ClientLine®

February 2018

2018 INFLATION AWAKENING?

If you are an income investor, consider how inflation can affect your standard of living. Since the last recession almost a decade ago, inflation has barely made a dent in Americans' income. In October 2017, $1.17 bought what $1 would have in January 2009, as measured by the Consumer Price Index. Not too bad, right?

INFLATION SHRINKS INCOME

The past decade produced historically low inflation, but you can't count on this forever. Relatively recent experience shows it's not uncommon to see sustained higher inflation, according to www.calculator.net. And you don't have to be too old to remember the double-digit inflation of 1979 through 1981.

Consider that 3% annual inflation over 20 years would mean you would need $1.81 to equal the purchasing power of $1 today. So, you can see how even a moderate increase in inflation can wreak havoc on fixed income investors' portfolios. How do you lessen this risk?

INCREASE YOUR INCOME

Your ability to lessen inflation's impact can be summed up in three words: Increase your income. If you're working, you might negotiate for higher-than-normal pay raises, but this too can have consequences. Think about how employers meet their rising costs by increasing the prices of their goods and services, which in turn will contribute to potentially higher inflation. It's a vicious circle.

INVESTING APPROACH

Alternately, consider how you might invest with inflation in mind. If you have a long time horizon, you might weigh increasing your equity investments against their increased risk.

If you want less risk and some inflation protection, you might put some money into Treasury Inflation-Protected Securities (TIPS). When TIPS mature (in five, 10 or 30 years), the U.S. Treasury pays the adjusted principal or original principal, whichever is greater. You can buy TIPS from a bank, a broker or direct at www.treasurydirect.gov.

SAFE CAN BE RISKY

Even in retirement, you might consider devoting some of your portfolio to growth investments to maintain your purchasing power. Ignore inflation at your own peril.

Alison Brew
Account Manager

125 Wolf Road, Suite 407
Albany, NY 12205

Tel: 518-870-1083
Toll Free: 800-243-5334 ext.510
Fax: 800-720-0780
abrew@ltmclientmarketing.com
www.ltmclientmarketing.com

Bonds and Inflation

Fixed income investors might welcome a rise in yields on their investments, but increased interest rates won't necessarily ensure more money. After years of paltry returns, interest-sensitive investments are seeing the beginning of a bump in rates. Increasing rates, however, can affect your bond investments in ways you might not have anticipated.

Bond Ups and Downs

When interest rates rise, the yields on new bond issues typically rise with them. Newer issues pay higher interest rates, meaning you typically have to accept a lower yield than first promised for older bonds sold before maturity because their rates aren't as attractive. If, however, you buy a bond and hold it to maturity, you will receive the yield promised when you bought the investment, regardless of current interest rates.

Bond Funds Differ

Bond mutual funds offer no such promises because fund managers trade regularly and often sell holdings before maturity. Thus, if you own bond fund shares, you could earn more or less than the going rate for bonds.

MAGNIFICENT 7 MUST-DOS

Now that you've settled into 2018, consider these seven achievable steps to benefit your business and personal life.

FOR YOU

1. FINANCIAL
Contribute the maximum allowed to a qualified retirement plan. The limit for contributions from both employer and employee — you're both if you own the business — has increased again. As an added bonus, get tax benefits on both the personal and business side.

2. HEALTH
Consider wellness. Financial and health wellness benefits are becoming more common in the workplace. If you spend long hours working like most business owners do, you'll benefit as much as anyone from help in these areas.

3. BALANCE
Take a break. You're not a machine, so take time off to recharge your batteries. You'll be more productive when you return.

FOR YOUR BUSINESS

4. NETWORK
Go on the road — to conferences or conventions. Many professions offer continuing education credits for attending sessions. Even if they don't, you'll learn new things about your industry and make some connections, to boot.

5. SOCIAL MEDIA
Get social. A presence on Facebook, Instagram, LinkedIn or a combination is almost a must for small businesses these days. Each platform offers tools and guidance to help you get up to speed.

6. DELEGATE
Give it up — micromanagement, that is. The hardest thing for many business owners is giving up the "do it yourself" mindset and trusting employees to relieve some of the time-consuming burdens.

7. EXPERTISE
Get help. Depending on where you are in your business life, a business consultant, accountant, financial advisor or other professional may help you get to the next level.

Client PROFILE

Brian began receiving Social Security benefits when he first became eligible at his full retirement age, 66. Ten months later, he inherited a large sum of money and wonders if he can stop benefits until age 70 to build his monthly benefit.

He can voluntarily suspend retirement benefit payments up to age 70, when they will restart automatically, beginning the following month after the month when he makes the request. Anyone who has reached full retirement age and is not yet age 70 can do this. Brian can request the suspension either orally or in writing.

Since Brian has received Social Security benefits for less than 12 months, he has a second option for a voluntary suspension. He can request to withdraw his Social Security claim and reapply at a future date. If approved, Brian will have to repay all the benefits he and his family received from when he first began receiving them.

If Brian changes his mind and wants the payments to start before age 70, he only has to notify the Social Security Administration orally or in writing that he wants his benefits reinstated. The request may also include benefits for any months when payments were suspended.

A couple of caveats: If you voluntarily suspend retirement benefits and have others who receive benefits on your record, they will not be able to receive benefits for the same period that your benefits are suspended. There's one exception: a divorced spouse can continue receiving benefits if you suspend. Also note that if you had Medicare Part B premiums automatically deducted from your Social Security benefit, they cannot be deducted from a suspended benefit.

Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

THREE WAYS TO MAKE EMPLOYEES HAPPIER

Happy, valued employees are typically more productive employees, and workplace benefits are one way to keep employees staying that way. While most workers cite healthcare, raises and vacations as among their most cherished benefits, there are other cost-efficient ways to let your employees know you value them.

1. GRANT INDEPENDENCE

If your business doesn't require strict hours and a constant presence in the office or store, consider allowing telecommuting, at least part-time. If your business allows, you might also offer flexible work time, with the stipulation employees work a specified amount of hours within a stated window.

2. INVEST IN YOUR WORKFORCE

Spend time with employees talking about shared company goals, mentoring them and providing a steady stream of positive recognition. Reward efforts that are above and beyond by offering an extra day off. The more employees care and feel invested, the better your company will fare.

3. COMMUNICATE REGULARLY

As a business owner you need to not only set the direction, but communicate it regularly to employees. Bring them into decision-making, communicate company progress regularly and praise accomplishments consistently for all to hear.

SNOWBIRDS AND STATE TAXES

It's not uncommon for older homeowners in colder climates to also own property in the Sun Belt. Snowbirds, for instance, may own homes in northern and southern states, and may even earn income in both places. Unfortunately, this can complicate their tax picture.

INCOME TAX

Let's say you live and work in the North most of the year, but relocate to a warmer climate during the winter and rent out that home the rest of the year. You'll need to file a resident state tax return in your primary state and a non-resident tax return in the other state. This is generally the drill in any two states where you have income.

Most states have reciprocal tax agreements, so you won't pay double the taxes. What you pay in the higher-taxed state is generally credited to you in the other state. In your resident state, you'll need to include all income, wherever it is earned. Generally, your non-resident tax return requires only income earned in that state.

DEATH TAX

With many states also having estate and inheritance taxes, owning property in two states presents additional challenges. So, talk to professionals who understand the nuances of multi-state estates.

....Q&A

Q **I've heard that Roth IRAs are best for people who expect the same or higher income during their working years as in retirement, while traditional IRAs work best for retirees who expect less income than when they worked. Is this true?**

A If you know for sure that you'll have less income in retirement, that's generally true. But none of us have a crystal ball, and we can't predict what taxes will look like years from now. One reason, aside from taxes, to consider a Roth IRA is that distributions are not required at age 70½. Traditional IRAs mandate required minimum distributions (RMDs) once you reach this age.

Q **I will receive an inheritance from a living trust, which includes a life insurance policy that named the estate as beneficiary. Is the benefit tax-free?**

A Life insurance is generally income tax-free and estate tax-free when passed directly to an individual named as beneficiary. However, life insurance owned by a revocable trust, like a living trust, is considered part of the estate and is typically subject to estate taxes. To avoid estate taxes, a trust's owner should consider naming one or more individuals as beneficiary, or putting the life insurance policy inside an irrevocable trust.

ClientLine® SHORT BITS

> SOCIAL SECURITY RECIPIENTS GET A 2% INCREASE. After two years with virtually no increase, Social Security beneficiaries will receive a 2% cost of living allowance (COLA) increase in 2018. This will raise the average Social Security monthly benefit for all retired workers from $1,377 to $1,404. Workers will see Social Security taxes disappear a little later, with maximum taxable income rising to $128,700.

> HSA POPULARITY CONTINUES TO GROW. The Employee Benefit Research Institute (EBRI) found continued growth in Health Savings Accounts (HSAs) in 2016. Enrollment in high-deductible health plans (required to have an HSA) in 2016 was estimated to be 20.2–22.6 million policyholders and their dependents, covering nearly three in 10 employees. The average balance, including individual and employer contributions, was $2,532, up dramatically from $1,604 at the beginning of the year. HSAs allow rollovers from one year to the next.

> HOURLY WAGES KEEP UP WITH INFLATION. Continuing a stubborn trend, U.S. real average hourly earnings remained almost stagnant. Adjusted for inflation, wages rose just 0.2% from September 2016 to September 2017. There was a 2.5% increase in average hourly earnings offset by a 2.3% rise in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W).

> DON'T COUNT ON INCREASED LIFE EXPECTANCIES. The Society of Actuaries found that the U.S. age-adjusted mortality rate, a measure of the number of deaths per year, rose 1.2% from 2014 to 2015. That's the first year-over-year increase since 2005, and only the second rise greater than 1% since 1980.

5457 FEB 2018