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STRATEGIC FINANCIAL GROUP

# Quarterly Newsletter

## *Strategic Retirement Plan Services*

### How Much Risk Can You Take?



Many market shocks are short-lived once investors conclude the event is unlikely to cause lasting economic damage. Still, major market downturns such as the 2000 dot-com bust and the 2008-09 credit

crisis are powerful reminders that we cannot control or predict exactly how, where, or when precarious situations will arise.

Market risk refers to the possibility that an investment will lose value because of a broad decline in the financial markets, which can be the result of economic or sociopolitical factors. Investors who are willing to accept more investment risk may benefit from higher returns in the good times, but they also get hit harder during the bad times. A more conservative portfolio generally means there are fewer highs, but also fewer lows.

Your portfolio's risk profile should reflect your ability to endure periods of market volatility, both financially and emotionally. Here are some questions that may help you evaluate your personal relationship with risk.

#### How much risk can you afford?

Your capacity for risk generally depends on your current financial position (income, assets, and expenses) as well as your age, health, future earning potential, and time horizon. Your time horizon is the length of time before you expect to tap your investment assets for specific financial goals. The more time you have to keep the money invested, the more likely it is that you can ride out the volatility associated with riskier investments. An aggressive risk profile may be appropriate if you're investing for a retirement that is many years away. However, investing for a teenager's upcoming college education may call for a conservative approach.

#### How much risk may be needed to meet your goals?

If you know how much money you have to invest and can estimate how much you will need in the future, then it's possible to calculate

a "required return" (and a corresponding level of risk) for your investments. Older retirees who have sufficient income and assets to cover expenses for the rest of their lives may not need to expose their savings to risk. On the other hand, some risk-averse individuals may need to invest more aggressively to accumulate enough money for retirement and offset another risk: that inflation could erode the purchasing power of their assets over the long term.

#### How much risk are you comfortable taking?

Some people seem to be born risk-takers, whereas others are cautious by nature, but an investor's true psychological risk tolerance can be difficult to assess. Some people who describe their personality a certain way on a questionnaire may act differently when they are tested by real events.

Moreover, an investor's attitude toward risk can change over time, with experience and age. New investors may be more fearful of potential losses. Investors who have experienced the cyclical and ever-changing nature of the economy and investment performance may be more comfortable with short-term market swings.

#### Brace yourself

Market declines are an inevitable part of investing, but abandoning a sound investment strategy in the heat of the moment could be detrimental to your portfolio's long-term performance. One thing you can do to strengthen your mindset is to anticipate scenarios in which the value of your investments were to fall by 20% to 40%. If you become overly anxious about the possibility of such a loss, it might be helpful to reduce the level of risk in your portfolio. Otherwise, having a plan in place could help you manage your emotions when turbulent times arrive.

*All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.*

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Key Retirement and Tax Numbers for 2018

Don't Wait to Ask Aging Parents These Important Questions

Why is it important to factor inflation into retirement planning?

Is a nursing home the only option for long-term care?

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## Key Retirement and Tax Numbers for 2018



*\*The Tax Cuts and Jobs Act made significant changes to the estate and gift tax, the personal exemption, the standard deduction, and the alternative minimum tax, which are included here.*

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2018.\*

### Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$18,500 in compensation in 2018 (up from \$18,000 in 2017); employees age 50 and older can defer up to an additional \$6,000 in 2018 (the same as in 2017).
- Employees participating in a SIMPLE retirement plan can defer up to \$12,500 in 2018 (the same as in 2017), and employees age 50 and older can defer up to an additional \$3,000 in 2018 (the same as in 2017).

### IRAs

The limit on annual contributions to an IRA remains unchanged at \$5,500 in 2018, with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2017	2018
<b>Single/head of household (HOH)</b>	\$62,000 - \$72,000	\$63,000 - \$73,000
<b>Married filing jointly (MFJ)</b>	\$99,000 - \$119,000	\$101,000 - \$121,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

*Note: The 2018 phaseout range is \$189,000 - \$199,000 (up from \$186,000 - \$196,000 in 2017) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.*

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2017	2018
<b>Single/HOH</b>	\$118,000 - \$133,000	\$120,000 - \$135,000
<b>MFJ</b>	\$186,000 - \$196,000	\$189,000 - \$199,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

### Estate and gift tax

- The annual gift tax exclusion for 2018 is \$15,000, up from \$14,000 in 2017.
- The gift and estate tax basic exclusion amount for 2018 is \$11,200,000, up from \$5,490,000 in 2017.

### Personal exemption

There is no personal exemption amount for 2018; it was \$4,050 in 2017. For 2018, there is no phaseout of personal exemptions or overall limit on itemized deductions once AGI exceeds certain thresholds.

*Note: For 2017, personal exemptions were phased out and itemized deductions were limited once AGI exceeded \$261,500 (single), \$287,650 (HOH), \$313,800 (MFJ), or \$156,900 (MFS).*

### Standard deduction

	2017	2018
<b>Single</b>	\$6,350	\$12,000
<b>HOH</b>	\$9,350	\$18,000
<b>MFJ</b>	\$12,700	\$24,000
<b>MFS</b>	\$6,350	\$12,000

*Note: The additional standard deduction amount for the blind or aged (age 65 or older) in 2018 is \$1,600 (up from \$1,550 in 2017) for single/HOH or \$1,300 (up from \$1,250 in 2017) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.*

### Alternative minimum tax (AMT)

	2017	2018
<b>Maximum AMT exemption amount</b>		
<b>Single/HOH</b>	\$54,300	\$70,300
<b>MFJ</b>	\$84,500	\$109,400
<b>MFS</b>	\$42,250	\$54,700
<b>Exemption phaseout threshold</b>		
<b>Single/HOH</b>	\$120,700	\$500,000
<b>MFJ</b>	\$160,900	\$1,000,000
<b>MFS</b>	\$80,450	\$500,000
<b>26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount</b>		
<b>MFS</b>	\$93,900	\$95,750
<b>All others</b>	\$187,800	\$191,500

\*Alternative minimum taxable income



## Don't Wait to Ask Aging Parents These Important Questions



*The best time to start a conversation with your parents about their future needs and wishes is when they are still relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf without a roadmap.*

*Note: There are costs and ongoing expenses associated with the creation of trusts.*

*Note: A complete statement of long-term care insurance coverage, including exclusions, exceptions, and limitations, is found only in the long-term care insurance policy. It should be noted that carriers have the discretion to raise their rates and remove their products from the marketplace.*

It's human nature to put off complicated or emotionally heavy tasks. Talking with aging parents about their finances, health, and overall well-being might fall in this category. Many adult children would rather avoid this task, as it can create feelings of fear and loss on both sides. But this conversation — what could be the first of many — is too important to put off for long. The best time to start is when your parents are relatively healthy. Otherwise, you may find yourself making critical decisions on their behalf in the midst of a crisis without a roadmap.

Here are some questions to ask them that might help you get started.

### Finances

- What institutions hold your financial assets? Ask your parents to create a list of their bank, brokerage, and retirement accounts, including account numbers, name(s) on accounts, and online user names and passwords, if any. You should also know where to find their insurance policies (life, home, auto, disability, long-term care), Social Security cards, titles to their house and vehicles, outstanding loan documents, and past tax returns. If your parents have a safe-deposit box or home safe, make sure you can access the key or combination.
- Do you need help paying monthly bills or reviewing items like credit card statements, medical receipts, or property tax bills? Do you use online bill pay for any accounts?
- Do you currently work with any financial, legal, or tax professionals? If so, ask your parents if they want to share contact information and whether they would find it helpful if you attended meetings with them.
- Do you have a durable power of attorney? A durable power of attorney is a legal document that allows a named individual (such as an adult child) to manage all aspects of a parent's financial life if the parent becomes disabled or incompetent.
- Do you have a will? If so, find out where it is and who is named as executor. If the will is more than five years old, your parents may want to review it to make sure their current wishes are represented. Ask if they have any specific personal property disposition requests that they want to discuss now.
- Are your beneficiary designations up-to-date? Beneficiary designations on your parents' insurance policies, pensions, IRAs, and investment accounts will trump any instructions in their will.
- Do you have an overall estate plan? A trust? A living trust can be used to help manage an

estate while your parents are still living. If you'd like to learn more, consult an estate planning attorney.

### Health

- What doctors do you currently see? Are you happy with the care you're getting? If your parents begin to need multiple medical specialists and/or home health services, you might consider hiring a geriatric care manager, especially if you don't live close by.
- What medications are you currently taking? Are you able to manage various dosage instructions? Do you have any notable side effects? At what pharmacy do you get your prescriptions filled?
- What health insurance do you have? In addition to Medicare, which starts at age 65, find out if your parents have or should consider Medigap insurance — a private policy that covers many costs not covered by Medicare. You may also want to discuss the need for long-term care insurance, which helps pay for extended custodial or nursing home care.
- Do you have an advance medical directive? This document expresses your parents' wishes regarding life-support measures, if needed, and designates someone who will communicate with health-care professionals on their behalf. If your parents do not want heroic life-saving measures to be undertaken for them, this document is a must.

### Living situation

- Do you plan to stay in your current home for the foreseeable future, or are you considering downsizing?
- Is there anything I can do now to make your home more comfortable and safe? This might include smaller projects such as installing hand rails and night lights in the bathroom, to larger projects such as moving the washing machine out of the basement, installing a stair lift, or moving a bedroom to the first floor.
- Could you benefit from a weekly or monthly cleaning service?
- Do you employ certain people or companies for home maintenance projects (e.g., heating contractor, plumber, electrician, fall cleanup)?

### Memorial wishes

- Do you want to be buried or cremated? Do you have a burial plot picked out?
- Do you have any specific requests or wishes for your memorial service?

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## Why is it important to factor inflation into retirement planning?

Inflation is one of the key factors you will need to consider when planning for retirement. Not only will the cost of living rise while you're accumulating assets for retirement, but it will continue to rise *during* your retirement, which could last 25 years or longer. This, combined with the fact that you will not likely earn a paycheck during retirement, is the main reason your portfolio needs to maintain at least some growth potential for the duration of your retirement.

Consider this: If inflation runs at 3% (which is approximately its long-term average, as measured by the Consumer Price Index), the purchasing power of a given sum of money would be cut in half in 23 years. If it averages 4%, your purchasing power would be cut in half in 18 years.

A simple example illustrates the impact of inflation on retirement income. Assuming a consistent annual inflation rate of 3%, if \$50,000 satisfies your retirement income needs this year, you'll need \$51,500 of income next year to meet the same income needs. In 10 years, you'll need about \$67,195 to equal the

purchasing power of \$50,000 this year. And in 25 years, you'd need nearly \$105,000 just to maintain that purchasing power!<sup>1</sup>

Keep in mind that even a 3% long-term average inflation rate conceals periods of skyrocketing prices, such as in the late 1970s and early 80s, when inflation reached double digits. Although consumer prices have been relatively stable in more recent decades, there's always the chance that unexpected shocks could cause prices to spike again.

So how do you strive for the returns you'll need to outpace inflation by a wide enough margin both before and during retirement? The key is to consider investing at least some of your portfolio in growth-oriented investments, such as stocks.<sup>2</sup>

<sup>1</sup> This hypothetical example of mathematical principles is used for illustrative purposes only and does not represent the performance of any specific investment. Note that these figures exclude the effects of taxes, fees, expenses, and investment returns in general.

<sup>2</sup> All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.



## Is a nursing home the only option for long-term care?

If you or a loved one needs long-term care, other choices besides nursing home care may be available. Here are some of the other options.

### Home care

Most people would prefer to stay in their homes as long as possible. Depending on your needs, you may only need help with some common daily living activities such as laundry, shopping, cooking, and cleaning. First, talk to your family to see if they can help with your needs. There are probably home health-care agencies that can assist you with some of these chores.

### Accessory dwelling units

If you or a loved one owns a single-family home, adding an accessory dwelling unit (ADU) to that home may help you keep your independence while getting some help with your daily activities. An ADU, or "in-law apartment," usually provides a separate living space with a sleeping area, a place to cook, and a bathroom. Check with your local zoning office to be sure ADUs are allowed in your area. Also, the cost of adding an ADU can vary widely, depending on the size of the unit and

the cost for materials and labor.

### Subsidized senior housing

There are federal and state programs that help pay for housing for some older people with low to moderate incomes. Some of these housing programs also offer help with meals and other activities like housekeeping, shopping, and laundry. Residents usually live in their own apartments in the complex. Rent payments are usually a percentage of your income.

### Assisted-living facilities

These facilities generally provide more services than offered in subsidized senior housing. You may receive help with bathing, dressing, using the bathroom, taking your medications, and getting to appointments. Residents often live in an apartment and may share meals in a common dining room. Social and recreational activities are usually provided. Some of these facilities have health services on site.

A nursing home may not be your only choice. Discharge planners and social workers in hospitals and home health agencies can explain your options and help arrange your care.