



Unified Retirement Planning Group

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Dear friends,

I hope that you have managed well during one of the longest winters on record. Today is May 13 and we began the day by turning on the heat again in our home and office!

A lot has happened at URPG since our last newsletter. Earlier this quarter, the URPG staff attended a very productive offsite meeting. We also recently completed our semi-annual URPG Advisory Board meeting. Please let us know if you would like more information about these meetings.

In addition to regularly monitoring the financial markets, URPG has been closely watching the changes associated with the Fiduciary rule. We'll continue to keep you posted as to this important regulation change.

As I soon will enter my 25th year as a financial advisor, one phrase stands out to me. *Your time with your family equals your wealth*. Please continue to do what you can to stay healthy and enjoy the time with your loved ones. I am grateful that you have chosen URPG to help you achieve your future retirement goals.

Peter

Spring 2018

Quiz: Can You Answer These Social Security Benefit Questions?

Four Points to Consider When Setting a Retirement Income Goal

What are the gift and estate tax rules after tax reform?

How does working affect Social Security retirement benefits?

URPG Education & Solutions

Feel Comfortable Dreaming About Your Future

Dividend Investing: Small Payments Can Boost Returns



Owning shares of stock or stock funds might increase the value of your portfolio in one of two fundamental ways: capital appreciation (i.e., price increases) and dividend payments. Of the two,

capital appreciation carries the greatest potential for return, but it also carries the greatest potential for loss. And any gains or losses are only reaped when you sell your shares.

By contrast, dividends typically offer more consistent modest returns that are paid while you hold your shares. For this reason, dividends have long been popular with retirees and others who are looking for regular income. But focusing on dividends can be appropriate for almost any investor, especially if dividends are reinvested to purchase additional shares. Although reinvesting dividends from individual stocks may not be cost-effective, mutual funds and exchange-traded funds (ETFs) generally offer an option to reinvest dividends and/or capital gains.

Growth and volatility

In general, more established companies tend to pay dividends, and these companies may not have as much growth potential as newer companies that plow all of their earnings back into the company. Even so, dividends can boost total return. A 2015 study found that dividends had accounted for about one-third of the total return of the S&P 500 index since 1956, with the other two-thirds from capital appreciation. In the fourth quarter of 2017, more than 80% of S&P 500 stocks paid a dividend with an average yield of 1.87% for the index as a whole and 2.24% for dividend-paying stocks. Many mid-size and smaller companies also paid dividends.¹

Because dividends are by definition a positive return, even during a down market, dividend-paying stocks may be less volatile than non-dividend payers. However, dividend

stocks tend to be more sensitive to rising interest rates; investors looking for income may move away from stocks if less risky fixed-income investments offer comparable yields.

Quarterly payments

Dividends are typically paid quarterly in the form of cash or stock. The amount is set by the company's board of directors and can be changed at any time. Dividends can be expressed as the dollar amount paid on each share or as yield — the annual dividend income per share divided by the current market price. When the share price falls, the yield rises (assuming dividend payments remain the same), enabling investors who reinvest their dividends to buy more shares that have the potential to grow as market performance improves.

Investing in dividends is a long-term commitment. In exchange for less volatility and more stable returns, investors should be prepared for periods where dividend payers drag down rather than boost an equity portfolio. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. Dividends are typically not guaranteed and could be changed or eliminated.

The return and principal value of all investments fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Supply and demand for ETF shares may cause them to trade at a premium or a discount relative to the value of the underlying shares.

Mutual funds and ETFs are sold by prospectus. Please consider the investment objectives, risks, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the investment company, can be obtained from your financial professional. Be sure to read the prospectus carefully before deciding whether to invest.

¹ S&P Dow Jones Indices, 2015, 2018



Did you know that 94% of all workers are covered under Social Security?

Source: Social Security Fact Sheet on the Old-Age, Survivors and Disability Insurance Program, July 2017

Quiz: Can You Answer These Social Security Benefit Questions?

Most people will receive Social Security benefits at some point in their lifetimes, but how much do you know about this important source of income? Take this quiz to learn more.

Questions

1. Can you receive retirement and disability benefits from Social Security at the same time?

- a. Yes
- b. No

2. If your ex-spouse receives benefits based on your earnings record, your benefit will be reduced by how much?

- a. Reduced by 30%
- b. Reduced by 40%
- c. Reduced by 50%
- d. Your benefit will not be reduced

3. For each year you wait past your full retirement age to collect Social Security, how much will your retirement benefit increase?

- a. 6%
- b. 7%
- c. 8%

4. Monthly Social Security benefits are required to be paid by which of the following methods?

- a. Paper check only
- b. Paper check, direct deposit, or debit card
- c. Direct deposit or debit card

5. Are Social Security benefits subject to income tax withholding?

- a. Yes
- b. No

6. Once you've begun receiving Social Security retirement benefits, you can withdraw your claim if how much time has elapsed?

- a. Less than 12 months since you've been receiving benefits
- b. Less than 18 months since you've been receiving benefits
- c. Less than 24 months since you've been receiving benefits

Answers

1. b. No. If you receive a disability benefit, it will automatically convert to a retirement benefit once you reach full retirement age.

2. d. Your benefit will not be reduced if your ex-spouse receives Social Security benefits based on your earnings record.

3. c. Starting at full retirement age, you will earn delayed retirement credits that will increase your benefit by 8% per year up to age 70. For example, if your full retirement age is 66, you can earn credits for a maximum of four years. At age 70, your benefit will then be 32% higher than it would have been at full retirement age.

4. c. Since 2013, the Treasury Department has required electronic payment of federal benefits, including Social Security. You can sign up for direct deposit of your benefits into your current bank account or open a low-cost Electronic Transfer Account (ETA) at a participating financial institution. Another option is to sign up for a Direct Express® prepaid debit card. Under this option, your Social Security benefits are deposited directly into your card account, and you can use the card to make purchases, pay expenses, or get cash.

5. b. No. Withholding isn't mandatory, but you may voluntarily ask the Social Security Administration to withhold federal income tax from your benefits when you apply, or later, if you determine you will owe taxes on your Social Security benefits (not everyone does). You may choose to have 7%, 10%, 15%, or 25% of your benefit payment withheld. Ask a tax professional for help with your situation.

6. a. If something unexpected happens and you've been receiving Social Security benefits for less than 12 months after signing up, you can change your mind and withdraw your claim (and reapply at a later date). You're limited to one withdrawal per lifetime, and there are also financial consequences. You must repay all benefits already paid to you or your family members based on your application (anyone affected must consent in writing to the withdrawal), and repay any money previously withheld, including Medicare premiums or income taxes.



Although there are certainly no guarantees that any future plans will pan out as expected, taking time now to assess these four points can help you position yourself to pursue a comfortable retirement.

All investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful.

Four Points to Consider When Setting a Retirement Income Goal

No matter what your age or stage of life, targeting a goal for monthly retirement income can seem like a daunting task. Following are four considerations to help you get started.

1. When do you plan to retire?

The first question to ponder is your anticipated retirement age. Many people base their target retirement date on when they're eligible for full Social Security benefits, and for today's workers, "full retirement age" ranges from 66 to 67. Other folks hope to retire early, while still others want to work as long as possible. As you think about your anticipated retirement date, keep the following points in mind.

If you plan to retire early, you'll need significant resources to provide income for potentially decades. You can typically tap your employer-sponsored retirement plan without penalty as early as age 55 if you terminate your employment, but if you try to access IRA assets prior to age 59½, you will be subject to a 10% early withdrawal penalty, unless an exception applies. In both cases, regular income taxes will apply. Also consider that you generally won't be eligible for Medicare until age 65, so unless you are one of the lucky few who have employer-sponsored retiree medical benefits, health insurance will have to be funded out of pocket.

If you plan to delay retirement, consider that unexpected circumstances could throw a wrench in that plan. In its 2017 Retirement Confidence Survey, the Employee Benefit Research Institute (EBRI) found that current workers plan to retire at a median age of 65, while current retirees reported a median retirement age of 62. And although four in 10 workers plan to work until age 70 or later, just 4% of retirees said this was the case. Why the difference? Nearly half of retirees said they retired earlier than planned, with many reporting unexpected challenges, including their own health concerns or those of a family member.¹

2. How long will your retirement last?

The second important consideration, which builds on the first, is how long your retirement might last. Projected life spans have been lengthening in recent decades due in part to advancements in medical care and general health awareness. According to the National Center for Health Statistics (NCHS), a 65-year-old woman can expect to live 20.6 more years, while a 65-year-old man can

expect to live 18 more years.² To estimate your own life expectancy based on your current age and health profile, visit the online longevity calculator created by the Society of Actuaries and American Academy of Actuaries at longevityillustrator.org.

3. What will your expenses look like?

The third consideration is how much you will need to meet your basic living expenses. Although your housing, commuting, and other work-related expenses may decrease in retirement, other costs — including health care — will likely rise.

In 2017, EBRI calculated that Medicare recipients with median prescription drug expenses may need about \$265,000 just to pay for basic medical expenses in retirement.³ And that doesn't even include the potential for long-term care. According to the Department of Health and Human Services (HHS), 52% of people over age 65 will need some form of long-term care during their lifetimes, which could add another \$69,000, on average, to the out-of-pocket costs.⁴

In addition, remember to account for the impact inflation will have on your expenses over time. For example, say you need an estimated \$50,000 to cover basic needs in your first year of retirement. Ten years later, at a 3% annual inflation rate (the approximate historical average as measured by the consumer price index), you would need more than \$67,000 to cover those same costs.

4. How much can you accumulate?

This is perhaps the most important consideration: How much can you *realistically* accumulate between now and retirement based on your current savings rate, timeframe, investment portfolio, and lifestyle? Once you project your total accumulation amount based on current circumstances, you can gauge whether you're on track or falling short. And if you appear to be falling short, you can begin to think about how to refine your strategy, either by altering your plans for retirement (e.g., delaying retirement by a few years), saving more, or investing more aggressively.

¹ EBRI Issue Brief, March 21, 2017

² NCHS Issue Brief, Number 293, December 2017

³ EBRI Notes, January 31, 2017

⁴ HHS, "Long-Term Services and Supports for Older Americans: Risks and Financing Research Brief," February 2016

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What are the gift and estate tax rules after tax reform?

The Tax Cuts and Jobs Act, signed into law in December 2017, approximately doubled the federal gift and estate tax basic exclusion amount to

\$11.18 million in 2018 (adjusted for inflation in later years). After 2025, the exclusion is scheduled to revert to its pre-2018 level and be cut approximately in half. Otherwise, federal gift and estate taxes remain the same.

Gift tax. Gifts you make during your lifetime may be subject to federal gift tax. Not all gifts are subject to the tax, however. You can make annual tax-free gifts of up to \$15,000 per recipient. Married couples can effectively make annual tax-free gifts of up to \$30,000 per recipient. You can also make unlimited tax-free gifts for qualifying expenses paid directly to educational or medical service providers. And you can make deductible transfers to your spouse and to charity. There is a basic exclusion amount that protects a total of up to \$11.18 million (in 2018) from gift tax and estate tax. Transfers in excess of the basic exclusion amount are generally taxed at 40%.

Estate tax. Property you own at death is subject to federal estate tax. As with the gift tax, you can make deductible transfers to your spouse and to charity; there is a basic exclusion amount that protects up to \$11.18 million (in 2018) from tax, and a tax rate of 40% generally applies to transfers in excess of the basic exclusion amount.

Portability. The estate of a deceased spouse can elect to transfer any unused applicable exclusion amount to his or her surviving spouse (a concept referred to as portability). The surviving spouse can use the unused exclusion of the deceased spouse, along with the surviving spouse's own basic exclusion amount, for federal gift and estate tax purposes. For example, if a spouse died in 2011 and the estate elected to transfer \$5 million of the unused exclusion to the surviving spouse, the surviving spouse effectively has an applicable exclusion amount of \$16.18 million (\$5 million plus \$11.18 million) to shelter transfers from federal gift or estate tax in 2018.



How does working affect Social Security retirement benefits?

If you're thinking about working as long as possible to increase your retirement savings, you may be

wondering whether you can receive Social Security retirement benefits while you're still employed. The answer is yes. But depending on your age, earnings from work may affect the amount of your Social Security benefit.

If you're younger than full retirement age and make more than the annual earnings limit (\$17,040 in 2018), part of your benefits will be withheld, reducing the amount you receive from Social Security. If you're under full retirement age for the entire year, \$1 is deducted from your benefit for every \$2 you earn above the annual limit.

In the year you reach full retirement age, \$1 is deducted from your benefit for every \$3 you earn above a different limit (\$45,360 in 2018).

Starting with the month you reach full retirement age, your benefit won't be reduced, no matter how much you earn.

Earnings that count toward these limits are wages from a job or net earnings from

self-employment. Pensions, annuities, investment income, interest, and veterans or other government benefits do not count. Employee contributions to a pension or a retirement plan do count if the amount is included in your gross wages.

The Social Security Administration (SSA) may begin to withhold the required amount, up to your whole monthly benefit, as soon as it determines you are on track to surpass the annual limit. However, even if your benefits are reduced, you'll receive a higher monthly benefit at full retirement age, because the SSA will recalculate your benefit and give you credit for any earnings withheld earlier. So the effect that working has on your benefits is only temporary, and your earnings may actually increase your benefit later.

These are just the basics, and other rules may apply. The Retirement Earnings Test Calculator, available at the Social Security website, ssa.gov, can help you estimate how earnings before full retirement age might affect your benefit.