

Financial Fitness For Editors

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Presentation Overview

- What is financial planning?
- Brief primer on investments
- Retirement strategies for business owners
- Where and how to invest
- Strategies for life stages
- Essentials of estate planning
- Special considerations for women
- Implications of new tax bill
- Q&A

Enduring concepts of retirement planning

- The 10% Rule
- Portfolio diversification really works
- A financial roadmap really helps
- Entrepreneurs historically not well prepared for retirement
- One cannot live on social security alone
- “All your eggs in one basket” is not a good retirement strategy

Questions for consideration

- How important is a “retirement number”?
- Isn't a bank a good place to invest savings?
- Should I postpone social security into my 70s?
- What is better: after-tax or pre-tax savings for retirement?
- Should I buy an annuity in an IRA?
- Aren't stock brokers fiduciaries?
- Isn't paying off a mortgage early a good thing?

What is financial planning?

- Finds answers to key life questions:
 - What are my goals?
 - How do I get there?
 - Where am I now?
 - How do I stay on track to achieve them?
- Determining optimal path to financial “security”
- Optimal disposition of one’s estate
- Improved quality of life
- Life empowerment

Financial Planning Process

- ✓ Data gathering, review & analysis
- ✓ Plan formation
- ✓ Review with client
- ✓ Alternate scenario analysis
- ✓ Determine investment strategy
- ✓ Ongoing plan review/updating

Key elements of a financial plan

- ✓ Income & expenditures analysis
- ✓ Asset/liability analysis
- ✓ Income tax analysis
- ✓ Estate planning analysis
- ✓ Insurance needs assessment
- ✓ Education analysis
- ✓ Retirement capital estimate
- ✓ Monte Carlo analysis

Key elements of a financial plan:

Asset – Liability analysis

Net Worth Statement

Main: Work Thru Rick's Age 60, 5.9% Return

ASSETS

	Amount	Percent of Assets
Ordinary Interest Accounts:		
Annuities (fixed, variable)	\$166,798	6.98%
Total Ordinary Interest Assets	<u>\$166,798</u>	<u>6.98%</u>
Equity Accounts:		
Stocks	660,740	27.65%
Total Invested Assets	<u>\$660,740</u>	<u>27.65%</u>
Retirement Accounts:		
401(k) accounts	367,000	15.36%
Regular IRA accounts	312,472	13.07%
Roth accounts	22,866	0.96%
Total Retirement Accounts	<u>\$702,338</u>	<u>29.39%</u>
Real Estate Assets:		
Residences	660,000	27.62%
Rental real estate	200,000	8.37%
Total Real Estate Assets	<u>\$860,000</u>	<u>35.99%</u>
TOTAL ASSETS	<u>\$2,389,876</u>	<u>100.00%</u>
LIABILITIES	Amount	Percent of Assets
Residence mortgage	(\$251,000)	10.50%
Rental real estate	(110,000)	4.60%
TOTAL LIABILITIES	<u>(\$361,000)</u>	<u>15.11%</u>
NET WORTH (Assets less Liabilities)	<u>\$2,028,876</u>	

Key elements of a financial plan: Expense Analysis Detail

Personal Expense Detail

Main: Work Thru Rick's Age 60, 5.9% Return

<u>Description</u>	<u>Current Amounts</u>		<u>Increase Rate</u>
	<u>Monthly</u>	<u>Annual</u>	
Groceries	\$600	\$7,200	3.20
Household Supplies	300	3,600	3.20
Eating Out	100	1,200	3.20
Gas/Electric	150	1,800	3.20
Water/Trash	65	780	3.20
Auto: Gas, oil, insurance	350	4,200	3.20
Parking Tolls	5	60	3.20
Gifts/Birthday	40	480	3.20
Clothing	110	1,320	3.20
Holidays	300	3,600	3.20
Vacations	417	5,004	3.20
Domestic Help	180	2,160	3.20
Laundry/Cleaning	10	120	3.20
Property Improvements/Upkeep	150	1,800	3.20
PCC dues	21	250	
Pet Expenses	20	240	3.20
Books/Subscriptions	20	240	3.20
Miscellaneous	300	3,600	3.20
Taxes on GH and Paradise props.	180	2,160	3.20

Totals \$3,318 \$39,814

Note: Dollar amounts and increase rates are for the current year.

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Elements of a financial plan

Comprehensive Tax Analysis

Income Tax - Current Year

Main: Work Thru Rick's Age 60, 5.9% Return

The following calculations give an idea of the amount of taxes you might pay based on the income and asset information provided. These amounts are approximations only and the actual tax amounts may be higher or lower than illustrated.

INCOME:	<u>Gross</u>	<u>Taxable</u>	
Salaries and wages	\$385,000	\$385,000	
Interest	8,724	3,720	ca
Dividends*	10,418	10,418	
Schedule D (net gain/loss)	14,886	14,886	
Schedule E (passive gain/loss)	3,738	3,738	
Other income or (loss) and stock options	6,800		
GROSS INCOME		<u>\$417,762</u>	
Adjustments:			
Retirement plan deposits - Richard		(\$23,460)	CI0-c
Retirement plan deposits - Wendy		(18,000)	
ADJUSTED GROSS INCOME		<u>\$376,302</u>	
Itemized Deductions:			
	<u>Gross</u>	<u>Allowed</u>	
Mortgage interest	\$9,820	\$9,820	
Charitable contributions	3,000	3,000	
Medical expenses	9,588		
Property taxes	6,564	6,564	
Misc Itemized deductions	6,800		
	Itemized deductions	\$19,384	(\$17,434)
	or Standard deductions	\$12,600	
	Personal exemptions (2)		(\$3,726)
TAXABLE INCOME		<u>\$355,142</u>	
TAX SUMMARY:			
Federal Income Tax	\$88,055		
FICA (Social Security) & HI Tax	20,659		
TOTAL TAXES		<u>\$108,714</u>	

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Elements of a financial plan

Example: Retirement Capital Estimate

Retirement Capital Estimate

F3

Main: Work Thru Rick's Age 60, 5.9% Return

Ages *	Begin. Yr. Account Totals	Annual Expenses Incl. Tax	Income and Capital Distributions					Annual Surplus	Ending Year Account Totals	
			Earned Income	** Retirement Acct Distr.	** Investment Acct Distr.	Pensions/ Soc Sec	Other Inc. & St. Opt.			
			1	2	3	4	5	6	7	8
57 52	\$1,529,876	(\$238,440)	\$385,000					\$6,800	\$153,360	\$1,816,461
58 53	1,816,461	(623,505)	487,550		49,000			86,955		1,911,721
59 54	1,911,721	(813,228)	164,680					668,182	19,634	2,084,192
60 55	2,084,192	(124,412)	163,619					7,872	47,079	2,250,484
61 56	2,250,484	(119,355)				111,090		8,265		2,263,113
62 57	2,263,113	(122,643)				113,964		8,679		2,273,358
63 58	2,273,358	(126,047)				116,934		9,113		2,280,970
64 59	2,280,970	(129,571)				118,203	1,800	9,568		2,287,547
65 60	2,287,547	(133,266)				121,419	1,800	10,047		2,302,479
66 61	2,302,479	(136,693)				124,344	1,800	10,549		2,314,757
67 62	2,314,757	(140,243)				98,592	30,575	11,076		2,353,816
68 63	2,353,816	(143,921)				100,795	31,496	11,630		2,392,360
69 64	2,392,360	(147,732)				103,074	32,446	12,212		2,430,258
70 65	2,430,258	(134,717)		30,451	58,017	33,427	12,822			2,484,892
71 66	2,484,892	(138,610)		32,156	58,551	34,439	13,464			2,539,839
72 67	2,539,839	(144,157)		33,953	23,340	72,727	14,137			2,631,913
73 68	2,631,913	(148,544)		35,847	22,856	74,997	14,844			2,727,330
74 69	2,727,330	(153,106)		37,843	22,338	77,339	15,586			2,826,195
75 70	2,826,195	(167,241)		80,945		79,757	16,365	9,826		2,918,925
76 71	2,918,925	(172,622)		85,454		82,251	17,183	12,266		3,014,297
77 72	3,014,297	(178,176)		89,992		84,826	18,042	14,684		3,112,391
78 73	3,112,391	(183,997)		94,982		87,483	18,945	17,413		3,213,204
79 74	3,213,204	(190,016)		99,980		90,224	19,892	20,080		3,316,799
80 75	3,316,799	(196,282)		105,217		93,054	20,886	22,875		3,423,203
81 76	3,423,203	(202,790)		110,698		95,974	21,931	25,813		3,532,455
82 77	3,532,455	(209,531)		116,148		98,988	23,027	28,632		3,644,606
83 78	3,644,606	(216,578)		122,125		102,098	24,179	31,824		3,759,646
84 79	3,759,646	(224,361)		128,024		105,307	25,388	34,358		3,877,120
85 80	3,877,120	(232,832)		133,702		108,619	26,657	36,146		3,996,603
86 81	3,996,603	(241,743)		139,543		112,038	27,990	37,828		4,117,910
87 82	4,117,910	(251,010)		145,535		115,565	29,389	39,479		4,240,930
88 83	4,240,930	(260,486)		151,663		119,206	30,859	41,242		4,365,712
89 84	4,365,712	(251,202)		157,913		122,963	32,402	62,076		4,511,894
90 85	4,511,894	(260,197)		162,994		126,840	34,022	63,659		4,662,042
91 86	4,662,042	(269,965)		168,016		130,841	35,723	64,615		4,815,767
92 87	4,815,767	(280,025)		172,937		134,971	37,509	65,392		4,973,171
93 88	4,973,171	(290,406)		177,710		139,232	39,384	65,920		5,134,332
94 89	5,134,332	(300,795)		181,373		143,630	41,354	65,562		5,299,667
95 90	5,299,667	(311,171)		183,835		148,168	43,421	64,253		5,469,647
96 91	5,469,647	(282,599)		185,864		81,118	45,592	29,975		5,610,915
97 92	5,610,915	(292,171)		187,386		83,656	47,872	26,743		5,754,318
98 93	5,754,318	(301,948)		188,321		86,275	50,266	22,914		5,899,933
99 94	5,899,933	(311,240)		186,193		88,979	52,779	16,711		6,048,564
100 95	6,048,564	(320,699)		183,353		91,768	55,418	9,840		6,200,391
101 96	6,200,391									6,200,392

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Elements of a financial plan

Example: Estate Planning

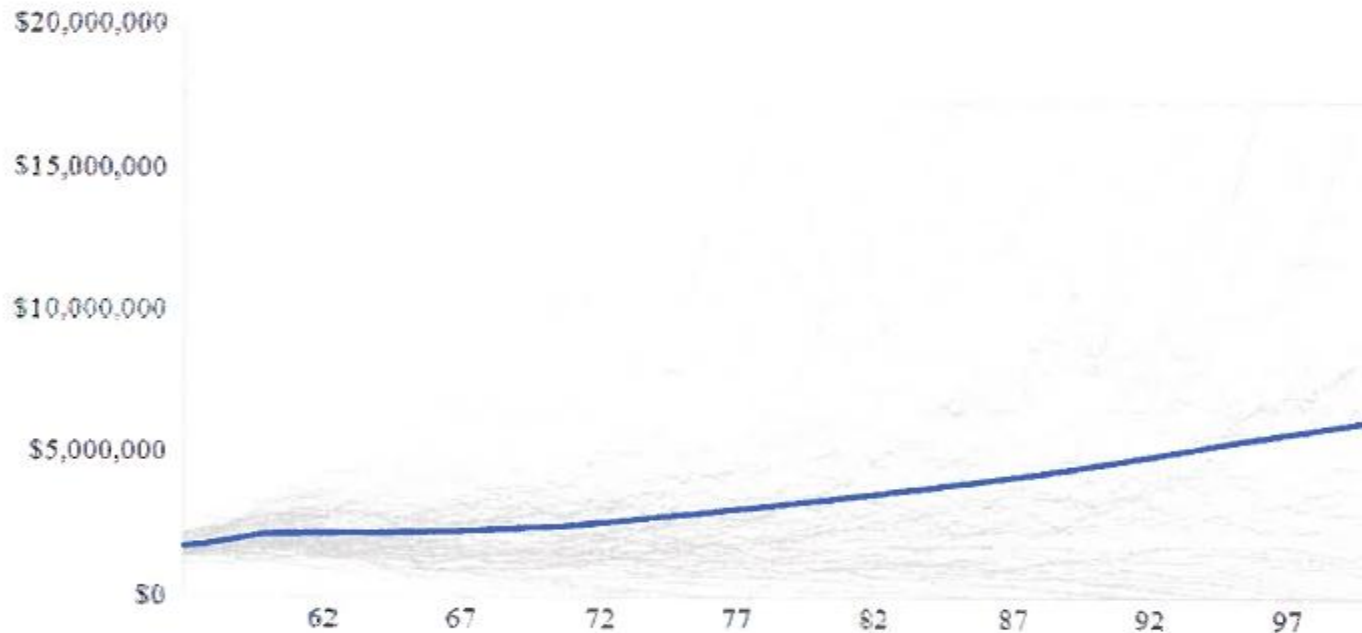
Second death	<u>Wendy dies second*</u>		<u>Richard dies second*</u>	
	<u>Without trusts</u>	<u>With trusts</u>	<u>Without trusts</u>	<u>With trusts</u>
Net estate from spouse	\$1,075,681	\$1,075,681	\$903,207	\$903,207
Separate property			216,798	216,798
1/2 Joint or Community property	735,370	735,370	735,370	735,370
Life Insurance (net of loans) (1)				
Retirement plans (2)	372,460	372,460	329,878	329,878
- Less CST and ILIT		(1,075,681)		(903,207)
Gross Estate	\$2,183,511	\$1,107,830	\$2,185,253	\$1,282,046
<u>Less expenses:</u>				
Debts	(180,500)	(180,500)	(180,500)	(180,500)
Final expenses	(15,000)	(15,000)	(15,000)	(15,000)
Administration @ 1.00%	(19,880)	(9,123)	(19,898)	(10,865)
Charity, other expenses, gifts				
Total expenses	(\$215,380)	(\$204,623)	(\$215,398)	(\$206,365)
Net taxable estate	\$1,968,130	\$903,207	\$1,969,855	\$1,075,681
Tentative Federal estate tax	733,052	308,051	733,742	376,072
Less applicable estate tax credit	(733,052)	(308,051)	(733,742)	(376,072)
Estimated Federal Estate tax	\$0	\$0	\$0	\$0
Remainder Estate	1,968,130	903,207	1,969,855	1,075,681
Credit shelter trust (3)		1,075,681		903,207
Life Insurance Trust or not in estate (1)				
Irrevocable trust, other assets (net)				
Estate and Trust to heirs*	\$1,968,130	\$1,978,887	\$1,969,855	\$1,978,887
Gain to heirs with Trusts		\$10,757		\$9,032

Elements of a financial plan: Example: Monte Carlo Analysis

Results from 10,000 Monte Carlo Simulations:

Original Retirement Capital estimate	\$6,200,391	Percentage of results above zero*	71%
Minimum (worst case) result	\$0	Percentage with \$ remaining at Richard's age 95	80%
Average Monte Carlo result	\$6,839,796	Percentage with \$ remaining at Richard's age 90	86%
Maximum Monte Carlo result	\$241,329,876	Percentage with \$ remaining at Richard's age 85	92%

**Percent of times money is remaining at last age shown.*



Benefits of Financial Planning

- ✓ Organizing one's financial affairs
- ✓ Defining financial goals
- ✓ Develop strategies to achieve financial goals
- ✓ Identifying risks
- ✓ Stronger estate and tax planning
- ✓ Potential for higher wealth, larger estate
- ✓ Disciplined investment management
- ✓ Greater peace of mind and confidence

Investment “Primer”

- What are financial markets?
- Types of investments
- Exchange Traded Funds
- Portfolio structure
- Importance of diversification
- Examples of diversified portfolios
- Managing investment risk

What are “financial markets”?

- Securities exchanges

- ✓ Stocks = represent ownership of company
- ✓ Bonds = a type of loan to a company
- ✓ Options = hedging, price speculation
- ✓ Commodities

- Disintermediaries: exchange of capital

- Disintermediation effected through trading on exchanges: NYSE, NASDAQ

Types of Liquid Investments

- Stocks
- Bonds
- Real Estate (REITs)
- Commodities
- Options
- Private Equity
- “Alternative” assets
- Mutual Funds
- Exchange Traded Funds

Stock market: 117 years
Line = ~10% per year growth



Exchange Traded Funds

- Type of mutual fund that trades throughout day
 - (Traditional mutual fund trades after close of market)
- Basket of securities: index or specific sector
- Advantages of ETFs:
 - Multitude of asset types and combinations
 - “Smart beta”
 - Highly liquid (easily tradeable)
 - Low cost (very important!)
 - Avg exp ratio of ETFs ~ 20–25 basis points*
 - Avg exp ratio of mutual funds ~ 50–100 bp

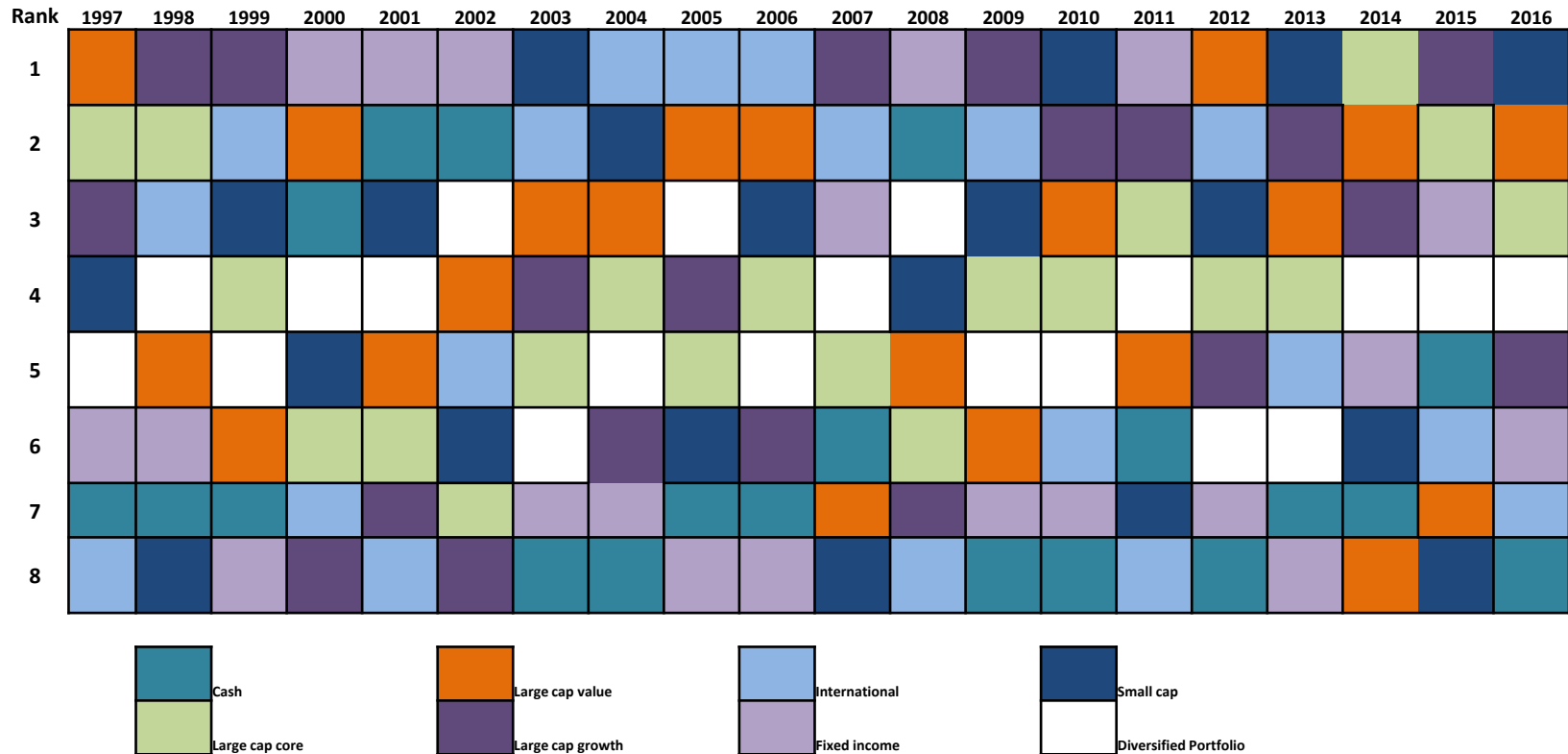
Basis point (bp) = 1/100 of 1%

Portfolio Structure (PS):

- Make up of sector weightings and securities holdings in a portfolio
- Established to achieve a goal or strategy:
 - Growth, income, or “balanced”
 - Manage or control risk (volatility)
- MPT: positive correlation of risk to return
 - More “growth” (stocks) exposure means superior return but higher risk
 - More “income” (bonds) exposure means less growth but lower risk

Why diversification is important

Asset class returns (20 years)



Source: BlackRock Funds

Diversified portfolio (white box) is much more stable over time and delivers superior risk-adjusted return

Examples of Diversified Portfolios

Example 70% stock, 30% bond all ETF div. Portfolio				
Goal: balanced, moderately aggressive				
Category:	\$\$ inv.	% of Portfolio	Example ETF	
U.S. stocks	\$45,000	45%	VOO	Vanguard S&P500 index
Int'l stocks	\$10,000	10%	VEU	All-world ex U.S.
REITs	\$10,000	10%	VNQ	Vanguard Real Estate Inv. Trust
Commodities	\$5,000	5%	GUNR	Upstream Natural Resources
Bonds	\$30,000	30%	BND	Vanguard Total Bond Market
	\$100,000	100%		

**for illustrative purposes only, not a recommendation*

Examples of Diversified Portfolios

Example 50% stock, 50% bond all ETF div. Portfolio				
Goal: balanced, moderately conservative				
Category:	\$\$ inv.	% of Portfolio	Example ETF	
U.S. stocks	\$35,000	35%	VOO	Vanguard S&P500 index
Int'l stocks	\$5,000	5%	VEU	All-world ex U.S.
REITs	\$5,000	5%	VNQ	Vanguard Real Estate Inv. Trust
Commodities	\$5,000	5%	GUNR	Upstream Natural Resources
Bonds	\$50,000	50%	BND	Vanguard Total Bond Market
	\$100,000	100%		

**for illustrative purposes only, not a recommendation*

Examples of Diversified Portfolios

Example 85% stock, 15% bond all ETF div. Portfolio				
Goal: more aggressive growth				
Category:	\$\$ inv.	% of Portfolio	Example ETF	
U.S. stocks	\$40,000	40%	VOO	Vanguard S&P500 index
Growth stocks	\$24,000	24%	VOOG	S&P 500 Growth index
Int'l stocks	\$8,000	8%	VEU	All-world ex U.S.
REITs	\$8,000	8%	VNQ	Vanguard Real Estate Inv. Trust
Commodities	\$5,000	5%	GUNR	Upstream Natural Resources
Bonds	\$15,000	15%	BND	Vanguard Total Bond Market
	\$100,000	100%		

**for illustrative purposes only, not a recommendation*

Historical nominal returns of diversified portfolios*

1926-2016

Allocation	Annual Return	Risk
100% Bonds	5.4%	Low
30% stock, 70% bonds	7.0%	Low
40% stock, 60% bonds	7.6%	Mod.Low
50% stock, 50% bonds	8.0%	Moderate
60% stocks, 40% bonds	8.5%	Moderate
70% stocks, 30% bonds	9.0%	Mod. High
100% stocks	10.0%	High

* Source: Vanguard. Historical returns cannot be guaranteed or extrapolated to future returns.

Reducing investment risk:

- ✓ Asset class diversification...don't put all your eggs in "one basket" (i.e. your biz)
- ✓ Periodic rebalancing (once year)
- ✓ Use of exchange traded funds (ETFs)
- ✓ Don't try to time the market
- ✓ Limit holdings of individual stocks if not avoid entirely
- ✓ Avoid trading/day trading
- ✓ Thorough financial plan
- ✓ Invest client to lowest risk necessary

Retirement Savings Strategies

How much to save? 10% Rule

- Aim for at least 10% of gross income
- Take advantage of company retirement plan match
- How to “force” oneself to save....
 - Will power.....mind over matter
 - Disciplinebudgeting...whatever it takes (to save 10%)
 - Envisioning.....a retirement with no money
 - Delayed gratification (living within your means)
 - Avoid credit card debt
- What can savings turn into?

Retirement Savings Strategies

What can savings turn into?

- Person starting out at 21 making 40k per year
- Increases salary by 2.5% per year
- Works to age 65 (ending income ~ \$115,000)
- Religiously saves and invests 10% of gross income every year
- Pretax value at age 65 assuming annual compound rate of return of:

<u>ROR</u>	<u>Value @ 66</u>
6%	\$1.1 million
8%	\$1.9 million

Note: flat \$5,000 per year savings grows to \$969,000 in 44 years assuming annual pretax ROR of 6%

Retirement Vehicles For Sole Proprietors, LLCs

- SEP (simplified employee pension)
- SIMPLE (savings incentive match plan)
- Solo 401k
- SIMPLE 401k
- Traditional and Roth IRAs
- Keogh Plans

Retirement Vehicles For Sole Proprietors, LLCs**

Four Primary Retirement Plans for sole proprietors, LLCs					
Type	Contribution	Eff. Max Contribution	Cost	IRS Form	Investment Vehicle
Simplified Employee Pension (SEP)	ERs must contribute uniform % for each EE up to max of 25% of income; no over-50 catch up	\$55,000	Low	5305-SEP	IRA
SIMPLE (savings incent match plan)	ERs with 100 or fewer EEs; allows EEs to contribute % of salary; requires ER contributions: 3% variable or 2% non-elective *	\$21,000	Low	5304-SIMPLE	IRA
Solo 401K	Can make contributions of both salary deferrals and profit sharing. Can make pre-tax, after-tax and Roth; can include working spouse	\$61,000	Low	5500-EZ with assets > \$250k	401k account
Keogh Plan	Two forms: 1) defined benefit plan; 2) defined contribution plan (HR-10). CP can be profit sharing or money purchase plan	DCP, lesser of 25% of comp or \$61,000; DBP plan allows much higher contrib and payouts with max ann benefit \$215k	High, need a TPA, more complex admin.	Several	bank or brokerage account

* effective limit on ER contributions to a SIMPLE is \$5500 (3% of \$275,000 salary limit)

ER = Employer

EE = Employee

For more information, refer to IRS Publication 560

**** These can all be rolled over to a new employer plan or self-directed (traditional) IRA.**

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Retirement Vehicles For Sole Proprietors, LLCs

Example contributions.....

Small Business Retirement Plan Summary							
Type	Contrib. Limit	Contributions by:		Catch up Provision?	Max. annual Contrib. Limit	Example EE Salary	Effective Max Contribution
		Employee	Employer				
SEP (simplified EE pension)	- 25% of salary	- No	- ER only	- No	- \$55,000	- \$75,000	- \$18,750
SIMPLE (savings incent match) (100 or fewer EEs)		yes \$15,500* * with over 50 catch up	yes 3% \$F\$ match 2% non-elective	Yes	\$21,000	\$75,000	\$17,750
Solo 401k		yes \$18,500/24,500* * with over 50 catch up	yes 25% of comp.**	Yes	\$61,000	\$75,000	\$42,750

**** special computation for self-employed=[earned income] minus [1/2 self employment tax + contrib. for yourself]**

IRA Accounts:							
Traditional IRA #	before tax \$\$	yes	no	Yes	\$6,500		\$6,500
Roth IRA	after tax \$\$	yes	no	Yes	\$6,500		\$6,500

may or may not be tax deductible depending upon income level and retirement plan status

For more information, refer to IRS Publication 560

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Mechanics of investing, accounts, etc.

- **Open an account**
 - For DIY: Low-cost brokerage firm, on-line
 - Registered Investment Advisor
 - Bank, credit union
- **Diversified portfolios**
- **Low cost exchange traded funds (ETFs) !!**
- **Avoid mutual funds (they are high cost)**
- **Avoid annuities (should be considered a “last resort” only)**

Establishing an investment strategy

- Assessing your risk tolerance
- Establish appropriate asset/sector allocation
 - (Allocation drives 80–90% of return)
- Decide on best/appropriate ETFs for each sector
- “Life stage” approach

Life Stage Approach to Retirement Planning

(Very) General Savings/Investment Guidelines for Life Stages*

Life Stage	Savings Goal (% income)	Investment Risk Posture*	Suggested Asset Allocation	Example Allocation
20s and 30s	10% of gross income	can take higher risk	heavily oriented to growth, high % of equities	80-100% equities, 0-20% bonds
40s	10% of gross income	moderately high risk	still oriented toward growth (equities)	65%-90% in equities, 10-35% bonds
50s and 60s	10-20% of gross income	Moderating or moderate risk	Need growth but also higher fixed income to reduce volatility	40-70% equities, 30-60% bonds
Retirement	Drawdown phase	Low risk	Lower equity exposure, higher bond exposure	30-60% equities, 40-70% bonds

** this is a general recommendation and is not applicable to all situations; investment risk posture is difficult to assess in a vacuum and depends on many factors that need to be carefully considered*

Brief topics on Social Security

- When to take SS ?....it's partly a guessing game
- Based on highest 35 years of income
- Must begin no later than age 70
- Starting at age 62 permanently reduces your benefit by 25%
- Every year waiting beyond FRA, benefit goes up 8% per year
- Can collect a spousal benefit from a previous spouse
- Can collect a survivor benefit as early as age 60 (reduced)
- Take own benefit @ 62, switch to survivor at age 66
- For couples, delaying the higher earning spouse beyond FRA acts as a form of life insurance

Example: \$1,000 monthly benefit (PIA) at FRA

Start at 62: PIA = \$720

Start at 70: PIA = \$1360

Considerations for women

- Women, on average, earn 17% less than men
- Women tend to have lower retirement benefits
- Women live longer than men (5 years on avg.)
- Does spouse have a pension? (joint survivor option)
- Are you better off taking the spousal benefit for SS?
- Have higher chance of needing long-term care
- Women tend to have better investment performance
- Women are more apt to use an investment advisor

Highlights of new tax bill for individuals

- Corporate tax (C-corp) rate dropped from 35% to 21% ,
+ accelerated depreciation/write-offs
- For individuals:
 - ✓ Still 7 brackets, rate reductions across most brackets
 - ✓ Standard deduction increases to 12k for indiv, 24k for MFJ
 - ✓ No more personal exemptions
 - ✓ AMT exemption now adjusted for inflation
 - ✓ Child tax credit increased to \$2k
 - ✓ Floor for medical/dental deductions 7.5% of AGI for 2018
 - ✓ Deduction for state & local taxes capped at 10k for MFJ
 - ✓ Mortgage interest deduction limited to loans up to 750k
 - ✓ Charitable donations % limit increased to 60% from 50%

Highlights of new tax bill for individuals

Tax bracket changes: Example MFJ

Bracket	Old (2017) Range (in \$\$)	Marginal Rate	New Range (in \$\$)	Marginal Rate	% Rate Change
1	0 - 18,650	10%	0 - 19,050	10%	0
2	18,650 - 75,900	15%	19,051-77,400	12%	-3
3	75,900 - 153,100	25%	77,401 - 165,000	22%	-3
4	153,100 - 233,350	28%	165,100 - 315,000	24%	-4
5	233,350 - 416,700	33%	315,001 - 400,000	32%	-1
6	416,700 - 470,700	35%	400,001 - 600,000	35%	0
7	470,700 +	39.6%	600,001 +	37.0%	-2.6

Tax bill impact on sole proprietors, LLCs

- Sub S, sole proprietors, and LLCs treated as “pass–thru” entities
- All taxed at individual rate less a deduction based on factors
- Threshold taxable income:
 - ✓ \$157,500 for individuals
 - ✓ \$315,000 for MFJ
- If taxable income is below “threshold” income, deduction is 20% of QBI
- If taxable income is above threshold.... Subject to limitations and exceptions with phase–out
- Deduction subject to limits:
 - Type of business, wage limits, capital limits
- Lose the deduction completely above \$207k for individual and \$415k for MFJ

Example: calculation of deduction for pass-through entities under new tax bill

Figuring "pass through" entity tax deduction:	
Filing status: single	
Taxable income:	\$200,000
Income from pass-thru entity (QBI)	\$100,000
Firm's W-2 wages	\$90,000
20% of QBI:	\$20,000
compare this to greater of	
a) 50% of W-2 wages or	\$45,000
b) sum of 25% of W-2 wages + 2.5% of QBA value	\$25,000
Calculate pro-rated tax rate:	
$100\% - ([200k-157.5]/50000) = 15\%$	15%
Apply 15% to:	
QBI	\$15,000
W-2 wages	\$13,500
Deduction is the lesser of:	
20% of includible QBI, or	\$3,000
50% of W-2 wages	\$6,750

Note, this is still in the process of being refined/worked out by tax experts. Consult your tax expert or accountant relating to tax matters and impact of new tax bill

Quick notes on estate planning

- **3/4 Essentials at bare minimum:**
 - ✓ Durable Power of attorney
 - ✓ Will
 - ✓ Health Care power of attorney
 - ✓ Living will (recommended)
- **Passing on a business to heirs:**
 - ✓ Non-voting stock
 - ✓ Family limited partnerships
 - ✓ **Section 6166 Election–Deferring Estate Tax**
 - Pay interest only years 1–5, pay tax years 6–15

Questions for consideration: answers

- How important is a “retirement number”?
- Isn't a bank a good place to invest savings?
- Should I postpone social security into my 70s?
- What is better: after-tax or pre-tax savings for retirement?
- Should I buy an annuity in an IRA?
- Aren't stock brokers fiduciaries?
- Isn't paying off a mortgage early a good thing?



Bob Toomey's Bio

Bob joined S.R. Schill & Associates in June 2011. Bob has over 32 years of experience in institutional investment management and securities research. In addition to comprehensive financial planning and wealth management, Bob leads the firm's research efforts in support of its investment process and strategy.

Bob holds the **Certified Financial Planner (CFP®)** designation and is also a **Chartered Financial Analyst (CFA®)** charterholder. These designations are the most demanding and distinguished designations in their field. Achievement of these designations reflects a deeper proficiency and understanding of financial planning and investments than you would find with most advisors, as well as a commitment to continuous learning.

Prior to joining S.R. Schill, Bob spent several years as an advisor/portfolio manager with D.A. Davidson. Bob also spent a combined 21 years as a securities analyst for several national financial firms including RBC Wealth Management, Piper Jaffray Companies, and SunLife of Canada-U.S.

Bob earned his undergraduate B.A. degree from Trinity College in Hartford, CT and earned his MBA from Boston University School of Management.

S.R. Schill & Associates

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