

Fact

Despite a stronger economy, 1 in 4 of the highest-income households either have no emergency savings or just enough to cover less than three months.

Source: Survey by Bankrate.com

“A big part of financial freedom is having your heart and mind free from worry about the what-ifs of life.”

Suze Orman



What’s The Future Of Social Security And Retirement Planning?

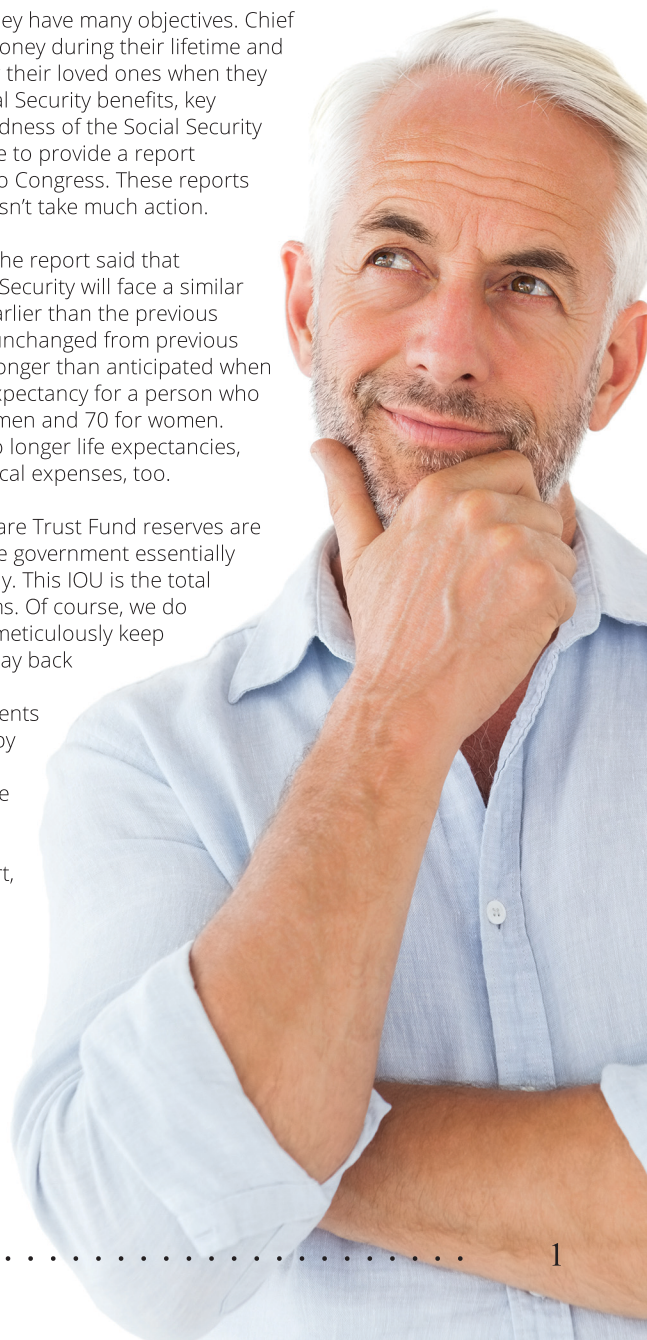
By: Jason Eliason, CFP®, ChFC®, CFA®

When people engage us to develop a financial plan, they have many objectives. Chief among them is to make sure they do not run out of money during their lifetime and to ensure sufficient resources are available to care for their loved ones when they pass. Since nearly 90% of senior citizens receive Social Security benefits, key discussion points typically focus on the financial soundness of the Social Security and Medicare programs. Each year, the programs have to provide a report outlining their current and projected financial status to Congress. These reports tend to create some alarm, but Congress typically doesn’t take much action.

This year’s report was released in June. A synopsis of the report said that Medicare would become insolvent in 2026 and Social Security will face a similar fate in 2034. The Medicare projection is three years earlier than the previous report, while the Social Security projection remained unchanged from previous estimates. This is not new news. People are living far longer than anticipated when Social Security was created in 1935: the average life expectancy for a person who managed to reach age 30 at that time was age 68 for men and 70 for women. Today it’s 79 for men and 82 for women. In addition to longer life expectancies, Medicare has been hit with higher-than-inflation medical expenses, too.

Alarmists point out that the Social Security and Medicare Trust Fund reserves are invested in government securities. This amounts to the government essentially writing itself an IOU to the tune of \$2.8 trillion currently. This IOU is the total “asset reserves” in the country’s largest social programs. Of course, we do not recommend that people accumulate deficits and meticulously keep slips of paper around, which represent a promise to pay back every penny eventually. Today though, nearly all of the money paid out to Social Security and Medicare recipients are merely transfers of money paid into the program by workers. The money comes in as FICA payments and taxes on Social Security benefits and goes back out the door to beneficiaries.

So where’s this alleged deficit? On Page 9 of the report, in section “Assumptions About the Future,” the report makes three economic projections about the next 75 years, including future birth rates, mortality, worker productivity, wage increases, inflation, unemployment and the interest rate earned on those IOUs the government is writing. Page 19 shows a graph that illustrates the projected outcomes of three different sets of assumptions for all these variables. Two of the projections are quite bad, while the third projects not just solvency, but actual prosperity for the trust funds going forward well past the year 2090.



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Even if the worst case happens, and the programs go “bust,” they won’t actually stop paying benefits. Here is where the general confusion is: We hear that the programs are forecasted to be insolvent, which is another word for bankrupt. However, that is not the case, because it does not take into consideration there will still be workers who pay FICA taxes, and even if there is no trust fund, these collected payroll taxes can be used to make payments to beneficiaries.

On page 58 of the Social Security trustees report, it shows how much of the projected payments would be covered by workers going out to 2090 under the three future scenarios: The worst-case scenario says that there will be roughly an 18% shortfall in 2040, rising to approximately 22% by 2090. That means that Social Security recipients would have to get by on 82% of the benefits they were expecting in 2040, and 78% if they manage to live all the way out to 2090.

All of this negative news assumes, of course, that nothing is done to shore up the programs between now and then. One of the simplest solutions would be to increase the age at which people can collect full retirement benefits. Basically, it would be indexing retirement benefits to changes in longevity. Another quick fix would be a marginal increase in FICA taxes or even removing the cap on income subject to FICA taxes.

The best advice here is to not panic about the fate of the Social Security and Medicare programs. Instead, work toward a financial plan that does not depend exclusively on them. Sadly, the Social Security Administration estimates that 21% of married seniors and 43% of single seniors rely on Social Security to provide 90% or more of their retirement income. Financial independence is achieved by taking responsibility and control of your future. Make choices today that will allow for the Social Security benefits you receive to be the difference between a decent retirement and an excellent retirement.

For more information on Social Security and Medicare facts, please check out the links below.

Sources:

<https://www.ssa.gov/oact/TR/2018/index.html>

<https://www.ssa.gov/news/press/factsheets/basicfact-alt.pdf>

<https://www.infoplease.com/us/mortality/life-expectancy-age-1850-2011>



Reclaiming Charitable Deductions

By: Jason Eliason, CFP®, ChFC®, CFA®

When the new tax law was debated, there was a lot of chatter around the possibility that Congress would eliminate the deduction for charitable contributions. While this is not the case, because this proposal never made it into the final Tax Cuts & Jobs Act, the tax changes may wind up having a similar effect on many taxpayers.

How? By doubling the standard deduction, the Tax Code will greatly reduce the number of tax filers who itemize. The new law also adds to the reduction of itemizing by capping the value of the deduction for state and local taxes at \$10,000—far below what many taxpayers living in high-tax areas of the country will actually pay.

The result? In the past, roughly 30% of us were itemizers. That number is expected to drop to 10% by the time we start filing this year’s taxes. Of course, if you don’t itemize your deductions, you can’t deduct your charitable contributions.

Some quick math shows how this works: Let’s suppose a married couple plans to make \$14,000 worth of charitable gifts this year. Their state and local tax deduction is capped at \$10,000. Together, the two equal \$24,000—which happens to be the same as the new standard deduction. They get no incremental deduction for their \$14,000 of charitable gifts.

What to do? One way to overcome the impact of the new tax provisions is to bundle several years worth of charitable contributions into a single tax year, contributing the higher amount to a donor-advised fund rather than to the charities directly. If the same couple were to give two years worth of donations to a donor-advised fund, that would come to \$28,000. Add in the \$10,000 maximum deduction for state and local taxes, and suddenly it makes sense to itemize. The additional \$14,000 results in a tax savings of about \$5,180 for people in the 37% tax bracket.

Of course, if the couple were to bundle five or ten years worth of charitable contributions into the same tax year, that would further increase the value of the deduction, and they can happily take the standard deduction in the other years. Going forward, the money in the donor-advised fund can be contributed each year to charitable causes just as it had been before, in \$14,000 annual increments. Meanwhile, the assets that remain in the fund are growing tax-free, creating additional charitable assets for future donations.

Not familiar with Donor-Advised Funds? For more information regarding Donor-Advised Funds check out Charlie Kerwood’s article on “[Charitable Gifts: Donor Advised Fund or Private Foundation?](#)”

If you, or anyone you know, would like to learn more about bundling of charitable deductions and whether it can be incorporated in your financial plan, please feel free to contact us to discuss more.

Sources:

<https://www.aefonline.org/blog/new-tax-law-bundling-gifts-donor-advised-funds>

<http://cct.org/2018/02/giving-after-the-tax-cuts-jobs-act-a-charitable-conversation-guide/>





Alphabet Soup - What Do All Those Letters Really Mean?

By: Charlie Kerwood, CFP®, ChFC®, AEP®

Finding a professional to help develop your financial roadmap and make the right decisions can be very confusing for consumers today. They often ask, "Are they able to do what I need? How do they charge fees? What is their experience?" are just a few of those questions. Then, to muddy the waters even further, they have lots of letters after their names that are not quite as widely known. So, let's take a moment to break down some of the more common designations.

Certified Financial Planner (CFP®)

For one to obtain this designation, the individual must have a Bachelor's Degree from an accredited U.S. college or university, or its equivalent from a foreign institution. In addition, one must complete an advanced college-level course of study approved by the CFP Board of Standards, a self-regulating organization for professionals using the designation. The course of study covers subject areas such as, but not limited to, income tax planning, investment planning, retirement planning, college planning and estate planning.

The candidate must complete at least three years of full-time practical experience related to financial planning and must pass the CFP® Certification Examination. This test is a rigorous and comprehensive exam that covers all of the topics completed through their education. It is administered over two days, for a total of 10 hours. Candidates are expected to correctly apply one's knowledge of financial planning to real-world examples and diagnose a multitude of financial planning issues.

For more information on the Certified Financial Planner™ designation, check out Charlie's article, "Top Four Reasons Why You Should Work With A Certified Financial Planner™."

Chartered Financial Consultant (ChFC®)

This designation has been in existence for almost 30 years. The average study time to obtain this designation exceeds 450 hours and requires nine college-level courses. Coursework that is required includes financial planning, income taxation, investments, estate and retirement planning. Additional electives are chosen from topics such as executive compensation and macroeconomics.

The American College, a non-profit educator with an 83-year heritage and the highest level of academic accreditation, awards this designation.

Chartered Life Underwriter (CLU®)

The American College also awards this designation.

This designation has been in existence for almost 100 years and is the insurance profession's oldest standard of excellence. Required coursework to obtain this designation include basic insurance planning, individual life insurance, life insurance law, estate planning and business planning. Additional electives are chosen from areas such as group benefits, health insurance and applied estate planning.

A holder of the CLU designation must complete 30 hours of relevant continuing education coursework every two years and submit it to the American College.

Chartered Financial Analyst (CFA)

The Chartered Financial Analyst designation is a globally respected, graduate-level investment credential that was established in 1962. To earn the CFA charter, candidates must pass three sequential, six-hour examinations, have minimum four years of qualified professional investment experience, join the CFA Institute as a member, and commit to abide by their adherence to the CFA Institute Code of Ethics and Standards of Professional Conduct.

The CFA exams are very difficult and require extensive study, generally 300 hours of study per level of exam. Earning the CFA charter demonstrates mastery of many of the advanced skills needed for investment analysis and decision making.

The CFA Institute awards this designation.

Chartered Advisor in Philanthropy (CAP®)

This designation provides a professional the knowledge and tools to help clients articulate and advance their highest aspirations for self, family and society. The advisor earning this designation has taken three graduate-level courses in philanthropy covering various impacts of planning for family wealth, charitable giving and gift planning for non-profits. There is also a three year, full-time requirement of relevant business experience.

The designee must adhere to The American College's Code of Ethics and either, "The Code of Ethical principles and standards of Professional Practice of the Association of Fundraising Professionals," or "The Model Standards of Practice for the Charitable Gift Planner adopted by the National Committee on Planned Giving and The American Council on Gift Annuities."

There is a requirement of 30 hours of continuing education credits every two years. The American College awards this designation.

Accredited Estate Planner (AEP®)

This designation is available to Certified Financial Planners®, Chartered Life Underwriters®, Certified Public Accountants, Certified Trust and Financial Advisors, Chartered Financial Consultants®, and attorneys who are actively engaged in estate planning and must meet stringent qualifications at the time of application. They must also commit to ongoing continuing education and recertification requirements.

With a minimum of five years of experience, the designation is available after taking two courses through The American College. For those individuals who have 15 years of experience or more, one may choose exemption from the required graduate-level courses in estate planning.

The National Association of Estate Planners and Councils award this designation.

I hope this gives you a better understanding of some of the more common designations one may encounter in the financial services industry.



941 Chatham Lane
 Suite 212
 Columbus, Ohio 43221
 614.457.7026
www.waller.com

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News and Notes

We are proud to host our Client Appreciation event at COSI this year. Please contact Sandy Vidosh if you did not receive an invitation or want more information on the event. See you soon!
svidosh@waller.com | (614) 457-7026

In July, our staff enjoyed a day away from the office and watched a Clipper's game with their family. Their hard work and dedication to our clients make all the difference.

