The Harvest Times

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The Harvest Group
800 South Street, Suite 200
Waltham, MA 02453
888-245-4206
info@myharvestgroup.com
http://myharvestgroup.com

Welcome to the August, 2017 Harvest Group Wealth Management newsletter. Each month it is our goal to provide you with timely and informative information on topics that we feel are important to you and your family. However, if there is a topic you would like to learn more about, please let us know and we will do our best to include information about that topic in future newsletters.

In addition, if there is someone important to you that you think could benefit from receiving this newsletter, please ask for their permission, then provide us with their contact information and we will include them on our distribution list.

Best Regards, Roger

April 2018

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Government Report Details Household Finances

Every three years, the Federal Reserve sponsors the Survey of Consumer Finances (SCF), which collects information on the financial state of U.S. households. The survey is one of the nation's primary sources of information on the financial condition of different types of households. Here are a few interesting observations gleaned from the most recent surveys conducted in 2013 and 2016, with the latter comparing changes during that timeframe.

Income

The typical household's median family income rose 10% between 2013 and 2016, from $48,100 to $52,700. During that same period, mean income (the average) increased 14%, from $89,900 to $102,700. Families at the top of the income distribution saw larger gains in income between 2013 and 2016 than other families, consistent with widening income inequality.

Across age groups, median and mean incomes show a life-cycle pattern, rising to a peak in the middle age groups and then declining for groups that are older and increasingly more likely to be retired. Income also shows a strong positive association with education; in particular, incomes for families headed by a person who has a college degree tend to be substantially higher than for those with lower levels of schooling.

Incomes of white non-Hispanic families are substantially higher than those of nonwhite (black or African-American non-Hispanic, Hispanic, or Latino, and other or multiple race) families. Income is also higher for homeowners and for families living in urban areas than for other families, and income is systematically higher for groups with greater net worth.

Wealth

Families near the bottom of the income and wealth distribution experienced large gains in mean and median net worth following large declines between 2010 and 2013. Families without a college education and nonwhite and Hispanic families experienced larger proportional increases in net worth than other types of families, although more-educated families and white non-Hispanic families continue to have higher wealth than other families.

Overall, median and mean inflation-adjusted net worth — the difference between a family's gross assets and liabilities — rose between 2013 and 2016. Overall, the median net worth of all families rose 16% to $97,300, and mean net worth rose 26% to $692,100. Much of the increase in wealth was driven by the increased prices of homes and investments such as stocks and other securities.

The same patterns of inequality in the distribution of wealth across all families are also evident within race/ethnicity groups: For each of the race/ethnicity groups, the mean is substantially higher than the median, reflecting the concentration of wealth at the top of the wealth distribution. White families had the highest level of both median and mean family wealth: $171,000 and $933,700, respectively. Black families' median and mean net worth was less than 15% that of white families, at $17,600 and $138,200, respectively. Hispanic families' median and mean net worth was $20,700 and $191,200, respectively.

A few other interesting facts

Homeownership rates decreased between 2013 and 2016 to 63.7%, continuing a decline from their peak of 69.1% in 2004. For families that own a home, mean net housing values (value of a home minus outstanding mortgages) rose.

Retirement plan participation and retirement account asset values rose for families across the income distribution, with the largest proportional increases occurring among families in the bottom half of the income distribution.

Overall, many measures of debt and debt obligations indicate that debt has fallen, while education debt increased substantially between 2013 and 2016.

The Standard Deduction and Itemized Deductions After Tax Reform

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. After 2025, these provisions revert to pre-2018 law.

The Tax Cut and Jobs Act substantially increased the standard deduction amounts for 2018 to 2025. It also eliminated or restricted many itemized deductions for those years. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Standard deduction

The standard deduction amounts are substantially increased in 2018 (and adjusted for inflation in future years).

	2017	2018
Single	$6,350	$12,000
Head of household	$9,350	$18,000
Married filing jointly	$12,700	$24,000
Married filing separately	$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/head of household 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.*

Itemized deductions

Many itemized deductions have been eliminated or restricted. The overall limitation on itemized deductions based on the amount of adjusted gross income (AGI) was eliminated. Here are some specific changes.

Medical expenses: The AGI threshold for deducting unreimbursed medical expenses was reduced from 10% to 7.5% for 2017 and 2018, after which it returns to 10%. This same threshold applies for alternative minimum tax purposes.

State and local taxes: Individuals are able to claim an itemized deduction of up to only $10,000 ($5,000 for married filing separately) for state and local property taxes and state and local income taxes (or sales taxes in lieu of income taxes). Previously, there were no dollar limits.

Home mortgage interest: Individuals can deduct mortgage interest on no more than $750,000 ($375,000 for married filing separately) of qualifying mortgage debt. For mortgage debt incurred before December 16, 2017, the prior $1,000,000 ($500,000 for married filing separately) limit will continue to apply. A deduction is no longer allowed for interest on home equity indebtedness. Home equity used to substantially improve your home is not treated as home equity indebtedness and can still qualify for the interest deduction.

Charitable gifts: The top percentage limit for deducting charitable contributions is increased from 50% of AGI to 60% of AGI for certain cash gifts.

Casualty and theft losses: The deduction for personal casualty and theft losses is eliminated, except for casualty losses attributable to a federally declared disaster.

Miscellaneous itemized deductions: Previously deductible miscellaneous expenses subject to the 2% floor, including tax preparation expenses and unreimbursed employee business expenses, are no longer deductible.

Alternative minimum tax (AMT)

The standard deduction is not available for AMT purposes. Nor is the itemized deduction for state and local taxes available for AMT purposes. If you are subject to the alternative minimum tax, it may be useful to itemize deductions even if itemized deductions are less than the standard deduction amount.

Year-end tax planning

Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

With the substantially higher standard deduction amounts and the changes to itemized deductions, it may be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction. Thus, while this might seem counterintuitive from a nontax perspective, it may be useful to make charitable gifts in years in which you have high medical expenses or casualty losses.

In this environment, qualified charitable distributions (QCDs) may be even more useful as a way to make charitable gifts without itemizing deductions. QCDs are distributions made directly from an IRA to a qualified charity. Such distributions may be excluded from income and count toward satisfying any required minimum distributions (RMDs) you would otherwise have to receive from your IRA. Individuals age 70½ and older can make up to $100,000 in QCDs per year.

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Four Points to Consider When Setting a Retirement Income Goal

Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

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

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.[1]

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can expect to live 18 more years.[2] To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about $265,000 just to pay for basic medical expenses in retirement.[3] And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another $69,000, on average, to the out-of-pocket costs.[4]

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated $50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than $67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

[1] EBRI Issue Brief, March 21, 2017

[2] NCHS Issue Brief, Number 293, December 2017

[3] EBRI Notes, January 31, 2017

[4] HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016

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What are some tips for creating a budget and sticking to it?

It's a common problem for many individuals — wondering exactly where your paycheck goes each month. After paying expenses, such as your mortgage, utilities, and credit card bills, you may find little left to put toward anything else.

Creating a budget is the first key to successfully manage your finances. Knowing exactly how you are spending your money each month can set you on a more clear path to pursue your financial goals. If you become sidetracked when it comes to your finances, consider these tips for creating a budget and staying on the right path.

Examine your financial goals. Start out by making a list of your short-term goals (e.g., new car, vacation) and long-term goals (e.g, your child's college education, retirement) and prioritize them. Consider how much you will need to save and how long it will take to reach each goal.

Identify your current monthly income and expenses. Add up all of your income. In addition to your regular salary and wages, be sure to include other types of income, such as dividends, interest, and child support. Next, add up all of your expenses. Sometimes it helps to divide expenses into two categories: fixed (e.g., housing, food, transportation) and discretionary (e.g., entertainment, vacations). Don't forget to factor in any financial goals you would like to pursue.

Evaluate your budget. Once you've added your income and expenses, compare the two totals. Ideally, you should be spending less than you earn. If this is the case, you're on the right track, and you'll need to look at how well you use your extra income toward achieving your financial goals. On the other hand, if you are spending more than you earn, you should make some adjustments to your budget. Look for ways to increase your income or reduce your expenses, or both.

Monitor your budget. Finally, you should monitor your budget periodically and make changes when necessary. Keep in mind that any budget that is too rigid is likely to fail. Keep your budget flexible as your changing circumstances demand.

What are some strategies for paying off credit card debt?

Nowadays, it's easier than ever to get caught up in the cycle of credit card debt. In fact, it's become a growing problem for many Americans. According to the Federal Reserve, total U.S. credit card payments reached 111.1 billion in 2016, up 7.4% from 2015.[1]

If you find that you are struggling to pay down a credit card debt balance, here are some strategies that can help eliminate your credit card debt altogether:

Pay off cards with the highest interest rate first. If you have more than one card that carries an outstanding balance, prioritize your payments according to their interest rates. Send as large a payment as you can to the card with the highest interest rate and continue making payments on the other cards until the card with the highest interest rate is paid off. You can then focus your repayment efforts on the card with the next highest interest rate, and so on, until they're all paid off.

Apply for a balance transfer with another card. Many credit card companies offer highly competitive balance transfer offers (e.g., 0% interest for 12 months). Transferring your credit card balance to a card with a lower interest rate can enable you to reduce interest fees and pay more against your existing balance. Most balance transfer offers charge a fee (usually a percentage of the balance transferred), so be sure to do the calculations to make sure it's cost-effective before you apply.

Pay more than the minimum. If you only pay the minimum payment due on a credit card, you'll continue to carry the bulk of your balance forward without reducing your overall balance. As a result, try to make payments that exceed the minimum amount due. For more detailed information on the impact that making just the minimum payment will have on your overall balance, you can refer to your monthly statement.

Look for available funds to make a lump-sum payment. Are you expecting an employment bonus or other financial windfall in the near future? If so, consider using those funds to make a lump-sum payment to eliminate or pay down your credit card balance.

[1] Federal Reserve, 2017

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