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The Financial Solutions Advisor

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Economic & Market Perspectives

The year 2016 likely will be remembered for the election of Donald Trump as the 45th president of the United States and the Brexit vote. The year can be described as a tale of two halves. In the first half, there was an overwhelming amount of risk-off sentiment as oil prices tumbled, China growth scares resurfaced and U.S. growth slowed. However, the second half of the year saw a revamp of risk-on sentiment as many of these factors stabilized or improved.

The Fed raised interest rates for the first time since last December, noting that the labor market had continued to strengthen and that economic activity had been expanding at a moderate pace since mid-year. While inflation remains below the Fed's target of 2%, the Committee expects inflation to rise to its target level over the medium term on the heels of anticipated improvements in energy and import prices and continued labor strengthening.

As a result of this rotation, risk assets globally saw relatively healthy gains through the end of 2016. Small cap U.S. equities outperformed all other asset classes. U.S. large caps lagged, but were still up over 12%. Commodities ended up 10% as production cuts from the Organization of the Petroleum Exporting Countries (OPEC) and prospects of increased infrastructure spending helped propel oil and industrial metals upward. This improvement in commodity prices, combined with a better economic growth outlook, resulted in emerging market equities returning 12%. After being down substantially in the first half of the year, developing market equities rallied in the second half to end the year flat. High yield fixed income rebounded after a negative showing in 2015, returning almost 14% as recession fears subsided.

Core fixed income and interest rate sensitive sectors of the equity market, such as real estate investment trusts (REITs), did not fare as well in 2016 as interest rates moved upward as a result of higher expected inflation and growth. The Barclays Aggregate Bond Index was up only 2% for the year, and REITs just 4%. Cash, yet again, was an underperformer this year, up just 0.3%. Looking to 2017, with global growth and inflation set to pick up, risk assets could fare well, especially if earnings growth improves.

Sources: J.P. Morgan, Broadridge

2016 Returns

S&P 500	*11.96%*
NASDAQ	*7.27%*
Russell Small Cap	*21.31%*
Russell Mid Cap	*13.80%*
MSCI EAFE	*1.00%*
MSCI World	*7.51%*
Barclay US Agg. Bond	*2.65%*
Barclay Municipal Bond	*0.25%*

Important Differences Between House Tax Plan and Mr. Trump's

	Current Law	House Republican Proposal	Trump Campaign Proposal
Business Tax			
Corporate Rate	35%	20%	15%
Top Pass-Through Rate	39.6%	25%	15%
Business Expensing	Accelerated Depreciation	100%	Option for 100%
Corporate Net Interest Deductibility	Unlimited	Repeal Deductibility	Repeal Deductibility for those Expensing 100%
Corporate Foreign Income Rate	35% if Repatriated	0%	15% with tax credits
One-Time Tax on Untaxed Foreign Profits	N/A	8.75% on Cash	10% on Untaxed Earnings
Carried Interest	At Cap Gain Rate	N/A	At Ordinary Rate
Personal Tax			
Top Individual Rate	39.6%	33%	33%
Top Capital Gain Rate (1 Year)	23.8%	16.5%	20%
Top Dividend Rate	23.8%	16.5%	20%
Top Rate on Interest Income	43.4%	16.5%	33%

Sources: House Ways and Means Committee. Trump Campaign. Goldman Sachs Global Investment Research.

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Key Retirement and Tax Numbers for 2017

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans, thresholds for deductions and credits, and standard deduction and personal exemption amounts. Here are a few of the key adjustments for 2017.

Retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to $18,000 in compensation in 2017 (the same as in 2016); employees age 50 and older can defer up to an additional $6,000 in 2017 (the same as in 2016).
- Employees participating in a SIMPLE retirement plan can defer up to $12,500 in 2017 (the same as in 2016), and employees age 50 and older will be able to defer up to an additional $3,000 in 2017 (the same as in 2016).

IRAs

The limit on annual contributions to an IRA remains unchanged at $5,500 in 2017, with individuals age 50 and older able to contribute an additional $1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

AGI Ranges for Traditional IRAs	2016	2017
Single / Head of Household	$61K—$71K	$62K—$72K
Married Filing Jointly	$98K—$118K	$99K—$119K
Married Filing Separately	$0K—$10K	$0K—$10K

The 2017 phaseout range is $186,000 - $196,000 (up from $184,000 - $194,000 in 2016) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals making contributions to a Roth IRA are:

AGI Ranges for Roth IRAs	2016	2017
Single / Head of Household	$117K—$132K	$118K—$133K
Married Filing Jointly	$184K—$194K	$186K—$196K
Married Filing Separately	$0K—$10K	$0K—$10K

Estate and gift tax

- The annual gift tax exclusion remains at $14,000.
- The gift and estate tax basic exclusion amount for 2017 is $5,490,000, up from $5,450,000 in 2016.

Personal exemption

The personal exemption amount remains at $4,050. For 2017, personal exemptions begin to phase out once AGI exceeds $261,500 (single), $287,650 (HOH), $313,800 (MFJ), or $156,900 (MFS).

These same AGI thresholds apply in determining if itemized deductions may be limited. The corresponding 2016 threshold amounts were $259,400 (single), $285,350 (HOH), $311,300 (MFJ), and $155,650 (MFS).

Standard deduction

These amounts have been adjusted as follows:

Standard Deduction	2016	2017
Single	$6,300	$6,350
Head of Household	$9,300	$9,350
Married Filing Jointly	$12,600	$12,700
Married Filing Separately	$6,300	$6,350

The 2016 and 2017 additional standard deduction amount (age 65 or older, or blind) is $1,550 for single/HOH or $1,250 for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

Alternative minimum tax (AMT)

AMT amounts have been adjusted as follows:

	2016	2017
Maximum AMT Exemption Amount		
Single / Head of Household	$53,900	$54,300
Married Filing Jointly	$83,800	$84,500
Married Filing Separately	$41,900	$42,250
Exemption phaseout threshold		
Single / Head of Household	$119,700	$120,700
Married Filing Jointly	$159,700	$160,900
Married Filing Separately	$79,850	$80,450
26% AMTI up to this amount, 28% on AMTI above this amount		
Married Filing Separately	$93,150	$93,900
All Others	$186,300	$187,800

Playing Catch-Up with your 401K or IRA

A recent survey of baby boomers (ages 53 to 69) found that just 24% were confident they would have enough money to last throughout retirement. Forty-five percent had no retirement savings at all, and of those who did have savings, 42% had saved less than $100,000.[1]

Your own savings may be on more solid ground, but regardless of your current balance, it's smart to keep it growing. If you're 50 or older, you could benefit by making catch-up contributions to tax-advantaged retirement accounts. You might be surprised by how much your nest egg could grow late in your working career.

Contribution limits

The federal contribution limit in 2016 and 2017 for all IRAs combined is $5,500, plus a $1,000 catch-up contribution for those 50 and older, for a total of $6,500. An extra $1,000 might not seem like much, but it could make a big difference by the time you're ready to retire (see table). You have until the April 18, 2017, tax filing deadline to make IRA contributions for 2016. The sooner you contribute, the more time the funds will have to pursue potential growth.

The deferral limit in 2016 and 2017 for employer-sponsored retirement plans such as 401 (k), 403(b), and most 457(b) plans is $18,000, plus a $6,000 catch-up contribution for workers 50 and older, for a total of $24,000. However, some employer-sponsored plans may have maximums that are lower than the federal contribution limit. Unlike the case with IRAs, contributions to employer-sponsored plans must be made by the end of the calendar year, so be sure to adjust your contributions early enough in the year to take full advantage of the catch-up opportunity.

The following table shows the amount that a 50-year-old might accrue by age 65 or 70, based on making maximum annual contributions (at current rates) to an IRA or a 401(k) plan:

Potential Savings a 50-Year-Old Could Accumulate		Without Catch-Up	With Catch-Up
IRA	By Age 65	$128,018	$151,294
	By Age 70	$202,321	$239,106
401(k)	By Age 65	$418,697	$558,623
	By Age 70	$662,141	$882,854

Example assumes a 6% average annual return. This hypothetical example of mathematical compounding is used for illustrative purposes only and does not represent any specific investment. It assumes contributions are made at end of the calendar year. Rates of return vary over time, particularly for long-term investments. Fees and expenses are not considered and would reduce the performance shown if they were included. Actual results will vary.

Special 403(b) and 457(b) plan rules

403(b) and 457(b) plans can (but aren't required to) provide their own special catch-up opportunities. The 403(b) special rule, available to participants with at least 15 years of service, may permit an additional $3,000 annual deferral for up to five years (certain additional limits apply). A participant can use this special rule and the age 50 catch-up rule in the same year. Therefore, a participant eligible for both could contribute up to $27,000 to his or her 403(b) plan account (the $18,000 regular deferral limit, plus the $3,000 special catch-up, plus the $6,000 age 50 catch-up).

The 457(b) plan special rule allows participants who have not deferred the maximum amount in prior years to contribute up to twice the normal deferral limit (that is, up to $36,000 in 2016 and 2017) in the three years prior to reaching the plan's normal retirement age. (However, these additional catch-up contributions can't exceed the total of the prior years' unused deferrals.) 457(b) participants who elect to use this special catch-up rule cannot also use the age 50 catch-up rule in the same year.

[1]"Boomer Expectations for Retirement 2016," Insured Retirement Institute.

Will vs Trust: Is One Better Than the Other?

When it comes to planning your estate, you might be wondering whether you should use a will or a trust (or both). Understanding the similarities and the differences between these two important documents may help you decide which strategy is better for you.

What is a will?
A will is a legal document that lets you direct how your property will be dispersed (among other things) when you die. It becomes effective only after your death. It also allows you to name an estate executor as the legal representative who will carry out your wishes.

In many states, your will is the only legal way you can name a guardian for your minor children. Without a will, your property will be distributed according to the intestacy laws of your state. Keep in mind that wills and trusts are legal documents generally governed by state law, which may differ from one state to the next.

What is a trust?
A trust document establishes a legal relationship in which you, the grantor or trustor, set up the trust, which holds property managed by a trustee for the benefit of another, the beneficiary. A revocable living trust is the type of trust most often used as part of a basic estate plan. "Revocable" means that you can make changes to the trust or even end (revoke) it at any time. For example, you may want to remove certain property from the trust or change the beneficiaries. Or you may decide not to use the trust anymore because it no longer meets your needs.

A living trust is created while you're living and takes effect immediately. You may transfer title or "ownership" of assets, such as a house, boat, automobile, jewelry, or investments, to the trust. You can add assets to the trust and remove assets thereafter.

How do they compare?
While both a will and a revocable living trust enable you to direct the distribution of your assets and property to your beneficiaries at your death, there are several differences between these documents. Here are a few important ones.

• A will generally requires probate, which is a public process that may be time-consuming and expensive. A trust may avoid the probate process.

• In order to exclude assets from probate, you must transfer them to your revocable trust while you're living, which may be a costly, complicated, and tedious process.

• Unlike a will, a trust may be used to manage financial affairs if you become incapacitated.

• If you own real estate or hold property in more than one state, your will would have to be filed for probate in each state where you own property or assets. Generally, this is not necessary with a revocable living trust.

• A trust can be used to manage and administer assets you leave to minor children or dependents after your death.

• In a will, you can name a guardian for minor children or dependents, which you cannot do with a trust.

Which is appropriate for you?
The decision isn't necessarily an "either/or" situation. Even if you decide to use a living trust, you should also create a will to name an executor, name guardians for minor children, and provide for the distribution of any property that doesn't end up in your trust. There are costs and expenses associated with the creation and maintenance of these legal instruments.

Whether you incorporate a trust as part of your estate plan depends on a number of factors. Does your state offer an informal probate, which may be an expedited, less expensive process available for smaller estates? Generally, if you want your estate to pass privately, with little delay or oversight from a probate court, including a revocable living trust as part of your estate plan may be the answer.

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What Rising Interest Rates Could Mean for You

When the Federal Reserve raises its key short-term interest rate, the federal funds rate, financial markets often move in response. But the impact isn't uniform across the board. How could a Fed rate hike affect your balance sheet?

Historical impact of a rising federal funds rate

Cash investments
Positive

Yields on cash investments typically rise, but the impact on various cash-related investments can vary.

Savings
Positive

Bank savings rates generally have risen gradually, benefiting investors with savings accounts.

Stock market
Positive

Stocks typically have performed well in the first year after an initial rate increase, and the strength tends to persist in year two, albeit at a lessened pace.

Certificates of deposit (CDs)
Positive

CD rates often rise, but not necessarily by the same amount across all CDs.

Financial stocks
Positive

A widening gap between what banks pay on deposits and charge on loans can help bank stocks.

Short-term bonds
Uncertain

Initially, short-term bond prices may drop. However, as existing bonds mature, money can be moved into new, higher-yielding securities, which tends to boost income over time.

Long-term bonds
Uncertain

While longer-term bond prices may initially drop, over time they are more affected by growth and inflation expectations than by the federal funds rate.

Mortgage rates
Uncertain

Fixed mortgage rates generally track 10-year Treasury yields, so a higher federal funds rate won't necessarily drive mortgage rates higher.

Asset-based loans
Uncertain

Rates on loans such as pledged asset lines and margin loans may gradually rise, but asset-based loans still can be a low-cost borrowing choice for investors who can mitigate the risk.

Intermediate-term bonds
Negative

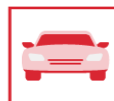
Intermediate-term bonds are usually more sensitive to interest rate changes, so their price declines may be greater than for bonds with shorter maturities.

Home equity loans
Negative

Rates on home equity loans usually track short-term interest rates and may move gradually higher.

Utilities stocks
Negative

Utilities stocks tend to underperform, as investors shift to higher-yielding fixed income investments.



Auto loans
Negative

Often tied to short-term rates, auto loan rates may rise. However, rates can vary depending on sales incentives and other factors.

Adjustable-rate mortgages (ARMs)
Negative

Usually tied to short-term rates, ARM rates can be expected to rise.

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