SilverStar Insights

for your wealth

SILVERSTAR FINANCIAL
Retirement & Wealth Management

By Tim Hudson, CFP®, CLU, ChFC, CRPS® July 2018

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In our new *SilverStar Insights* newsletter, we combine our tax planning reports, financial market commentary, and other important financial news into a single quarterly publication throughout the year.

In our January newsletter, we provided the ***2018 Tax Planning Guide*** that addresses the changes in the new tax bill effective for 2018. If you missed it, you can view a copy on our website, www.SStarFinancial.com under *Resources* and *Quarterly Newsletters*, or email our office and we will be glad to send you a copy.

To receive our email or printed version, or to add a friend to our newsletter list, please call our office at (281) 477-3847 or email staff@sstarfinancial.com.

Market View

2018 Year-to-Date Performance of Capital Markets	
S&P 500 - The S&P 500 (Standard & Poor's Index) is a stock market index containing the stocks of 500 American corporations with large market capitalization that are considered to be widely held.	**2.65%**
Barclays U.S. Aggregate Bond – The Barclays U.S. Aggregate Bond Index is an index of U.S. dollar denominated, investment-grade U.S. corporate, government and mortgage-backed securities.	**-1.62%**
MSCI EAFE – The MSCI EAFE serves as a benchmark of the performance in major international equity markets as represented by 21 major MSCI indexes from Europe, Australia, and Southeast Asia.	**-2.75%**

Source: Morningstar (Performance from 1/1/18 to 6/30/18)

Rising interest rates and trade tariff headlines continue to dampen the equity markets in spite of good earnings.

In spite of good economic date, the trade tariff barbs are continuing and causing some hesitancy within the financial markets. But, as Warren Buffet stated, "The world will not do something stupid" over trade tariffs. Other country's have more to lose than the U.S. by not getting this issue settled as soon as possible.

Rising interest rates have hurt bond returns this year, but we should be reminded to never chase returns because asset classes and sectors do take turns. The global markets have been hurt by the rising dollar but they still remains attractive. As stated, "the sizable corporate and individual tax cuts passed in late 2017 are helping to prolong the U.S. economic and employment expansion, and any acceleration in U.S. growth will contribute to overall global growth."[1]

1 Russ Koesterich, "How will tariffs impact investors," *Global Allocation Insight*, Blackrock.com (Accessed July 22, 2018)

Although we are in the second longest U.S. economic expansion of 9.1 years, we should be reminded that "economic expansions do not operate on set intervals and don't just expire if on a clock. Instead, expansions end when aggregate conditions deteriorate enough to tip the economy into a negative reinforcing loop."[2] Remember to always be properly allocated between many different asset classes to match your risk tolerance, time horizon, and needs, and to diversify among many different securities within each asset class!

The Big Tax Trap to Avoid in Retirement

Planning for the later one-third of our lifetime requires discipline, wisdom, and tax planning. The amount of taxes payed over a lifetime can be a tremendous amount of money, especially without good planning. Below is one of the biggest tax trap to avoid in planning for income in your retirement years.

Too much of Tax-deductible (Pre-Tax) Retirement Assets. Some people do very well in accumulating retirement assets in retirement plans (401(k), 403(b), IRA, etc.) that offer tax-deductible contributions which provide an immediate tax deduction to the participant and grows tax-deferred. A potential problem lies when someone funds a majority of their retirement needs within these accounts because when they distribute funds from these accounts, they will be taxed on 100% of the amount distributed (contributions and earnings). Also, the participant MUST start their required minimum distributions (RMDs) from these accounts no later than April 1st of the year after they turn 70½. Whether the participant needs the money or not, the RMD based on their life expectancy, must be distributed and taxed. If a participant is in a high marginal tax bracket for a particular year, or if tax rates rise, they have few options for tax planning since they are forced to take distributions, and they have to pay tax on 100% of the distributions. If you transition into retirement and only have income sources from pensions, 401(k)s and IRAs which are 100% taxable, you have little control over your marginal income tax bracket. Up to 85% of Social Security benefits can also be taxed.

Non-deductible (After-tax) Roth retirement plans. Many companies today are offering an option for participants in the company plan to contribute non-deductible contributions into the Roth 401(k) or Roth 403(b) plan. While these plans do not save any taxes today because the contributions are made with after-tax dollars, they also grow tax-deferred, and qualified distributions can be tax -free if the account has been opened for at least five years and the participant is over 59 ½ years old when funds are distributed.

Basically, taxes are being paid on the seed money (contributions) going into the account, while the whole harvest (distributions) coming out of the account can be potentially tax-free if qualified.

Even if you participate in any company retirement plan, you, your spouse, and children with earned income, may also be eligible to contribute to Roth IRAs if you meet the requirements of having "earned income" for the year, and your Adjusted Gross Income (AGI) is below certain phaseouts. For single filers, the 2018 Roth IRA phaseout is $120,000 - $130,000. For married filing jointly, the phaseouts is $189,000 - $199,000.

Taxable Accounts (Other after-tax accounts). Other than the Roth accounts, the most tax-efficient accounts to create tax-efficient retirement income are from taxable accounts. Because these accounts do not accumulate tax-deferred like IRAs do, you are taxed on income, dividends, and capital gains in the year they are realized within these accounts. Because you are taxed during the accumulation, you will not be taxed on 100% of the distributions like Traditional IRA pre-tax accounts are. Thereby, these accounts may provide tax planning strategies in your retirement years and can be left to beneficiaries with a stepped-up cost basis if you do not need the funds during your lifetime.

Everyone's situation and needs are different and that is why a personalized retirement income plan can help you determine your best options.

2 Tracking the U.S. Business Cycle, Alphalytics Research, (July 2018)

Financial FAQs

What types of accounts and investments are available? A lot of confusion arises from account types and investment types. Account types differ based on how the account is titled and must be kept separate from other accounts titled differently. Retirement accounts can be titled as a 401(k), Traditional IRA, Roth IRA, and etc. You can often combine like-titled accounts into one account, under one owner. For example, if someone owns five separate Traditional IRAs, they could be combined into one Traditional IRA. You cannot combine IRAs from different owners! They must be titled per individual.

Non-retirement accounts such as individual, joint, or trust accounts can also be combined with other like account types with the same or multiple beneficial owners. For example, a couple can combine multiple joint accounts into one joint account.

Investments types are the selected investments that can be used within each account type. In most cases, the same investments can be used in a variety of account types.

Humor Matters

Montana Grizzly Bear Notice:

In light of the rising frequency of human/grizzly bear conflicts, the Montana Department of Fish and Game is advising hikers, hunters, and fishermen to take extra precautions and keep alert for bears while in the field.

We advise that outdoorsmen wear noisy little bells on their clothing so as not to startle the bears that aren't expecting them. We also advise outdoorsmen to carry pepper spray with them in case of an encounter with a bear.

It is also a good idea to watch out for fresh signs of bear activity. Outdoorsmen should recognize the difference between black bear and grizzly bear poop. Black bear poop is smaller and contains a lot of berry seeds and squirrel fur. Grizzly bear poop has little bells in it and smells like pepper spray.

Source: https://www.eecs.umich.edu/

Upcoming Events

Fundamentals of Health & Wealth Workshop

Saturday, September 8th - 10:00 – 11:30 am
PG Fit /All Star Martial Arts
14405 Telge Rd.
Cypress, TX 77429

Michael Romig, BS, CPT, CFT, PES, CES, RES, FT
Learn what the fitness fundamentals are to help you make smart nutritious choices and accomplish your goals.

- Nutrition
- Cardio
- Supplementation
- Resistance Training
- Coaching

Tim Hudson, CFP®, CLU, ChFC, CRPS®
Lean strategies to help you grow, protect, and distribute wealth tax-efficiently within 6 key areas of financial planning.

- Cash Management
- Risk Management
- Tax management
- Investment Planning
- Retirement Planning
- Estate Planning

How to Create Income in Retirement Webinar

Wednesday, September 12th at 12:00 noon

- How much income you need in retirement
- How taxes could affect you in retirement
- How to manage retirement distributions
- Why a retirement income plan is crucial
- The pros & cons of the 4 most popular withdrawal methods

Creating monthly income that lasts throughout your retirement is tricky. A wrong decision could subject you to unnecessary taxes, penalties, and inflation.

The New Tax Law Workshop

Thursday, September 27th - 6:30 – 8:00 pm
Lone Star College Library
Cy-Fair Location
9191 Barker Cypress
Cypress, TX 77443

20+ Questions Every Person, Family, and Business Must Answer Soon!
Everyone is wondering…

- How do the new tax laws affect me, my family, my business?

- Will these tax rules cost me money, or will I benefit?
- What do I need to change now and in the future?
- What do I need to worry about?

Attend this complimentary workshop and learn:

- Why the new tax rules may impact your retirement planning strategy
- Why 529 savings plans aren't just for college anymore
- Why new estate planning rules could accidentally disinherit your children
- Why small business owners may only be taxed on 80% of their business income
- The inflation change in the tax code that could lead to higher taxes in the future

To RSVP for these workshops/webinars, please visit:

www.SStarFinancial.com/Upcoming-events

or email staff@sstarfinancial.com.

Words of Wisdom

"Our new constitution is now established, and has an appearance that promises permanency; but in this world, nothing can be said to be certain, except death and taxes."

--Benjamin Franklin

We look forward to meeting with each of you during the year as we review your personal situation and investment portfolios. Please let us know if you have any questions in the meantime.

If you know someone who could benefit from receiving this information, please let us know and we will be happy to forward them our newsletters.