RB Capital Management

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TRUSTED ADVICE • CUSTOMIZED PORTFOLIOS • ADVISOR ACCESS • DESIRED OUTCOMES

FOCUSED ON MINIMIZING RISK AND ENHANCING RETURNS

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2ND QUARTER 2019

Tax Planning and Retirement

When people think about their retirement, the mental picture they summon tends to focus more on beaches and hobbies and less on income taxes. However, the taxes you'll have to pay on your retirement income will have a large impact on how much you'll really need in retirement. While your tax burden will most likely be lower in your retirement than in your highest-earning years, you'll still have to deal with income taxes. This means that a part of your retirement planning must include planning for taxes in retirement as well. The good news is that being smart about how you invest and making strategic decisions about where you draw your income from in retirement will better prepare you for a secure future.

How Much of Your Benefit Is Yours to Keep?

One of the biggest surprises that retirees encounter is that Social Security, a cornerstone of retirement income for many, is taxable. However, the portion of your Social Security benefit that is subject to tax depends on your total income for the year. If you rely solely on income from Social Security, you will likely not have to pay taxes on those benefits. But many people use Social Security as a supplement to what they withdraw from their retirement accounts. For those people, if their adjusted gross income, nontaxable interest received, and half of their annual Social Security benefits add up to a number between $32,000 and $44,000 (and they are married), they may have to pay taxes on up to half of their benefit. For single people, that amount would have to be between $25,000 and $34,000. If the amount is higher than those figures, up to 85% of the benefits could be taxable.

Downtown Living = Downtown Taxes

Another tax-related aspect of retirement many people don't realize has a large impact on their finances is where they plan to live. While it's tempting to move in down the street from the grandkids or downsize to a condo in a walkable city, it's

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Review Your Portfolio's Performance

At least annually, you should review your portfolio's performance, comparing it to relevant benchmarks and determining whether you are making progress toward accomplishing your financial goals. Consider these steps in the process:

1. Measure the performance of each investment in your portfolio. Many investments and investment managers will provide you with periodic performance information. When reviewing this information, keep in mind the following points:

- Often, an investment's return is reported on a time-weighted basis, which does not consider when you invested.
- Information that reports your portfolio's return is generally expressed on a dollar-weighted basis, which measures the investment return based on when cash inflows and outflows occurred. While this is a more relevant measure when evaluating your portfolio, time-weighted returns can make it easier to compare the returns of different investments.
- Investments often report cumulative annualized returns over a period of time, representing the

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Tax Planning

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important to make sure you understand the tax situation of the locale before you pack up and resettle. Some U.S. states, like Nevada and Florida, have no personal income tax. That, combined with the warm weather, makes both states popular landing spots for retirees. If you want to live a bit more adventurously, try Alaska, which has no income *or* sales tax. States like Georgia offer special perks to draw retirees by not taxing Social Security income or up to $65,000 of retirement income for people over 65. Other states have higher tax burdens, which can have an outsized effect on your nest egg. You will need to carefully weigh the advantages and disadvantages of any new place to live and budget accordingly.

Mix It Up with Tax-Diversified Investments

It's common for people saving for retirement to place an emphasis on tax-deferred accounts like 401(k) plans. This way, they save on taxes now in their higher-earning years, and then pay taxes when they draw on the funds in retirement and in a potentially lower tax bracket. While there is nothing wrong with this strategy, it's also a good idea to have some accounts to draw on that will not incur any taxes, like a Roth IRA. This gives retirees more of a choice about what they will draw on and if they will have to pay taxes on those funds. You can also keep some of your investments in regular taxable accounts, which provide income that is taxed at a lower capital gains rate.

If you are not currently contributing to a Roth IRA, you may want to consider a rollover from a tax-deferred account into a tax-free account. Of course, you will have to pay any taxes owed when the rollover occurs, but you will also have more options for income to draw on in retirement. Because this is not a good choice for everyone, you should speak with a financial advisor to make sure it is appropriate for you.

Don't Forget about Required Minimum Distributions (RMDs)

Many people are not in the enviable position of being well-off enough to leave funds untouched through their 60s. But for those who are in that situation, they must keep in mind that by the time they turn age 70½, they are required to start making withdrawals from their 401(k), Roth 401(k), IRA, or other similar account. Whether they need the money or not, they have to start taking the RMDs…and that added income could bump them into a higher tax bracket. The best course of action is entirely dependent on your specific situation, but one strategy is to begin making withdrawals before 70½ as long as you remain in a lower tax bracket, and reinvesting the unneeded amount elsewhere. There is also the option to rollover the funds into a Roth IRA, which is the only type of retirement account not subject to RMDs. Speaking with a financial advisor can give you a clear picture of what strategies work best for you — the most important step is to have a plan. ❍❍❍

Your Parents' Estate Plans

Estate planning can be a difficult subject to discuss with your parents. You don't want to seem concerned about how much money they may eventually leave you, while they may fear you are interfering with their finances. But to help ensure their estate is settled quickly according to their wishes, family members should have some basic information. You don't need to know the specifics, but you should find out:

- **Where important estate planning documents are located.** Don't ask for specifics, just make sure documents are in place so their wishes will be carried out. Find out if they have a durable power of attorney and a healthcare proxy. With a durable power of attorney, they designate someone to control their financial affairs if they become incapacitated. If your parents are concerned this person may assume control prematurely, suggest leaving the document with their attorney, who can deliver it to the appropriate person when necessary. A healthcare proxy delegates healthcare decisions to a third person when your parent is unable to make those decisions. Usually, this document also outlines procedures to be used to prolong life.
- **How to contact their advisors.** Ask for a list of names, addresses, and phone numbers of lawyers, accountants, and financial advisors.
- **Their rationale for distributing their estate.** Often, when heirs understand why an estate is being distributed in a particular manner, it can prevent problems among those heirs. If your parents are reluctant to discuss these things now, suggest they leave a personal letter with their estate-planning documents explaining their rationale for distributions. This is a good place to explain unequal bequests or large charitable contributions.
- **Preferences for the future.** Find out where your parents would like to live if they're not physically able to live in their current home. Do they want to move in with relatives or live in an assisted-living facility? Discuss in detail what procedures they want performed to prolong life in the event of a terminal illness. Determine their preferences for funeral arrangements. ❍❍❍

Performance

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average annual performance over that time. Since returns can fluctuate significantly on a year-to-year basis, this annualized return can help you evaluate the long-term performance of an investment.

If you invest in individual stocks and bonds, you may need to calculate those returns yourself. Conceptually, your total return on an investment equals the change in market value plus any dividends, interest, or capital gains, divided by the beginning market value. Total return can be difficult to calculate, especially if you make additional investments or withdrawals during the year. You may need the help of a computer program to calculate your total return precisely.

2. Find an appropriate benchmark to compare to each component of your portfolio. A wide variety of market indexes now exist, covering different segments of the market. Find ones that track investments similar to each component of your portfolio. Making comparisons to a benchmark should help you identify portions of your portfolio that may need to be changed or that you should start monitoring more closely.

3. Calculate your overall rate of return, comparing it to your estimated return. When designing your investment program, you probably assumed a certain rate of return, which determined how much you need to invest to reach your financial goals. Calculating your actual return will determine if you are on track. If your actual return is below the return you estimated, you may need to increase the amount you are saving, invest in alternatives with higher return potential, or settle for less money in the future. Performing this analysis annually should allow you to make these changes gradually.

4. Review your overall investment allocation to determine if changes should be made. This annual review is a good time to compare your actual allocation to your desired allocation. You may find you need to make changes for a variety of reasons. If certain portions of your portfolio have performed well, you may find they make up a larger percentage of your portfolio than originally planned. You may find you need to sell certain investments that are not performing well. You may also need to refine your asset allocation percentages, since your strategy will change over time.

You should review your portfolio's performance annually to ensure your investment strategy is on track. Please call if you'd like help with this analysis. ❍❍❍

Is Your 401(k) Plan Enough?

Here are five questions to help you decide whether your 401(k) plan is the only plan you'll need for retirement:

❍ **What kind of lifestyle do you want to fund in retirement?** General rules of thumb state you'll need anywhere from 70% to over 100% of your preretirement income during retirement. How much you'll need depends on your individual circumstances. For example, if your mortgage will be paid off and you plan to stay home and watch your grandchildren during retirement, 70% of your preretirement income may be sufficient.

❍ **Can you count on Social Security?** Social Security benefits were never designed as the sole source of retirement income, but they are still a valuable source of income. Those with lower incomes will find that Social Security replaces a higher percentage of their preretirement income than those with higher incomes.

❍ **How much does your employer contribute to your 401(k) plan?** The $19,000 maximum contribution to your 401(k) plan in 2019 does not include employer contributions. Employer-matching contributions vary by plan, but a typical match is 50 cents for every dollar contributed up to a maximum of 6% of your pay. If your employer offers a match, make sure you take full advantage of it.

❍ **What are average returns on your 401(k) investments?** You can only choose from the investments offered by your 401(k) plan. Within those parameters, select investments that match the long-term nature of your investments and will help grow your retirement funds over time.

❍ **What other sources of income can you count on?** If you already have other retirement assets, you might not need to count as heavily on your 401(k) plan. Other potential sources of retirement income might include a defined-benefit pension plan, individual retirement accounts (IRAs), an inheritance, or other investments.

If you contribute the maximum amount possible to your 401(k) plan and still aren't sure you'll have enough for retirement, please call for a review. ❍❍❍

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Financial Data

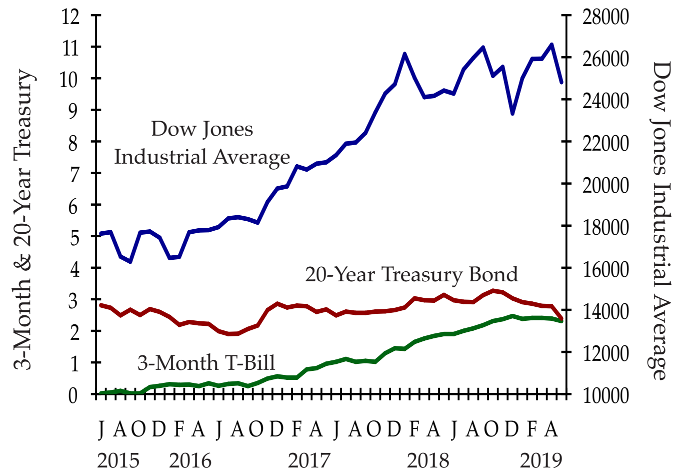
Indicator	Mar-19	Apr-19	May-19	Dec-18	May-18
	Month-end				
Prime rate	5.50	5.50	5.50	5.50	4.75
Money market rate	0.59	0.65	0.72	0.56	0.47
3-month T-bill yield	2.41	2.39	2.31	2.47	1.90
20-year T-bond yield	2.79	2.78	2.39	3.03	3.14
Dow Jones Corp.	3.74	3.74	3.63	4.40	3.89
30-year fixed mortgage	3.60	3.75	3.44	4.16	4.21
GDP (adj. annual rate)#	+3.40	+2.20	+3.10	+2.20	+2.20

Indicator	Month-end Mar-19	Month-end Apr-19	Month-end May-19	% Change YTD	% Change 12-Mon.
Dow Jones Industrials	25928.68	26592.91	24815.04	6.4%	1.6%
Standard & Poor's 500	2834.40	2945.83	2752.06	9.8%	1.7%
Nasdaq Composite	7729.32	8095.39	7453.15	12.3%	0.1%
Gold	1295.15	1282.30	1295.55	1.1%	-0.8%
Consumer price index@	252.78	254.20	255.55	1.4%	2.0%
Unemployment rate@	3.80	3.80	3.60	-2.7%	-7.7%

— 3rd, 4th, 1st quarter @ — Feb, Mar, Apr Sources: *Barron's, Wall Street Journal*

4-Year Summary of Dow Jones Industrial Average, 3-Month T-Bill & 20-Year Treasury Bond Yield

June 2015 to May 2019



Past performance is not a guarantee of future results.

News and Announcements

Calculating Your After-Tax Rate of Return

To help make investment decisions, you should calculate your overall and after-tax rate of return on your investments.

Conceptually, an investment's total return equals the change in market value plus any dividends, interest, or capital gains, divided by the beginning market value. Practically speaking, however, total return can be difficult to calculate, especially if you invested additional money or took distributions during the year. If so, you may need the help of a computer to calculate your total return precisely.

Once you know your total return, calculate your after-tax return. From your dividend, interest, and short-term capital gain income, deduct the amount paid in taxes at your marginal tax rate. From your long-term capital gains, deduct capital gains taxes paid. You can then calculate your after-tax return.

If there's a significant difference between your total return and after-tax return, reevaluate your investment strategy to make it more tax efficient. Emphasizing investments that generate capital gains or placing income-generating investments in a tax-deferred account are just two strategies you may want to consider.

If you'd like help evaluating the tax efficiency of your portfolio or would like to review your investment strategy, please call. ❍❍❍

FR2019-0222-0173