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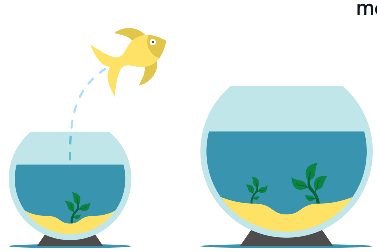
Money at work

Risk vs. reward: a personal choice

It is trite but still true: Risk and reward frequently go hand in hand. For example, the higher the potential risk you take, the greater the potential reward can be, especially when it comes to investing your money. Yet the relationship between the twin concepts of risk and reward is often misunderstood by the general public.

With a better understanding of "risk vs. reward," you can tailor your investment plan to meet your personal needs and desires.

For starters, be aware that human nature can play a prominent role in the equation. For example, you might stubbornly cling to a stock investment that continues to decline because you are unwilling to admit you made a mistake. In the meantime, you could be missing out on a more profitable opportunity if you were to invest the money elsewhere. Of course, you cannot know for certain that an alternative investment would provide a better return, but there is no sense in throwing good money after bad.



On the other hand, investors may be willing to take extraordinary risks for a chance at "hitting the jackpot," even if the odds are much greater for a smaller payoff. This can be attributed to wishful thinking or inaccurate calculations — or both. **Classic example:** Faced with the choice between a 1% chance to win $1 million and a 2% chance to win $500,000, some people, if not most, will risk their money on the $1 million bonanza. Nevertheless, the odds for hitting the $500,000 payoff is twice as high.

As a general rule, the best investment approach is to take a long-term perspective that focuses on your main financial objectives.

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Undoubtedly, this may include some exposure to risk in the equities markets. Frequently, investors will find that having a modest amount of risk in their portfolio is an acceptable way to increase the potential for achieving their investment goals. By diversifying their portfolio through investments with different degrees of risk, they may be able to take advantage of a rising market and benefit from some protection due to losses in a declining market.

Of course, there is an inherent risk in this process, and past performance is not a guarantee of future results. You should consider all the critical aspects of assembling a diversified portfolio, including your financial status, your time horizon, your health and your personal risk tolerance. And do not forget to factor in any unusual circumstances pertaining to your personal situation.

Everyone's situation is different. By developing a long-term plan for investing your money, you can strike a balance between risk and reward that is appropriate for your particular circumstance.

Fortunately, you do not have to do this on your own. Rely on your professional investment advisers for a personal touch. ❖

How to stretch an IRA

What is a Stretch IRA?

With a traditional IRA — including an IRA that is used for a rollover from a qualified plan, e.g., a 401(k) — you can build up a nest egg over time without paying tax. However, if you do not need to draw heavily on the IRA, assets may be preserved for younger family members.

In fact, by utilizing the "stretch IRA" concept, the IRA may benefit future generations indefinitely.

Background: Although you may take out as much as you want from your IRA — and pay the resulting tax — required minimum distributions (RMDs) must begin after you reach age 70½. The amount of the annual RMD is based on your account balance on December 31 of the prior year and the life expectancy of your beneficiary (or beneficiaries).

The IRS has established life expectancy tables for this purpose. Special rules come into play if you have designated as the sole beneficiary a spouse who is more than ten years younger than you.

Key point: If you designate non-spouse beneficiaries for your IRA, such as children and/or grandchildren, the annual payouts will be relatively low because of the beneficiaries' longer life expectancies. Even though those beneficiaries still have to take lifetime RMDs, the payout period is stretched over a long time. What's more, the "shelf life" of the IRA can be extended still further if those beneficiaries name even younger beneficiaries in turn. This is the essence of the stretch IRA.

Keeping that in mind, here are four steps that can help facilitate a stretch IRA:

1. Be careful to properly designate the beneficiaries in the IRA paperwork. Double-check any prior designations.
2. Limit your own withdrawals to the minimum required by law. This preserves more wealth for your future beneficiaries.
3. If there are multiple beneficiaries, have them establish separate accounts. RMDs must begin in the year following the year of death. Unless separate accounts are used, the RMDs are based on the life expectancy of the oldest beneficiary.
4. Name successor beneficiaries. This ensures that RMDs will be withdrawn over the beneficiary's entire life expectancy even if he or she does not live that long. Otherwise, the estate might have to pay out the entire amount.

To qualify for the benefits of a stretch IRA, the beneficiary must establish an account in the deceased IRA owner's name by December 31 of the year after the year of death. This generally provides enough time for beneficiaries to get their ducks in a row.

Remember to meet your RMD obligations. Failing to do so can result in a tax penalty equal to 50% of the required amount (less any amount actually withdrawn). **Note:** Lifetime RMDs are not mandatory for Roth IRAs, but then, beneficiaries must take RMDs after they inherit a Roth.

Final words: Do not create a stretch IRA in a vacuum. If it makes sense for you, incorporate this technique into your overall financial plans. ❖

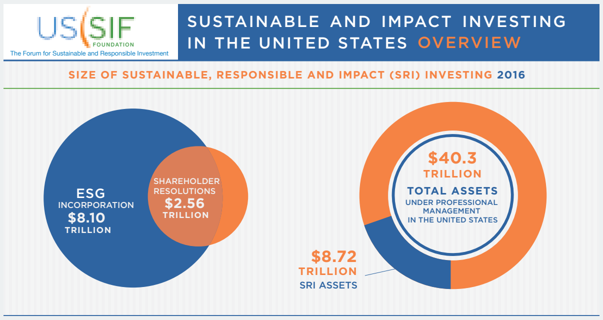
Investing with a social conscience

In the past, some investors were torn between generating investment revenue and meeting certain environmental, ethical or socially conscious objectives. But these concepts are not necessarily at odds with each other. In fact, sustainable, responsible and impact investing (SRI) is being embraced by many investors around the country.

According to The Forum for Sustainable and Responsible Investment (US SIF), $8.72 trillion in total assets using one or more SRI strategies was identified as being under management in 2016. SRI goes by several other names. It has been referred to as community investing, “ethical investing,” “green investing” and “sustainable investing,” to name just a few. Regardless of the terminology, similar strategies are employed. Historically, there are two main areas of focus:

1. **ESG incorporation:** This is the consideration of environmental, social land governance (ESG) factors in investment and analysis and portfolio development across a range of asset classes. For instance, one significant segment of ESG, community investing, is dedicated to financing projects or institutions designed to help struggling communities — both domestic and foreign.
2. **Shareholder resolutions:** For investors holding shares in publicly traded companies, shareholder resolutions can embrace SRI strategies. Investments may be coordinated to encourage responsible business practices and to allocate capital for social and environmental benefits across various economic strata.

The list of SRI investors is extensive, covering a broad spectrum of individuals, educational institutions, private foundations, family offices, pension funds, religious institutions and a plethora of nonprofit organizations. There are literally hundreds of firms offering SRI options to these investors.



For example, according to the US SIF Foundation’s report, from 2014 through the first half of 2016, more than 200 institutional investors and money managers collectively controlling at least $1.56 trillion in assets filed or cofiled shareholder resolutions on ESG issues. What’s more, investors filed more than 700 resolutions related to ESG key issues for the 2016 proxy season. This included resolutions requiring better disclosure and oversight of political contributions and activities.

Finally, recent social and environmental resolutions have addressed such issues as

- Climate change;
- Equal employment opportunities;
- Human rights; and
- Sustainability reporting.

In summary: SRI is not for everyone, but you may want to learn more about the possible options. Be mindful that this does not have to be an all-or -nothing proposition — you can devote as little or as much of your portfolio to SRI as you like. Do not hesitate to ask for professional assistance. ❖

Drink in COLAs for 2018

The IRS recently announced cost-of-living adjustments (COLAs) for certain retirement plan limits for 2018. Any COLAs, as shown below, are relatively small.

	Limit for 2017	Limit for 2018
Maximum annual dollar benefit for a defined benefit plan	$215,000	$220,000
Maximum dollar limit on additions to a defined contribution plan	$54,000	$55,000
Maximum amount of compensation taken into account for a qualified retirement plan	$270,000	$275,000
Dollar limit for elective deferrals to a 401(k) plan	$18,000 ($24,000 if age 50 or older)	$18,500 ($24,500 if age 50 or older)
Dollar limit for contributions to a SIMPLE plan	$12,500	$12,500

Planning ahead for a noncitizen spouse

Estate planning is already complicated, but things can become even more confusing when you are trying to accommodate a noncitizen spouse. To understand the potential pitfalls, it helps to review the basics. As a general rule, there are four fundamental tax breaks that may be used by individuals.

1. **Marital deduction:** A transfer from one spouse to another is completely exempt from federal estate and gift tax. It does not matter how much is transferred.
2. **Estate-tax exemptions:** This exemption covers amounts that are bequeathed to non-spouse beneficiaries. Thanks to the new Tax Cuts and Jobs Act of 2017, the exemption may shelter transfers of up to $11.2 million in 2018.
3. **Lifetime gift-tax exemption:** Under the unified estate and gift-tax system, you may also benefit from a lifetime gift-tax exemption of $11.2 million in 2018. But keep in mind that using this erodes the available estate-tax exemption.
4. **Annual gift-tax exclusion:** This exclusion shelters gifts made during your lifetime from gift tax. You can give away $15,000 per person in 2018 without paying any gift tax. The exclusion is doubled to $30,000 if you and your spouse make a joint gift.

By combining these four tax breaks, it is possible to reduce — or completely eliminate — federal estate and gift tax. However, if your spouse is not a U.S. citizen, the marital deduction does not apply. Instead, you must use the estate-tax exemption to cover assets transferred at death, up to the $11.2 million threshold, to a noncitizen spouse. Furthermore, the annual gift-tax exemption for gifts to a noncitizen spouse is limited to $152,000 in 2018.

One possible solution is to establish a so-called qualified domestic trust (QDOT). As the beneficiary of the trust, your spouse is entitled to receive income free of estate tax. At least one trustee of the QDOT must be a U.S. citizen or a domestic corporation.

Unfortunately, however, any principal withdrawn from a QDOT by your noncitizen spouse is taxed as if it were removed from your taxable estate. This can increase estate-tax liability. Also, there are certain restrictions on investments made by QDOTs. As an alternative, you can shift more assets into the name of the noncitizen spouse (assuming there are no extenuating circumstances), subject to the limit for the lifetime gift-tax exemption.

Another possibility is to have your spouse become a U.S. citizen if he or she is willing to do so. In fact, a QDOT may be structured so that it ceases to be effective when your spouse formally obtains citizenship.

Final thoughts: If you are a noncitizen, you can petition a court to set up a QDOT in the event your spouse predeceases you. When handled in a timely manner, estate tax is due only on the principal you withdraw from the trust. ❖

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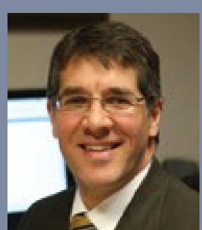

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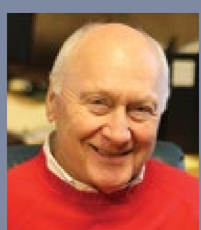

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ANY QUESTIONS?
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WAY THAT WE CAN.