

Confused How the New Tax Law Affects You?

You may need to reconsider how you file your return

In 2018, the most significant changes to US individual taxes since 1986 took effect. Many taxpayers were happy with their increased paychecks during the year, but surprised that they had taxes to pay or a smaller refund at year-end. Now that there's more clarity in the rules, and a better understanding of how the Tax Cuts and Jobs Act affects your personal tax situation, you may want to adjust your withholding to reflect the changes.

Your paycheck

Most taxpayers should expect to see a slight reduction in income taxes from pre-2018 levels based on changes to marginal income tax rates, especially at higher incomes. The following table presents seven tax brackets under the current law for the year 2019.

Tax Rate	Married Filing Joint	Individual
10%	\$0 to \$19,400	\$0 to \$9,700
12%	\$19,401 to \$78,950	\$9,701 to \$39,475
22%	\$78,951 to \$168,400	\$39,476 to \$84,200
24%	\$168,401 to \$321,450	\$84,201 to \$160,725
32%	\$321,451 to \$408,200	\$160,726 to \$204,100
35%	\$408,201 to \$612,000	\$204,101 to \$510,300
37%	\$612,001 or more	\$510,301 or more

All tax rates and brackets will sunset on December 31, 2025 (meaning that Congress will need to act to keep or change the rates). However, whatever rates are then in effect will adjust each year to account for rising costs of goods and services.

Bottom line: If you were upset by this year's refund or tax bill, consider changing your withholding to prevent a repeat in the 2019 tax year. Check with your company's human resources or payroll departments to make sure you are withholding the correct amount based on the new tax brackets.

Deductions

The current law increased the standard deduction to \$12,000 for individuals and \$24,000 for married couples filing jointly, and repealed the prior personal exemption



amount of \$4,050 for tax years 2018 through 2015. In addition, many itemized deductions have been changed or eliminated. For some, the higher standard deductions mean they no longer need to itemize. Others may see higher taxes resulting from the elimination of certain itemized deductions.

Notable changes to deductibility rules include the following:

- Deductions for medical expenses for those under age 65, which had been lowered to a 7.5% of Adjusted Gross Income (AGI) floor for 2017 and 2018, have returned to 10% in 2019.
- Deductions for state and local income, sales, and property taxes are now capped at a combined \$10,000 (or \$5,000 for married taxpayers filing a separate return). This provision, which will sunset in 2025, is likely to affect people who live in high-income-tax states.
- Home mortgage interest deductions cannot exceed \$750,000, and home equity interest payments are no longer deductible.
- Deductions for alimony payments are repealed starting in 2019, but no longer will be taxable as income to the recipient.

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Get the Right Amount of Investment Advice

Putting together your plan doesn't have to mean going it alone

You've decided to save for retirement by signing up for your company retirement plan. After you've settled on the investment profile that best suits your style of investing (say, conservative, aggressive, or somewhere in between), the next most important decision you can make is how to match your style to your plan's investment options. This part of investing is called asset allocation.

Selecting the right mix of investments for your plan requires some discipline to monitor your funds — at least annually, many experts say — to make sure your portfolio is on track to help you pursue your goals. Before you do that, you might want to think about how involved you want to be in managing your 401(k) account.

- Are you interested in learning about the investment markets, and have confidence in your ability to make your own choices (a “Do It Yourself Investor”)?
- Are you someone who likes to have access to some advice, but ultimately wants to make investment decisions on your own (a “Help Me Do It Investor”)?
- Would you rather focus on interests and hobbies outside of investing, and prefer more of a hands-off relationship with your money (a “Do It For Me Investor”)?

Depending on your company's retirement plan, you may be able to match your level of interest in managing your investments with the asset allocation options available to you under the plan.

Do It Yourself	Help Me Do It	Do It for Me
<ul style="list-style-type: none"> ▪ Mix and match from the plan's investment menu based on your own knowledge of investing and criteria. ▪ You may also consider an asset allocation fund that invests according to your comfort with risk, from conservative to moderate to aggressive. ▪ A target-date fund (TDF) might also be a sensible option.* TDFs invest according to your time horizon to retirement, getting more conservative as you approach and move past that date. 	<ul style="list-style-type: none"> ▪ You can use various resources — websites, calculators, help desk, and other tools and resources available online or by your employer — to construct the right asset allocation model for your situation. ▪ As your life's circumstances change, you will need to stay active in managing your account. This includes rebalancing your asset allocation, combining eligible accounts from prior employers, and keeping track of life changes that affect your family finances. 	<ul style="list-style-type: none"> ▪ For a cost, a professional management firm will select the funds for your retirement plan account and manage your asset allocation for you. ▪ You essentially “hire” an investment professional to make decisions about how your retirement plan will be managed, taking into account your individual needs and outside assets.

To learn more about these options, contact your retirement plan administrator or financial advisor.

* Please note the principal value invested in these funds is not guaranteed at any time, including at the specified target date.

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Retirement accounts

Most of the rules for 401(k) and other types of retirement plans remain the same under the current law. The law did repeal the rule allowing a taxpayer to recharacterize their Roth IRA conversion back to a traditional IRA, which removes the benefit of a “do-over” if the converted assets have poor returns in the year following the conversion.

Gifts to others

Families should generally be happy with the current tax rules, since the annual gifting exclusion has increased to \$15,000.

Broader use of college savings plans

College savings plans are not just for college anymore. You can now use 529 funds tax-free for qualified K-12 private school education expenses. You might want to add to existing or start new 529 plans for grandchildren, knowing that the money can now be used before college.

When Planning for Income, a Mix of Sources Can Help

Here are some options on how to tap income in retirement

To enjoy a comfortable retirement, you may need to balance multiple types of income streams in your portfolio. This could help you achieve the most advantageous mix of investment growth, income and tax control that’s appropriate to your risk tolerance, income horizon, and goals. These streams can come from the following sources:

Retirement accounts – Funds held in your 401(k) or IRA can be used as a source of income.¹ Financial planners generally recommend that you withdraw no more than 4% from your retirement accounts in the first year of your retirement. But that guidance comes with a caution light: If the market drops significantly in that year, you may want to take a far lesser amount than 4%, and then gradually increase the percentage to match the rate of inflation after markets begin to recover.

Bonds – These are “IOUs” issued by a government agency or a corporation, and generally pay you back your principal and a fixed rate of interest over a specific time period. Although bonds have paid relatively lower yields over the past 10 years, that is starting to change. The most efficient way for most investors to access a well-diversified portfolio of bonds is generally through a mutual fund that allows you to set up systematic monthly withdrawals. It’s important to note that bond funds generally entail less risk than stock funds, but they also tend to offer less reward.²

Social Security benefits – Social Security benefits generally replace about 40% of an average wage earner’s income after retirement and are an important source of lifetime income.³ However, with a lower birth rate, there is some growing concern that Social Security benefits, if no changes are made to the system, may not be fully available beginning in the year 2035.⁴ A sensible retirement plan should only rely on Social Security for a portion of retirement income. One rule of thumb suggests that if you consistently save 10% of your income for 40 years, you should have enough – combined with Social Security – to maintain your pre-retirement lifestyle (assuming prudent withdrawals).



Dividend-paying stocks – Some mature companies return a portion of their profits each year to holders of their stock in the form of dividend payments. Many investors consider the payment of a reliable and/or rising quarterly dividend to be a sign of a company’s health and sustainability.

Please note that dividends are not guaranteed, nor are companies in which you invest obliged to pay dividends.

Annuities⁵ – Issued by an insurance company, an annuity converts a single lump sum of money into a regular stream of income payments, either with a fixed or variable rate of interest, for a predetermined amount of time.

As with any investment strategy, it’s important to plan, and learn about your options. Working with a financial planner or advisor can also be a useful way to explore your income options once you stop receiving a regular paycheck.



- 1 Withdrawals from a qualified plan are subject to ordinary income taxes and a 10% federal tax penalty if taken prior to age 59½.
- 2 Investing in bonds and bond funds entails risk, including the risk of losing money. Bond-investing risks include interest rate risk, call risk, duration risk, refunding risk, and default and credit risk. For a helpful discussion of these risks, visit FINRA’s website: <http://www.finra.org/investors/understanding-bond-risk>
- 3 Understanding the Benefits 2019, SocialSecurity.gov. <https://www.ssa.gov/pubs/EN-05-10024.pdf>
- 4 “A Summary of the 2019 Annual Reports,” Social Security and Medicare Boards of Trustees. <https://www.ssa.gov/oact/TRSUM/>
- 5 All annuity guarantees are subject to the claims-paying ability of the issuing insurance company.

Retirement in Motion

Tips and resources that everyone can use

Sustainable investing with low-cost ETFs

Low cost, indexed exchange traded funds (ETFs) are improving access to what many investors are asking for — sustainable investing strategies that integrate the analysis of environmental, social, and governance (ESG) factors into the investment process and portfolio. Historically, ESG funds have had higher expenses due to the extra research that managers need to conduct on companies. However, as more money flows into ESG strategies, the companies that create ESG indexes are able to lower fees. A growing awareness of the benefits of ESG investment factors is also adding to investor demand.

Q&A

Can I use a Roth IRA to save for college?

Yes, with some caveats. Owners of a Roth IRA need to have income before they can contribute to a Roth IRA, so your kids won't be able to own their accounts. But if you as a parent or grandparent have income below \$122,000 and are single (\$193,000 married filing jointly), you can name anyone as a beneficiary. You can use proceeds from the Roth IRA to pay for qualified educational expenses, but it has to be for an eligible member of your family, and the money must be paid directly to an eligible educational institution. The tax treatment of withdrawals for this purpose from a Roth IRA differs from that of a 529 account, so be sure to consult with an accountant or tax advisor before making any moves.

Quarterly reminder

Am I going to make it to retirement?

When there are three months left in the year, it could be a great time to revisit the progress you've made toward your financial goals. These may include creating an emergency fund, debt management, planning a first car or home purchase (or refinancing), considering long-term care needs for yourself or other loved ones, or setting up a college savings plan, among others.

Tools & techniques

What's keeping you from saving?

Many people say they don't invest for retirement because they don't have the money. Turns out the issue may be more related to indecisiveness than lack of available funds. It's not that people are indecisive about saving and investing, but more that they don't know it's okay to be decisive. Very few decisions in life that are made incorrectly can't be fixed. One useful technique is to write down your financial goals. Often you can gain the clarity you need to make your next money decision.

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