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MOLDENHAUER & ASSOCIATES

DECEMBERNEWSLETTER

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What a year! Tis the season to be jolly! While each of us have much to be grateful for, it is not always easy. I am hoping that each of you have a reason to be joyful during this, the last month of 2018.

For the past few years the market has been good for our clients as well as our firm. The past two months have certainly been difficult. We must always remember that the market can be volatile. It is our job to try to help mitigate and manage market volatility as much as possible. It is always important that clients not over-react to the natural emotion that accompanies market down turns. It is interesting that market up-ticks do not invoke the same emotion that down-ticks seem to bring.

This is a busy time of year for most people. It should be a time to reconnect with friends and family. It should be a time of reflection and taking note of the many things we have to be grateful for. For me, it is a time to consider the blessings that have been bestowed on my family.

This year, we were in WNY for Thanksgiving. Three of my sons, and their families, were there as well. Being in WNY allowed me the opportunity to visit a few clients and gave me the chance to get the house ready for winter.

Early November was busy for Kathy and me. Our big dock project is nearing completion. It's the time of year when the hurricanes are hopefully over, and cleanup can be completed. We had no major damage, mostly fallen limbs and flying debris.

Our neighbors, 30 miles to the north, had big time problems with flood damage and homes being destroyed.

Sadly, a couple of our clients recently passed away. They were wonderful people and we will miss them dearly. As a firm, we have been blessed to have many great clients. When one dies or has a medical issue, our hearts go out to them and their families.

As I close this article, I hope that each of you had a great Thanksgiving and I hope the Christmas Season is joyful for your family.

Happy Holidays!

Richard Moldenhauer

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SOCIAL SECURITY GETS ITS BIGGEST BOOST IN YEARS

Seniors will see their retirement benefits increase by an average of 2.8% in 2019.

Social Security will soon give seniors their largest "raise" since 2012.

In view of inflation, the Social Security Administration has authorized a 2.8% increase for retirement benefits in 2019.[1]

This is especially welcome, as annual Social Security cost-of-living adjustments, or COLAs, have been irregular in recent years. There were no COLAs at all in 2010, 2011, and 2016, and the 2017 COLA was 0.3%. This marks the second year in a row in which the COLA has been at least 2%.[2]

Not every retiree will see their benefits grow 2.8% next year.

While affluent seniors will probably get the full COLA, more than 5 million comparatively poorer seniors may not, according to the Senior Citizens League, a lobbying group active in the nation's capital.[1]

Why, exactly? It has to do with Medicare's "hold harmless" provision, which held down the cost of Part B premiums for select Medicare recipients earlier in this decade. That rule prevents Medicare Part B premiums, which are automatically deducted from monthly Social Security benefits, from increasing more than a Social Security COLA in a given year. (Without this provision in place, some retirees might see their Social Security benefits effectively shrink from one year to the next.)[1]

After years of Part B premium inflation being held in check, the "hold harmless" provision is likely fading for the above-mentioned 5+ million Social Security recipients. They may not see much of the 2019 COLA at all.[1]

Even so, the average Social Security beneficiary will see a difference.

The increase will take the average individual monthly Social Security payment from $1,422 to $1,461, meaning $468 more in retirement benefits for the year. An average couple receiving Social Security is projected to receive $2,448 per month, which will give them $804 more for 2019 than they would get without the COLA. How about a widower living alone? The average monthly benefit is set to rise $38 per month to $1,386, which implies an improvement of $456 in total benefits for 2019.[1]

Lastly, it should be noted that some disabled workers also receive Social Security benefits. Payments to their households will also grow larger next year. Right now, the average disabled worker enrolled in Social Security gets $1,200 per month in benefits. That will rise to $1,234 per month in 2019. The increase for the year will be $408.[1]

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Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

Citations.

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YOUR 2019 FINANCIAL TO-DO LIST

Things you can do for your future as the year unfolds.

What financial, business, or life priorities do you need to address for 2019? Now is a good time to think about the investing, saving, or budgeting methods you could employ toward specific objectives, from building your retirement fund to lowering your taxes. You have plenty of options. Here are a few that might prove convenient.

Can you contribute more to your retirement plans this year?

In 2019, the yearly contribution limit for a Roth or traditional IRA rises to $6,000 ($7,000 for those making "catch-up" contributions). Your modified adjusted gross income (MAGI) may affect how much you can put into a Roth IRA: singles and heads of household with MAGI above $137,000 and joint filers with MAGI above $203,000 cannot make 2019 Roth contributions.[1]

For tax year 2019, you can contribute up to $19,000 to 401(k), 403(b), and most 457 plans, with a $6,000 catch-up contribution allowed if you are age 50 or older. If you are self-employed, you may want to look into whether you can establish and fund a solo 401(k) before the end of 2019; as employer contributions may also be made to solo 401(k)s, you may direct up to $56,000 into one of those plans.[1]

Your retirement plan contribution could help your tax picture.
If you won't turn 70½ in 2019 and you participate in a traditional qualified retirement plan or have a traditional IRA, you can cut your taxable income through a contribution. Should you be in the new 24% federal tax bracket, you can save $1,440 in taxes as a byproduct of a $6,000 traditional IRA contribution.[2]

What are the income limits on deducting traditional IRA contributions?
If you participate in a workplace retirement plan, the 2019 MAGI phase-out ranges are $64,000-$74,000 for singles and heads of households, $103,000-$123,000 for joint filers when the spouse making IRA contributions is covered by a workplace retirement plan, and $193,000-$203,000 for an IRA contributor not covered by a workplace retirement plan, but married to someone who is.[1]

Roth IRAs and Roth 401(k)s, 403(b)s, and 457 plans are funded with after-tax dollars, so you may not take an immediate federal tax deduction for your contributions to them. The upside is that if you follow I.R.S. rules, the account assets may eventually be withdrawn tax free.[3]

Your tax year 2019 contribution to a Roth or traditional IRA may be made as late as the 2020 federal tax deadline – and, for that matter, you can make a 2018 IRA contribution as late as April 15, 2019, which is the deadline for filing your 2018 federal return. There is no merit in waiting until April of the successive year, however, since delaying a contribution only delays tax-advantaged compounding of those dollars.[1,3]

Should you go Roth in 2019?

You might be considering that if you only have a traditional IRA. This is no snap decision; the Internal Revenue Service no longer gives you a chance to undo it, and the tax impact of the conversion must be weighed versus the potential future benefits. If you are a high earner, you should know that income phase-out limits may affect your chance to make Roth IRA contributions. For 2019, phase-outs kick in at $193,000 for joint filers and $122,000 for single filers and heads of household. Should your income prevent you from contributing to a Roth IRA at all, you still have the chance to contribute to a traditional IRA in 2019 and go Roth later.[1,4]

Incidentally, a footnote: distributions from certain qualified retirement plans, such as 401(k)s, are not subject to the 3.8% Net Investment Income Tax (NIIT) affecting single/joint filers with MAGIs over $200,000/$250,000. If your MAGI does surpass these thresholds, then dividends, royalties, the taxable part of non-qualified annuity income, taxable interest, passive income (such as partnership and rental income), and net capital gains from the sale of real estate and investments are subject to that surtax. (Please note that the NIIT threshold is just $125,000 for spouses who choose to file their federal taxes separately.)[5]

Consult a tax or financial professional before you make any IRA moves to see how those changes may affect your overall financial picture. If you have a large, traditional IRA, the projected tax resulting from a Roth conversion may make you think twice.

What else should you consider in 2019?

There are other things you may want to do or review.

Make charitable gifts.

The individual standard deduction rises to $12,000 in 2019, so there will be less incentive to itemize deductions for many taxpayers – but charitable donations are still deductible if they are itemized. If you plan to gift more than $12,000 to qualified charities and non-profits in 2019, remember that the paper trail is important.[6]

If you give cash, you need to document it.

Even small contributions need to be demonstrated by a bank record or a written communication from the charity with the date and amount. Incidentally, the I.R.S. does not equate a pledge with a donation. You must contribute to a qualified charity to claim a federal charitable tax deduction. Incidentally, the Tax Cuts and Jobs Act lifted the ceiling on the amount of cash you can give to a charity per year – you can now gift up to 60% of your adjusted gross income in cash per year, rather than 50%.[6,7]

What if your gift appreciated securities?
If you have owned them for more than a year, you will be in line to take a deduction for 100% of their fair market value and avoid capital gains tax that would have resulted from simply selling the investment and donating the proceeds. The non-profit organization gets the full amount of the gift, and you can claim a deduction of up to 30% of your adjusted gross income.[8]

Does the value of your gift exceed $250?
It may, and if you gift that amount or larger to a qualified charitable organization, you should ask that charity or non-profit group for a receipt. You should always request a receipt for a cash gift, no matter how large or small the amount.[8]

If you aren't sure if an organization is eligible to receive charitable gifts, check it out at irs.gov/Charities-&-Non-Profits/Exempt-Organizations-Select-Check.

Open an HSA.

If you are enrolled in a high-deductible health plan, you may set up and fund a Health Savings Account in 2019. You can make fully tax-deductible HSA contributions of up to $3,500 (singles) or $7,000 (families); catch-up contributions of up to $1,000 are permitted for those 55 or older. HSA assets grow tax deferred, and withdrawals from these accounts are tax free if used to pay for qualified health care expenses.[9]

Practice tax-loss harvesting.

By selling depreciated shares in a taxable investment account, you can offset capital gains or up to $3,000 in regular income ($1,500 is the annual limit for married couples who file separately). In fact, you may use this tactic to offset all your total capital gains for a given tax year. Losses that exceed the $3,000 yearly limit may be rolled over into 2020 (and future tax years) to offset ordinary income or capital gains again.[10]

Pay attention to asset location.

Tax-efficient asset location is an ignored fundamental of investing. Broadly speaking, your least tax-efficient securities should go in pre-tax accounts, and your most tax-efficient securities should be held in taxable accounts.

Review your withholding status.

You may have updated it last year when the I.R.S. introduced new withholding tables; you may want to adjust for 2019 due to any of the following factors.

- You tend to pay a great deal of income tax each year.
- You tend to get a big federal tax refund each year.
- You recently married or divorced.
- A family member recently passed away.
- You have a new job, and you are earning much more than you previously did.
- You started a business venture or became self-employed.

Are you marrying in 2019?

If so, why not review the beneficiaries of your workplace retirement plan account, your IRA, and other assets? In light of your marriage, you may want to make changes to the relevant beneficiary forms. The same goes for your insurance coverage. If you will have a new last name in 2019, you will need a new Social Security card. Additionally, the two of you, no doubt, have individual retirement saving and investment strategies. Will they need to be revised or adjusted once you are married?

Are you coming home from active duty?

If so, go ahead and check the status of your credit and the state of any tax and legal proceedings that might have been preempted by your orders. Make sure any employee health insurance is still in place. Revoke any power of attorney you may have granted to another person.

Consider the tax impact of any upcoming transactions.

Are you planning to sell (or buy) real estate next year? How about a business? Do you think you might exercise a stock option in the coming months? Might any large commissions or bonuses come your way in 2019? Do you anticipate selling an investment that is held outside of a tax-deferred account? Any of these actions might significantly impact your 2019 taxes.

If you are retired and older than 70½, remember your year-end RMD.

Retirees over age 70½ must begin taking Required Minimum Distributions from traditional IRAs, 401(k)s, SEP IRAs, and SIMPLE IRAs by December 31 of each year. The I.R.S. penalty for failing to take an RMD equals 50% of the RMD amount that is not withdrawn.[4,11]

If you turned 70½ in 2018, you can postpone your initial RMD from an account until April 1, 2019. All subsequent RMDs must be taken by December 31 of the calendar year to which the RMD applies. The downside of delaying your 2018 RMD into 2019 is that you will have to take two RMDs in 2019, with both RMDs being taxable events. You will have to make your 2018 tax year RMD by April 1, 2019, and then take your 2019 tax year RMD by December 31, 2019.[11]

Plan your RMDs wisely.

If you do so, you may end up limiting or avoiding possible taxes on your Social Security income. Some Social Security recipients don't know about the "provisional income" rule – if your adjusted gross income, plus any non-taxable interest income you earn, plus 50% of your Social Security benefits surpasses a certain level, then some Social Security benefits become taxable. Social Security benefits start to be taxed at provisional income levels of $32,000 for joint filers and $25,000 for single filers.[11]

Lastly, should you make 13 mortgage payments in 2019?

There may be some merit to making a January 2020 mortgage payment in December 2019. If you have a fixed-rate loan, a lump-sum payment can reduce the principal and the total interest paid on it by that much more.

Talk with a qualified financial or tax professional today. Vow to focus on being healthy and wealthy in 2019.

Richard Moldenhauer may be reached at 716-662-4361.

Provided by Richard C. Moldenhauer, CLU, CEP, RFC, ChFC

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UPCOMING EVENTS:

Our January and February seminars are at:

Bobby J's Italian American Grille

Tuesday, January 22, 2019 at 6 p.m.
204 Como Park Blvd.
Buffalo, NY 14227

Pane's Restaurant

Thursday, January 24, 2019 at 6 p.m.
984 Payne Avenue
North Tonawanda, NY 14120

Countryside Inn

Tuesday, February 2, 2019 at 6 p.m.
2049 Sandridge Road
Alden, NY 14004

We encourage clients who live in the area to introduce potential clients to our firm by bringing a friend to one of our seminars. These are informational and educational events. We are not there to convince people that we are the only firm to consider. Rather, we believe our firm offers a quality opportunity for people looking for a new advisor. Please attend a seminar in your neighborhood with a friend.

Richard Moldenhauer is a representative with Commonwealth Financial Network. Call him at 716-662-4361.

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