LONG-TERM CARE INSURANCE

Long-Term Care Insurance generally covers:

- Skilled care – licensed therapists, nursing homes, rehabilitation services
- Custodial care – home health aides, companion services
- Assisted living and sheltered care
- Adult day care and hospice care
- Care coordination services

When to buy:

- Consider at age 50, no later than age 70
- Before developing medical issues that might disqualify coverage

When to begin benefits:

- Qualifying for long-term care benefits generally involves assistance with two of the Activities for Daily Living (ADLs): Dressing, eating, toileting, bathing, transferring and continence

Other considerations:

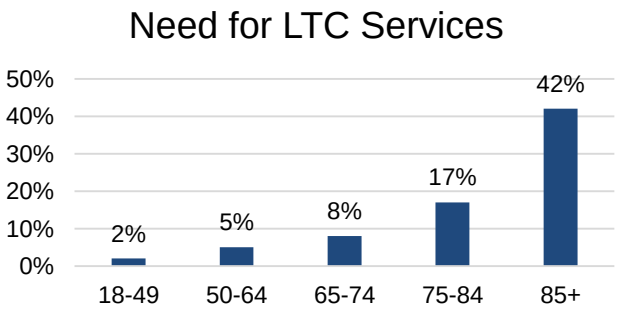
- Premium payment amounts are not guaranteed and may increase significantly after purchase
- Policyholders may be able to deduct a portion of premium payments (as medical expense, subject to the floor of 7.5 percent of AGI as itemized deduction)
- Most long-term care policies have a waiting period before benefits kick in (typically 90 days). All costs during waiting period are out-of-pocket.

70 — At least 70 percent of people over 65 will require some form of LTC services and support during their lifetimes

3 Years — Average Length of Care, increases to **8-10** years with Alzheimer's

+4% — Annualized Increase in the cost of care since 2014

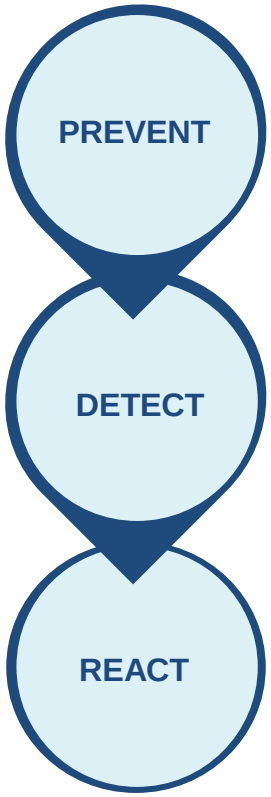
Source: Genworth 2019 Cost of Care Survey

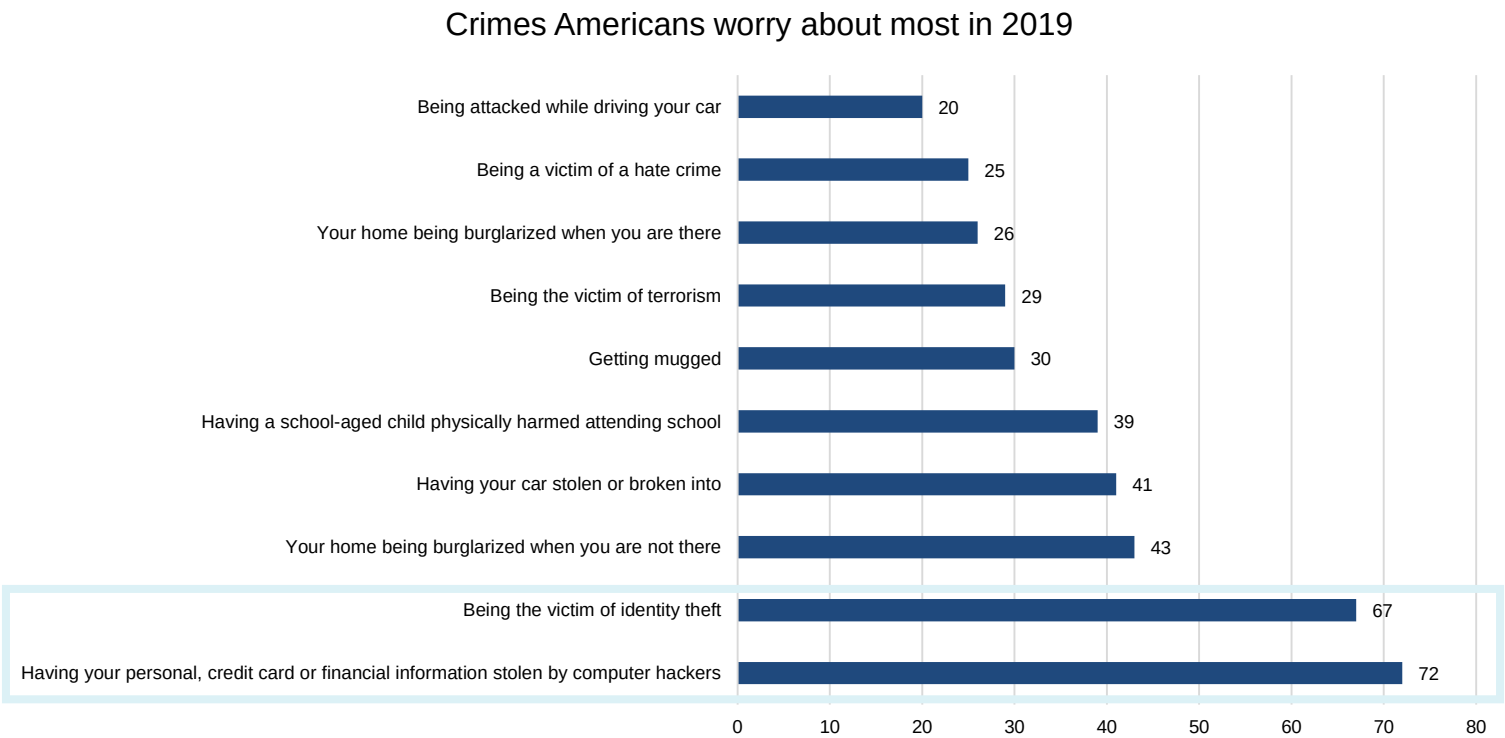


Source: American Association for Long-Term Care Insurance

CYBERSECURITY

With the ever increasing threat and costs of cyberattacks, individuals need to take precautions to keep sensitive information secure and know how to detect and react to a cybercrime.





Source: Gallup; Statista 2019

91%

It is estimated that 91 percent of all cyber-attacks start with phishing emails.

57%

North America is the most popular target and accounted for 57 percent of total global data breaches in 2018.

$20 billion

The expected global cost of ransomware by 2021.

0.80%

According to reports, 0.80 percent of the world's GDP is being lost to the costs of cybercrime.

Source: Cybriant

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CYBERSECURITY

PREVENT

1. ***Strong Passwords:*** Use a combination of numbers, symbols and letters to form a long, complex password. Use unique passwords for each online login and regularly change all passwords.
2. ***Multi-Factor Authentication:*** If available, enable two-factor authentication for email, social media, financial accounts, etc. This functionality sends a one-time code to a mobile device to verify access, thus preventing unauthorized parties from accessing your account without the code.
3. ***Software Updates:*** To limit your computer/device vulnerabilities, be sure to promptly update any security software, operating system, or other software releases.
4. ***Secure Wi-Fi Network:*** To deter cybercriminals from accessing devices through a home's wireless router, change the Wi-Fi network's factory-set default username and password. Avoid unsecure access to public Wi-Fi networks, such as in coffee shops, airports, hotels, etc. A virtual private network (VPN) creates a personal, private network across public networks.
5. ***Cautiousness with targeted telephone calls:*** Avoid divulging any banking or personal information to a caller over the phone and do not give in to pressure to take immediate action. The IRS and law enforcement agencies will not call you. Beware of the question "can you hear me" which leads to the recording of you saying "yes" to authorize unwanted charges, etc.
6. ***Document Management:*** Shred or destroy papers containing your personal information including credit card offers and "convenience checks" that you will not use.
7. ***Safe Surfing*:** Only open emails, attachments, and links from people you know. Pay attention to a website's URL; hover over any links to see where they lead.

Password Managers

- Dashlane
- Keeper
- LastPass
- 1Password

Identify Protection Services

- Identity Guard
- Identity Force
- ID Shield
- LifeLock
- Eversafe

Virtual Private Networks (VPN)

- TunnelBear
- NordVPN
- IPVanish

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CYBERSECURITY

DETECT

1. ***Account Review*:** Open your credit card bills and bank statements right away. Check carefully for any unauthorized charges or withdrawals and report them immediately.

2. ***Review Your Credit Report:*** By law, you can obtain a free credit report every 12 months from www.annualcreditreport.com. According to the Federal Trade Commission, this is the only authorized source for the free annual credit report (though it will not include your FICO score). You should review your credit report for any discrepancies (unauthorized accounts, etc.).

   Additionally, you can pay for a credit report from one of the three nationwide credit reporting bureaus (Equifax, Experian, Transunion). Generally speaking, these companies offer a three-in-one credit report (costs range between $40-60) which details your credit report from each company and may also include your FICO score.

REACT

If you have been a victim of identity theft:

- File a report with the local law enforcement agency.
- File Form 14039 (Identity Theft Affidavit) with the Internal Revenue Service.
- Contact one of the three credit bureaus (Equifax, Experian, and TransUnion) to report the crime and freeze credit. Once one of the credit bureaus issues a fraud alert, the other two bureaus are automatically notified.

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FRAUD PREVENTION

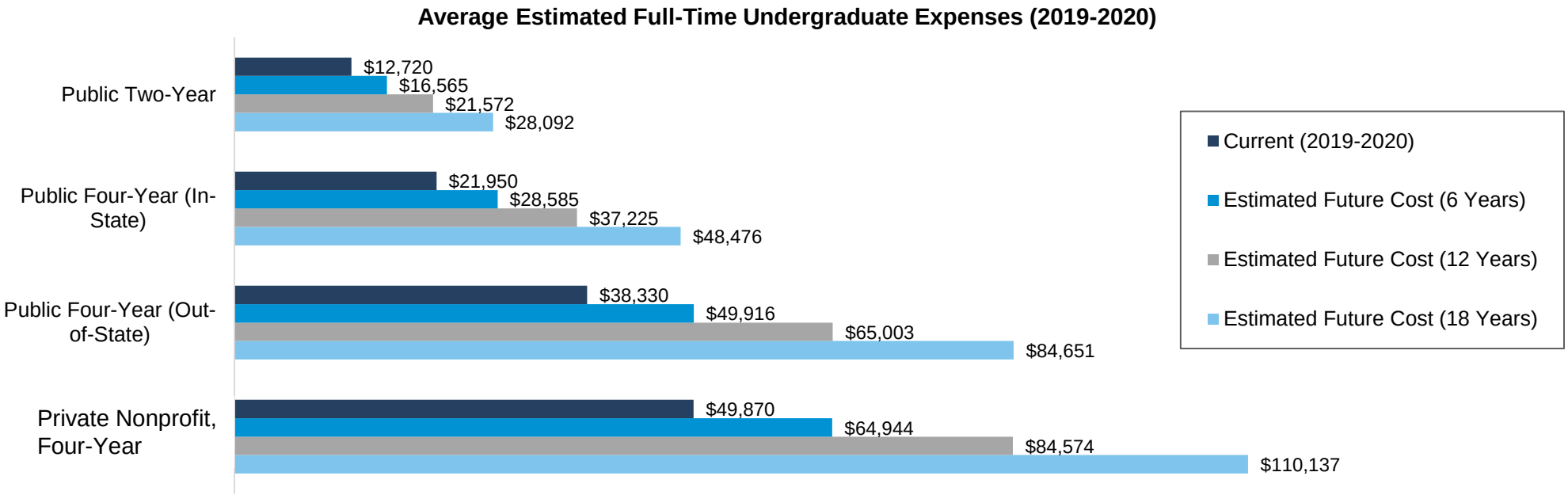
Excerpts from "10 Things You Can Do to Avoid Fraud" by the Federal Trade Commission (FTC)

Spot imposters	• Scammers often pretend to be someone you trust, like a government official, a family member, a charity or a company you do business with. Don't send money or give out personal information in response to an unexpected request — whether it comes as a text, a phone call or an email.
Talk to someone	• Before you give up your money or personal information, talk to someone you trust. Con artists want you to make rushed decisions. They might even threaten you. Slow down, check out the story, do an online search, consult an expert — or just tell a friend.
Don't believe your caller ID	• Technology makes it easy for scammers to fake caller ID information, so the name and number you see aren't always real. If someone calls asking for money or personal information, hang up. If you think the caller might be telling the truth, call back to a number you know is legitimate.
Consider how you pay	• Credit cards have significant fraud protection built in, but some payment methods don't. Wiring money through services like Western Union or MoneyGram is risky because it's nearly impossible to get your money back; that's also true for reloadable cards (like MoneyPak or Reloadit) and gift cards (like iTunes or Google Play). Government offices and honest companies won't require you to use these payment methods.
Be skeptical about free trial offers	• Some companies use free trials to sign you up for products and bill you every month until you cancel. Before you agree to a free trial, research the company and read the cancellation policy. Always review your monthly statements for charges you don't recognize.
Sign up for free scam alerts from the FTC at *ftc.gov/scams*	• Get the latest tips and advice about scams sent right to your inbox. If you spot a scam, report it at ftc.gov/complaint. Your reports help the FTC and other law enforcement investigate scams and bring criminals to justice.

Source: Federal Trade Commission (FTC)

EDUCATION PLANNING

With college costs steadily rising, a four-year education has become an increasingly expensive proposition. Over the last 10 years, published tuition and fees and room and board (TFRB) expenses have increased annually at 1.9 percent above inflation for public four-year institutions and at 1.8 percent above inflation for private nonprofit four-year institutions.



Four Reasons Why Costs Are Rising

- **Spending** to attract the best students
- **Hiring** to reduce student-to-faculty ratios
- Colleges are receiving **less financial support** from states
- Colleges are attracting **more international students** willing to pay higher tuition

Current expenses via College Board's "Trends in Annual Pricing 2019." Calculations for estimated future college costs assume a 4.5 percent annualized increase

CORDASCO FINANCIAL NETWORK

SAVING FOR COLLEGE

Assumptions:

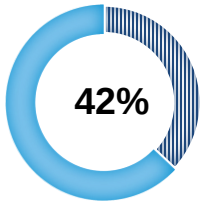
- Annual cost of college is $40,000 per year
- Annual cost of college increases by 4.5 percent per year
- College savings (529 Plan, etc.) annualize at 6 percent per year
- Parent(s)/Guardian(s) wish to fully fund college education

Years until College	$0 Beginning Balance	$10,000 Beginning Balance	$25,000 Beginning Balance	$50,000 Beginning Balance	$75,000 Beginning Balance	$100,000 Beginning Balance
18	$912	$836	$723	$533	$344	$154
17	$957	$879	$762	$566	$370	$174
16	$1,008	$927	$805	$602	$399	$196
15	$1,065	$980	$854	$643	$432	$221
14	$1,130	$1,042	$909	$689	$469	$248
13	$1,204	$1,112	$973	$742	$511	$280
12	$1,291	$1,194	$1,047	$803	$559	$315
11	$1,394	$1,290	$1,134	$875	$616	$357
10	$1,516	$1,405	$1,239	$961	$684	$406
9	$1,666	$1,546	$1,366	$1,066	$765	$465
8	$1,852	$1,721	$1,524	$1,195	$867	$538
7	$2,092	$1,946	$1,727	$1,362	$997	$631
6	$2,411	$2,246	$1,997	$1,583	$1,168	$754
5	$2,858	$2,664	$2,374	$1,891	$1,408	$925

Hypothetical illustration only. Actual results may vary based on a variety of factors (annual performance of savings, annual college cost increases, etc.)
These returns are hypothetical and do not represent returns earned by clients of DiMeo Schneider & Associates, L.L.C.

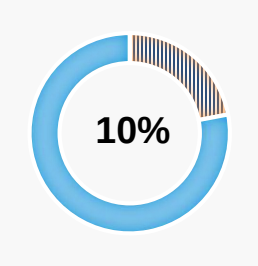
COLLEGE SAVINGS OPTIONS

Percent of Parents who own an account



529 Plan

- Tax-free investing and distribution for qualified college education expenses***, as well as distributions up to $10,000 per child per year for K-12 expenses and cost of apprenticeship programs, and up to $10,000 for qualified student loan repayments (lifetime limit).***
- With limited exceptions, non-qualified withdrawals are taxed as ordinary income *plus* a 10 percent penalty on the earnings.
- Can change beneficiaries.
- Investment allocation can be changed up to twice per year for previously invested funds.
- No income limits for contributors. Special provisions allows for up to five years of annual gift exclusions to be made ($75,000 as individual, $150,000 as a couple).
- 49 states and the District of Columbia offer a 529 plan; 34 states offer resident tax benefits
  - **Illinois**: IL taxpayers can deduct up to $10,000 (single) or $20,000 (married filing jointly) per year for aggregate contributions to Illinois 529 plans. Rollovers – contributions only, not earnings – from other state 529 plans also qualify for the deduction.
  - Seven tax parity states offer taxpayers a deduction for contributions to any state's 529 plan:
    - Arizona, Arkansas, Kansas, Minnesota, Missouri, Montana and Pennsylvania.
  - Seven states currently have a state income tax, but do *not* offer a deduction for contributions:
    - California, Delaware, Hawaii, Kentucky, Maine, New Jersey and North Carolina.



Custodial Account (Uniform Gifts to Minors Act/Uniform Transfer to Minors Act)

- Funds must be used for child's benefit, not necessarily for college
- **High impact** on financial aid eligibility
- Child assumes full control at age of majority (generally age 18 or 21)
- Per the SECURE Act, the kiddie tax rules (for children under age 19, or full-time college students under age 24) revert to the 'old rules' whereby unearned income above a certain amount is generally taxed at the parents' marginal tax rate.

MORNINGSTAR 529 PLAN RATINGS (2019)

Gold-Rated Plans (4)	State
ScholarShare College Savings Plan	CA
Bright Start College Savings Plan	IL
my529 Plan	UT
Invest 529 Plan	VA

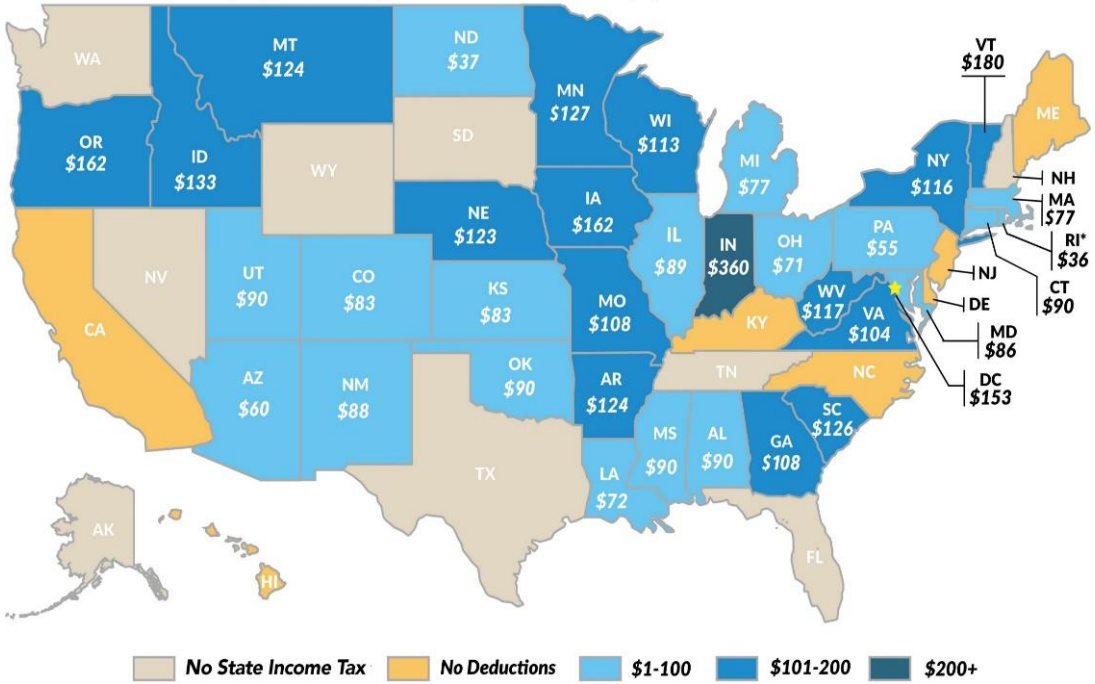
Silver-Rated Plans (13)	State
T. Rowe Price College Savings Plan	AK
Fidelity Arizona College Savings Plan	AZ
Delaware College Investment Plan	DE
Bright Directions College Savings Plan *	IL
MD Kasemeyer College Investment Plan	MD
U. Fund College Investing Plan	MA
Michigan Education Savings Program	MI
Minnesota College Savings Plan	MN
The Vanguard 529 College Savings Plan	NV
UNIQUE College Investing Plan	NH
New York's 529 Program	NY
College Advantage 529 Savings Plan	OH
College America *	VA

** Advisor-sold plan*

Individuals can contribute to any 529 plan (i.e. not limited to the resident state plan). If your resident state does not offer a meaningful tax deduction or tax credit for 529 plan contributions, consider a plan that has low fees and a broad range of investment options.

Websites such as Savingforcollege.com can be a helpful resource for comparing 529 plans.

Estimated tax savings for a couple filing jointly with $100,000 in taxable income contributing $100/month to each of their two children's 529 plans. Calculations assume taxpayers itemize deductions on their federal return.



*The state of Rhode Island caps deductions at $1,000 for married couples filing jointly

Source: Savingforcollege.com State Tax 529 Calculator

CORDASCO FINANCIAL NETWORK

ESTIMATING FINANCIAL AID ELIGIBILITY

Filing a Free Application for Federal Student Aid (FAFSA) Application

The Department of Education uses the Expected Family Contribution (EFC) formula to determine whether your child is eligible to receive any financial aid.

Q: When Can You Apply?

A: Each October of the year **before** college begins. Starting in 2017, you can take advantage of the "prior-prior" rule, which allows families to use income and tax information from **two years before college**.

Total Cost of College — **Expected Family Contribution** = **Federal Financial Aid Eligibility**

What's Considered for Expected Family Contribution:

Parents	Dependent Students	Grandparents/Other
• 22 to 47 percent of Adjusted Gross Income above exclusion (factoring household, number of students in college) • Up to 5.64 percent of investment, savings and 529 plan accounts	• 50 percent of income above $6,570 • 20 percent of all assets owned by child	Zero percent of income and assets considered, though 529 withdrawals may be considered student income and must be reported on FAFSA forms. Such income can reduce the amount of aid by 50 percent.

DISCLOSURES

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When referencing asset class returns or statistics, the following indices are used to represent those asset classes. Each index is unmanaged and investors can not actually invest directly into an index: Cash –Citigroup 90 Day T-Bill; TIPS – Bloomberg Barclays US Treasury TIPS; Aggregate Bond – Bloomberg Barclays US Aggregate Bond Index; Municipal Bond – Bloomberg Barclays Municipal 5-Year Bond; High Yield – Bloomberg Barclays US Corporate High Yield; Foreign Bond – Bloomberg Barclays Global Aggregate Ex USD; Local Currency Denominated Emerging Markets Debt – JPMorgan GBI-EM Global Diversified Unhedged Index; Large Value – Russell 1000 Value; Large Blend – S&P 500; Large Growth – Russell 1000 Growth; Small Value – Russell 2000 Value; Small Blend – Russell 2000; Small Growth – Russell 2000 Growth; International – MSCI EAFE; Emerging Markets – MSCI EM; REITs – FTSE NAREIT Equity REITs; Commodities – Bloomberg Commodity Index; MLP – Alerian MLP; Hedge Funds – HFRI Fund of Funds Composite Index; Balanced – 5% Bloomberg Barclays US Treasury TIPS, 10% Bloomberg Barclays US Aggregate Bond Index, 4.5% Bloomberg Barclays Global Aggregate Ex USD, 4.5% Bloomberg Barclays Global Aggregate Ex USD (Hedged), 9% Bloomberg Barclays US Corporate High Yield, 2% JPMorgan GBI-EM Global Diversified Unhedged Index, 16% S&P 500, 5% Russell 2000, 12% MSCI EAFE, 7% MSCI EM, 5% FTSE NAREIT Equity REITs, 5% Bloomberg Commodity Index, 5% Alerian MLP, 10% HFRI Fund of Funds Composite Index; Domestic Equity Indices – Russell 1000, Russell 1000 Growth, Russell 1000 Value, Russell Mid-Cap, Russell Mid Cap Growth, Russell Mid-Cap Value, Russell 2000, Russell 2000 Growth, Russell 2000 Value; International Developed Markets – MSCI EAFE; US Dollar – US Dollar Index; Unhedged Developed Fixed Income – Bloomberg Barclays Global Aggregate Ex USD (Hedged); Real Assets – Bloomberg Commodity Index; Materials, Financials, Energy, Oil & Gas, Healthcare, Information Technology, Consumer Related Sectors – Dow Jones Sector Indices; Small Cap Securities – Russell 2000, Russell 2000 Growth, Russell 2000 Value; Large Cap Securities – Russell 1000, Russell 1000 Growth, Russell 1000 Value; Mid Cap Securities Russell Mid Cap, Russell Mid Cap Growth, Russell Mid Cap Value; Growth; Russell 1000 Growth, Russell Mid Cap Growth, Russell Small Cap Growth; Value – Russell 1000 Value, Russell Mid Cap Value, Russell 2000 Value; Fixed Income Markets – Bloomberg Barclays US Treasury TIPS, Bloomberg Barclays Municipal 5-Year Bond, Bloomberg Barclays Aggregate; Investment Grade Corporate Securities – Bloomberg Barclays US Credit; Long Maturity Treasuries –Bloomberg Barclays US Treasury 20+ Year; Shorter Dated Issues – Bloomberg Barclays US Treasury 1-3 Year; Industrial-, Financial-and Utility- Related Credits – Bloomberg Barclays Fixed Income Sector Indices; BB-Rated, B-Rated and CCC-Rated – Bloomberg Barclays Fixed Income Credit Quality Indices; MBS –Bloomberg Barclays US MBS; ABS – Bloomberg Barclays ABS; Crude Oil – Bloomberg Composite Crude Oil; Australia, New Zealand, Japan, China, India, Taiwan, South Korea, Brazil, Mexico, Chile, South Africa, Turkey, Egypt, Hungary, Poland, Russia, Canada, United Kingdom, Spain, Germany, Italy, France – MSCI Country Index Gross Return USD; Natural Gas – Bloomberg Natural Gas.

APPENDIX:
ADDITIONAL RESOURCES

TAX PLANNING

Additional Resources:

Tax Foundation – 2020 Tax Brackets
https://taxfoundation.org/2020-tax-brackets/

Tax Foundation – As Tax Filing Season Begins, Taxpayers Prepare for 2020 Federal Tax Changes
https://taxfoundation.org/2019-tax-filing-season-begins-2020-federal-tax-changes/

Key SECURE Act Provisions and Effective Dates
https://www.napa-net.org/news-info/daily-news/key-secure-act-provisions-and-effective-dates

These Important Tax Changes in the Secure Act Have Nothing to do with Retirement
https://www.marketwatch.com/story/these-important-tax-changes-in-the-secure-act-have-nothing-to-do-with-retirement-2020-01-13

The SECURE Act Fixes The Kiddie Tax Glitch
https://www.forbes.com/sites/leonlabrecque/2020/01/09/bonus-round-in-the-secure-act-the-kiddie-tax-glitch-is-fixed-and-it-can-save-families-thousands-in-taxes/

Congress Passes Kiddie Tax Fix
https://www.savingforcollege.com/article/congress-passes-kiddie-tax-fix

House Votes to Temporarily Repeal Trump SALT Deduction Cap
https://thehill.com/policy/finance/475352-house-votes-to-temporarily-repeal-trump-salt-deduction-cap

SOCIAL SECURITY AND MEDICARE

Additional Resources:

DiMeo Schneider – Solving the Social Security Puzzle
https://www.dimeoschneider.com/research/solving-the-social-security-puzzle

Social Security – Retirement Planner: When to Start Your Benefits
https://www.ssa.gov/planners/retire/applying1.html

Social Security – Early vs. Late Retirement
https://www.ssa.gov/oact/quickcalc/early_late.html

Resources/Sites for Evaluating Social Security Benefits:
https://www.aarp.org/work/social-security/social-security-benefits-calculator.html
http://www.socialsecuritysolutions.com/
https://maximizemysocialsecurity.com/

Fidelity – "How to Get the Most from Social Security"
https://www.fidelity.com/viewpoints/retirement/get-most-from-social-security

Schwab – "When Should You Take Social Security?" (Dec 2017)
https://www.schwab.com/resource-center/insights/content/when-should-you-take-social-security

Forbes – "Filing For Social Security And The Restricted Application Online"
https://www.forbes.com/sites/tomhager/2018/10/15/filing-for-social-security-and-the-restricted-application-online/#61c811ec7fac

The Official U.S. Government Medicare Handbook
https://www.medicare.gov/sites/default/files/2018-09/10050-medicare-and-you.pdf

CYBERSECURITY AND FRAUD PREVENTION

Additional Resources:

Bankrate.com – "A 12-point checklist for victims of identity theft"
https://www.bankrate.com/finance/credit/steps-for-victims-of-identity-fraud.aspx

U.S. News & World Report – "10 Things to Do Immediately After Your Identity Is Stolen"
https://money.usnews.com/money/personal-finance/family-finance/articles/2018-06-22/10-things-to-do-immediately-after-your-identity-is-stolen

Norton by Symantec – "How to Choose a Strong Password"
https://us.norton.com/internetsecurity-how-to-how-to-choose-a-secure-password.html

Federal Trade Commission – "10 Things You Can Do to Avoid Fraud"
https://www.consumer.ftc.gov/articles/0060-10-things-you-can-do-avoid-fraud

Marketwatch – "These common scams target seniors – h ow to avoid them"
https://www.marketwatch.com/story/these-common-scams-target-the-elderlyhow-to-avoid-them-2018-11-15

Better Business Bureau (BBB) – "10 Steps to Avoid Scams"
https://www.bbb.org/avoidscams/

Visa Security Sense – "Tips for Preventing Fraud"
https://www.visasecuritysense.com/en_US/preventing-fraud.jsp

EDUCATION PLANNING

Additional Resources:

Trends in College Pricing
https://trends.collegeboard.org/college-pricing

Saving for College – "College Savings 101"
http://www.savingforcollege.com/college_savings_101/

Saving for College – "7 Top Benefits of 529 Plans"
http://www.savingforcollege.com/intro_to_529s/name-the-top-7-benefits-of-529-plans.php

Saving for College – "How much is your state's 529 plan tax deduction really worth?"
https://www.savingforcollege.com/article/how-much-is-your-state-s-529-plan-tax-deduction-really-worth

FinAid – The Smart Student Guide to Financial Aid
http://www.finaid.org/

The College Board – "Financial Aid 101"
https://bigfuture.collegeboard.org/pay-for-college/financial-aid

The College Board – Expected Family Contribution (EFC) Calculator
https://bigfuture.collegeboard.org/pay-for-college/paying-your-share/expected-family-contribution-calculator

Scholly – Scholarship Search
https://myscholly.com/

The Wall Street Journal – "How to Find College Aid – by Yourself or With Help"
https://www.wsj.com/articles/how-to-find-college-aidby-yourself-or-with-help-1515177781

Online College Savings Calculators
https://vanguard.wealthmsi.com/csp.php
https://www.savingforcollege.com/calculators/worlds-simplest-college-cost-calculator