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# Robert G. Elliott's Financial News

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## Retirement Planning Assumptions

To enjoy your retirement without financial worries, make sure you have enough money saved when you retire. However, that calculation can be a daunting task, since a variety of factors affect your answer, and inaccurate estimates for any factor can leave you with way too little in savings. Some of the more significant factors include:

**What percentage of your preretirement income will you need?** You can find various rules of thumb indicating you need anywhere from 70% to over 100% of your preretirement income. On the surface, it seems like you should need less than 100% of your income. After all, you won't have any work-related expenses, such as clothing, lunch, or commuting costs. But look carefully at your current expenses and how you plan to spend your retirement before deciding how much you'll need. If you pay off your mortgage, stay in good health, live in a city with a low cost of living, and engage in inexpensive hobbies, then you might need less than 100% of your income. However, if you travel extensively, pay for health insurance, and maintain significant debt levels, even 100% of your income may not be enough. You'll need to take a close look at your expenses.

**When will you retire?** Your retirement date determines how long you have to save. You want to make sure your retirement savings and other income sources, such as social security and pension benefits, will support you for what could be a very lengthy retirement. Even extending your retirement age by a couple of years can significantly affect the ultimate amount you'll need.

**How long will you live?** Today, the average life expectancy of a 65-year-old man is 81 and of a 65-year-old woman is 84 (Source: Social Security Administration). Most people look at average life expectancies when estimating, but average life expectancy means you have a 50% chance of living beyond that age and a 50% chance of dying before that age. Since you can't be sure which will apply to you, it's typically better to assume you'll live at least a few years past that age. When deciding how many years to add, consider your health as well as how long other family members have lived.

**What long-term rate of return do you expect to earn on investments?** A few years ago, many retirement plans were calculated using fairly high rates of return. Those high returns don't look so assured now. At a minimum, make sure your expectations are based on average returns over a very long period. You might even want to be more conservative, assuming a rate of return lower than long-term averages suggest. Even a small difference in your estimated and actual rate of return can make a big difference in your ultimate savings.

**Have you considered inflation?** Even modest levels of inflation can significantly impact the purchasing power of your money over long time periods. For instance, after 30 years of just 2% inflation, your portfolio's purchasing power will decline by 45%. When estimating an inflation figure, don't just look at the historically low inflation rates of the recent past. Also consider long-term inflation rates, since your retirement could last for decades.

**What tax rate do you expect to pay during retirement?** Especially if you save significant amounts in tax-deferred investments that will be taxable when withdrawn, your tax rate can significantly affect the amount you'll have available for spending. You may find your tax rate is the same or higher after retirement.

Once you've estimated these factors, you can calculate how much you'll need for retirement. Please call if you'd like help with this calculation.

(Allie, Bob, & Sarah)

## In This Issue

# Avoid This Mistake

Finding a way to live decades in retirement without worrying about running out of money can seem like an overwhelming task. That goal depends on many variables, including life expectancy, retirement age, lifetime earnings, retirement expenses, retirement income sources, investment rates of return, and future inflation. If you're wrong on even one of those variables, funding your retirement could be in danger.

With all the potential for missteps, what is the one mistake you want to avoid at all costs? Dipping into your retirement savings. Unfortunately, since the funds in your 401(k) plan or individual retirement account (IRA) belong to you, they often seem like a tempting place to get funds needed for other purposes.

Tax laws don't help, since they often provide tax-advantaged ways for you to access those funds. Loans from 401(k) plans are not taxable events. When leaving an employer, you can withdraw money from your 401(k) plan (you will have to pay income taxes and possibly a 10% early withdrawal penalty). Contributions to Roth IRAs can be withdrawn at any time with no tax consequences. Withdrawals from traditional IRAs before the age of 59 ½ can be made under certain circumstances, such as to purchase a home or pay for a child's college education, without paying the 10% income tax penalty.

Saving for retirement is a difficult task for most people, without making it more difficult by using retirement funds for other purposes. Even if the amount seems small, don't withdraw funds from your retirement account. While it probably won't add significantly to your lifestyle now, it can grow to significant sums over the long-term. For instance, assume you have $10,000 in your 401(k) plan. If you withdraw the funds and are in the 22% tax bracket, you'll have $6,800 left after paying income taxes and the 10% federal tax penalty. Keep the funds invested earing 8% annually on a tax-deferred basis, and your funds could grow to $68,426 after 30 years before paying any income taxes. *(This example is provided for illustrative purposes only and is not intended to project the performance of a specific investment).*

No matter how much you think you need the money now, don't touch your retirement funds for anything other than retirement. Please call if you'd like to discuss this in more detail.

# Municipal Bonds

*We offer the following bonds subject to prior sale or change in price as of February 22, 2019.*

| Ref No | Issuer | Maturity Date | Coupon | Yield to Maturity | Yield to Call | Call Date | Rating | Price |
|---|---|---|---|---|---|---|---|---|
| 1 | Knoxville TN Gas Revenue | 03/01/46 | 3.000 | 3.650 | 6.165 | 03/01/23 | Aa2/AA | 88.894 |
| 2 | Warren Cnty TN | 06/01/35 | 3.250 | 3.250 | 3.250 | 06/01/26 | AA/A+ | 99.996 |
| 3 | Williamson Cnty TN | 04/01/32 | 3.125 | 2.955 | 2.736 | 04/01/24 | Aaa | 101.837 |
| 4 | Wilson Cnty TN | 04/01/32 | 3.000 | 3.000 | 3.000 | 04/01/25 | AA+ | 99.998 |
| 5 | Met Govt Nashville & Davidson Cnty | 07/01/26 | 4.053 | 3.565 | 3.550 | 04/01/26 | A3 | 103.128 |

Callable at 100% beginning of the call date above and every call date thereafter with 30 days notice.

In addition to the bonds listed, we have several other corporate bonds available. If you are looking for a specific bond or maturity, please feel free to contact me with your requests.

We are also interested in buying corporate bonds. If you have bonds for sale, please call me for a bid and details on how you can convert your present bonds to cash or alternative investments.

Finally, new bonds are coming to market every day. If you give me a call, I will be more than happy to go over current market offerings and conditions with you.

*Although the information and statistics are not guaranteed, they have been obtained from reliable sources and are believed to be accurate. All put/call information may not be displayed and Wiley Bros.-Aintree Capital assumes no responsibility for such undisclosed features or omissions. All are subject to market conditions and/or prior sale.*

# Personal Note

As we move through life we experience many changes. One significant change occurred in my practice, and my life, this past year when my oldest daughter, Sarah, joined me as a partner. She has been working closely with me since July, 2018 and has made tremendous progress. She has passed all of her regulatory exams including the Series 7 and the Series 66 and is currently studying for her Certified Financial Planning designation. I am very proud that she has decided to work with me and look forward to many fruitful years together! Another change that occurred recently was her younger sister, Tate, got accepted into the Cox School of Business at SMU. Tate is currently a sophomore at Southern Methodist University in Dallas, Texas. Her mom and I are very proud of her accomplishment as the Cox School is recognized as one of the top business schools in the country. (Obviously I like to brag about my daughters!) Who knows, this change in Tate's focus may eventually lead to another expansion of our practice and the addition of another partner. But that is a few years away at best- stay tuned!

Another area of change that affects each of us is related to the tax code. Since we are in the middle of tax season that runs until April 15th, I thought it might be helpful to provide some updates on the changes in the code that went into effect for 2018. *Quick disclaimer: the tax law is a politically charged subject, but you won't find any politics here. While experts may argue whether the tax law has been good or bad for the country, this note is solely about how the law may affect **you**.*

The most obvious major change to remember is that most tax rates have been reduced. That means there's a good chance you paid less in taxes over the past year. Here's how the various tax brackets look now:[1]

| New Tax Brackets | Income for Individuals | Income for Married Couples |
|---|---|---|
| 10% | Up to $9,525 | Up to $19,050 |
| 12% | $9,526 to $38,700 | $19,051 to $77,400 |
| 22% | $38,701 to $82,500 | $77,401 to $165,000 |
| 24% | $82,501 to $157,500 | $165,001 to $315,000 |
| 32% | $157,501 to $200,000 | $315,001 to $400,000 |
| 35% | $200,001 to $500,000 | $400,001 to $600,000 |
| 37% | Over $500,000 | Over $600,000 |

If you receive a paycheck every month, you should pay special attention to your **federal income tax withholding** this year. This is the amount of federal income tax withheld from your paycheck. Because of the new tax brackets, most people started seeing withholding changes around February or March of last year. And while it's likely that less of your paycheck went to federal income taxes, you should still scrutinize your withholding carefully to make sure it's correct. The last thing you want is to find that not enough tax was withheld by your employer! That could require you to pay a penalty when you file your return.

According to the IRS[1], people who meet any of the following criteria should be especially careful when checking their withholding:

- Belong to a two-income family.
- Work two or more jobs, or only work for part of the year.
- Have children and claim credits such as the Child Tax Credit.
- Have older dependents, including children age 17 or older.
- Claimed itemized deductions on their prior year's tax returns.
- Earn high incomes and have more complex tax returns.
- Received large tax refunds or had large tax bills for the prior year.

Ensuring the accuracy of your withholding is always important, of course, but because of all the changes to the tax code, it's more critical than ever that you be thorough!

Speaking of changes, let's now turn to:

**Changes to Deductions**

There are two basic kinds of deductions – standard and itemized. As the IRS puts it, "The standard deduction is a dollar amount that reduces the amount of income on which you are taxed and varies according to your filing status."[1] The new tax law nearly *doubled* standard deductions.

Here's what the new standard deduction looks like:[1]

| Status | Deduction Amount | Change |
|---|---|---|
| Single | $12,000 | Up from $6,350 in 2017 |
| Married, filing jointly | $24,000 | Up from $12,700 in 2017 |
| Married, filing separately | $12,000 | Up from $6,350 in 2017 |
| Head of household | $18,000 | Up from $9,350 in 2017 |

But all this comes with a catch: *You can't take the standard deduction if you also itemize deductions.* And for married couples filing separately, both spouses must take the *same type* of deduction. So if one spouse chooses to itemize, the other spouse must as well.

**So, here's what you need to determine:** Will you enjoy a larger tax cut by taking the standard deduction, or itemized?

For most people, the standard deduction is probably the way to go. But if you still choose to take itemized deductions, there are changes to those you need to be aware of as well. For instance:

**Medical expenses:** For your 2018 taxes, you can deduct out-of-pocket medical and dental expenses that exceed 7.5% of your

*(Continued on Page 4)*

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"adjusted gross income". (This is your total gross income minus specific deductions.) This is down from the previous 10%, although the level returns to normal next year.[1]

**State and local taxes:** One of the biggest changes to itemized deductions is that you can now deduct *no more than $10,000* of any combination of state and local income taxes, sales taxes, and property taxes. For people living in high-tax states, this is perhaps the single biggest reason why it now makes more sense to take the standard deduction. [1]

**Mortgage interest:** If you took out a mortgage or home equity loan *before* December 15, 2017, you can deduct up to $1,000,000 in interest. However, the new tax law caps the deduction at $750,000 for loans taken out after that date. [1]

**Charitable contributions:** The limit on charitable contributions in cash is now 60% of your adjusted gross income, up from 50% before the new tax law. That means you may be able to deduct more of any charitable *cash* contributions you made in 2018. [1]

**Changes to Child Tax Credits and the AMT**

Due to the new law, more families with children under 17 now qualify for a larger child tax credit. For your 2018 return, the maximum credit is now $2,000 per child for individuals earning up to $200,000 and married couples earning up to $400,000, so long as they file jointly. [1]

Another major change to this tax season is that fewer people now pay the Alternative Minimum Tax, or AMT. Long considered one of the most complex aspects of the tax code, the AMT was originally designed to prevent using a dizzying array of credits, deductions, and loopholes to avoid taxes altogether. Over the decades, however, the AMT began hitting those who were already paying a host of other taxes.

Calculating what amount people actually pay is a complex process, and that hasn't changed. What *has* changed, however, is the threshold at which people are exempt from paying the AMT. For individuals, the exemption level has increased to $70,300, up from $54,300. For married couples who file jointly, the exemption has risen to $109,400, up from $84,500. [1]

**A few more things to be aware of this tax season**

It's impossible to cover all the ways the new tax law will affect your filing this year. But there are a few more things to be aware of.

**Tax Refunds**

First, your tax refund could be smaller than in years past. As of this writing, the IRS has reported the average refund to be 8.4% less than last year.[2]

This shouldn't come as a surprise. Since many people received a tax cut in 2018, refunds will also go down. That's especially true for people who previously used itemized deductions on their property and local income taxes. The changes in federal tax withholding also play a major role. It's possible, too, that many people will end up *owing* money to the government this year.

For that reason, taxpayers should hold off on planning any major purchases until they know exactly what their refund will be.

**The IRS is playing catch-up**

As you probably know, Washington was paralyzed by the longest government shutdown in history earlier this year. During the shutdown, the IRS operated with only 12% of its staff.[3] That means the IRS has a *lot* to catch up on, including answering questions, preparing reports, processing returns, and distributing refunds. And because the tax code is so different now, you may need to wait longer than normal to get your questions answered or get your refund.

I hope you found this note helpful. Of course, if you have any questions, please don't hesitate to contact me or Sarah. As always, we'll do our best to answer them, but if we can't we'll direct you to a tax professional who can. Who knows, in a few more years you might be speaking to Tate!

1 "Tax Reform: Basics for Individuals and Families," Internal Revenue Service, https://www.irs.gov/pub/irs-pdf/p5307.pdf
2 "Filing Season Statistics for Week Ending February 1, 2019." Internal Revenue Service, https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-february-1-2019
3 "Federal shutdown means tax refunds may be delayed," CNBC, https://www.cnbc.com/2019/01/04/what-the-federal-shutdown-could-mean-for-tax-season.html

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