VIEW CAPITAL
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Panorama

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Creating a Reliable Retirement Portfolio Paycheck

In this Issue:

Most individuals who are planning for the ultimate transition from work into a non-employment related retirement have spent the better part of 40 years paying their ongoing bills from a steady series of monthly or bi-weekly paychecks. At retirement, the paycheck stops. Obviously, the most straightforward way to facilitate paying retirement lifestyle expenses is simply to replicate those ongoing retirement paychecks from resources available to that individual. But in many cases, it's not quite that easy. And the really scary thing is that the number of years a person may spend in retirement may equal or even exceed the number of years spent employed.

For the past 10 years, recovery from the 2008 recession has been prompted by Federal Reserve actions of lowering interest rates to incentivize economic recovery and growth. Interest rates on mortgages and other loans became cheaper as a result, which is a good thing. However, interest rates paid on bonds and bank deposits, a retirement income staple, became extremely meager. The indirect impact on many retirees has been that they been forced to take on more investment risk to produce enough return from their investment assets to live on.

The traditional tools for producing retirement cash flows available to individuals can include:

- Social security retirement benefits
- Corporate employer pension or deferred compensation benefits
- Required minimum distributions from retirement plans
- Voluntary purchase of fixed or variable annuities using existing investment assets for guaranteed lifetime income
- Part time work during retirement
- Postponing retirement
- Allocating taxable portfolios toward more traditional yield generating income from interest and dividends
- Using a "total return" approach of harvesting unrealized portfolio gains to supplement interest and dividends for lifestyle needs

Once you have identified the sources of retirement income, the mechanical challenge is the actual logistics of generating those retirement "paychecks", and entails a number of distinct policy-based decisions about how to standardize a process for a wide range of retirees. For example:

- How will you handle dividends and interest?
- Will you maintain a cash position to fund periodic withdrawals?
- How will capital gains from liquidations be handled in various up- and down-market scenarios?
- What is the frequency of distributions (monthly, quarterly, or annual)?
- What are the sources of distributions from various retirement and taxable account types?
- How those distributions will be coordinated with the rest of the client's retirement income picture?

A common retirement scheduled distribution gameplan might look like the following. First, set your monthly spending goal for the coming year. Don't forget about federal and state income taxes, or any property taxes, that may be applicable. With this target number in mind, allocate non asset based sources of income such as social security, pensions and annuities as the primary monthly funding source.

From an identified taxable investment account, set aside 3 – 6 months of the remaining monthly paycheck shortfall in cash. A monthly distribution will be made from this account in an amount necessary to cover the monthly spending need that is not covered by non asset based income sources. By funding and maintaining a level cash reserve, you may be able to manage for the risk of having to liquidate portfolio positions for needed cash during market disruptions and downturns.

Taxable investment positions paying interest, dividends and capital gains distributions will not be reinvested and will remain in cash to help keep the distribution cash pool funded for your designated 3 – 6 month reserve period. Periodically, harvest losses in taxable portfolios through sales of positions, in order to minimize the tax impact on gains from any necessary portfolio liquidations.

Managing retirement "paycheck" distributions is a dynamic process that can span decades. A well thought out distribution policy and investment management strategy can increase your chances of having sufficient monthly retirement income for life.

Perspective

Strength

Estate and Gift Tax Updates

The annual inflation adjustment to the estate and gift tax basic exclusion amount has been announced for 2019. For gifts made and estates of decedents dying after December 31, 2018, the exclusion is $11,400,000 per person, or $22,800,000 for a married couple. The 2019 inflation adjustment increase is $220,000 per person from the 2018 exclusion amount. As enacted by legislation known as the Tax Cuts and Jobs Act in 2017, the basic exclusion amount will index annually for inflation through 2025. The law then "sunsets" in 2026, and reverts back to the 2017 basic exclusion amount as indexed for inflation, or $5,430,000 per person.

Given this sunset provision, estate planners and individuals alike have pondered the question of what happens when an individual uses all of the higher exclusion through gifting after 2017, then dies in 2026 after the sunset lowers the exclusion back to the 2017 level? This scenario has sometimes been called a "clawback" of the applicable exclusion amount. The concern is that through the unfortunate poor timing of one's death, the legally available benefits of the higher gift exclusions through 2025 are recaptured at death, such that the benefits were never achieved in the first place.

The IRS has issued Proposed Regulation Section 20.2010-1(c) in an attempt to remedy this problem. Where the portion of the allowable credit amount as of a decedent's death is less than the sum of the credit amounts allowable in computing post-1976 gift tax, the estate tax credit may be based on the <u>greater</u> of the two credit amounts. For purposes of both the estate and gift calculations, the allowable credit is limited to the portion attributable to the basic exclusion amount. For example, if an unmarried individual made post-1976 taxable gifts of $9 million, all of which were sheltered from gift tax by the cumulative $10 million in basic exclusion amount allowable on the dates of the gifts, and the individual dies after 2025, when the basic exclusion amount is $5 million, the special rule would allow the applicable credit amount against estate tax to be based on a basic exclusion amount of $9 million.

Another question that was addressed in the proposed regulation concerned taxpayers who exhausted their basic exclusion amount with gifts made before 2018 and paid gift tax, then made a further gift or died within the period of the higher exclusion. Would the higher exclusion be applied toward the earlier gifts, thus reducing the amount currently available for gift or estate tax purposes? No, the IRS answered.

Are You Prepared For Medicare

Even the best laid retirement strategy can be derailed by unplanned medical bills in retirement. This makes it all the more important to be fully informed when it comes time to sign up for Medicare, which is the default health insurer for those age 65 and older.

What you need to know is that making a mistake on Medicare enrollment can have serious consequences. Medicare is separate from Social Security, and the initial enrollment ages for the two programs are different for individuals born after 1937. The minimum age to begin receiving social security retirement benefits can be as early as age 62. However, the minimum age to enroll for Medicare is age 65.

People who start collecting social security early are automatically enrolled in Medicare when they turn 65, but everyone else has to remember to go sign up for Medicare. You won't receive a reminder notice in the mail, so some people don't even realize they're supposed to do it.

One reason some people don't think about Medicare enrollment is that they are still working at age 65 and are covered by their employer health care plan. But Medicare is mandatory unless a person has "creditable" coverage. Some small business plans (company plans with fewer than 20 employees) may not qualify and retiree health plans and COBRA don't qualify. If individuals who don't have creditable coverage fail to sign up for Medicare when required, they could end up paying a penalty in the form of higher premiums for Medicare Part B for the rest of their lives.

There is an initial seven month enrollment period for Medicare. The initial enrollment period begins three months before an individual's 65th birthday, includes the birthday month, and extends for three months afterward. If you miss this window, you must wait for the next general enrollment period to sign up. General enrollment runs from January 1 through March 31 every year for coverage beginning on July 1. If you don't have employer provided coverage and you miss this window, you are on your own for medical expenses until the next enrollment.

If you are in your early sixties, start doing your homework now. And set a calendar reminder for yourself six months before your 65th birthday so that you don't miss any important deadlines.

Opportunity Zone Investing

A Qualified Opportunity Fund is a new investment vehicle created as part of the Tax Cuts and Jobs Act of 2017 to incentivize investment in targeted communities called Opportunity Zones. Opportunity Zones are census tracts designated by state and federal governments as targeted for economic development. The initial set of Opportunity Zones was designated in April, 2018. Today, they now are designated to cover parts of all 50 states, the District of Columbia and five U.S. territories.

An investor who has triggered a capital gain by selling an asset like stocks or real estate can receive special tax benefits if they roll that gain into an Opportunity Fund within 180 days. There are three primary advantages to rolling over a capital gain into an Opportunity fund:

- Defer the payment of your capital gains tax until Dec 31, 2026.
- Reduce the tax you owe by up to 15% after 7 years.
- Pay zero tax on gains earned from the Opportunity Fund.

You can get the tax benefits, even if you don't live, work or have a business in an Opportunity Zone. All you need to do is invest a recognized gain in a Qualified Opportunity Fund and elect to defer the tax on that gain. A list of designated Qualified Opportunity Zones can be found in Internal Revenue Bulletin Notice 2018-48. Since Opportunity Zones are new, there are several publicly available investment funds being created to take advantage of this investment opportunity.

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View Capital Advisors, LLC was founded in 2004 by its principals with the mission of providing sophisticated investment asset management and financial and estate planning to our U.S. and Non-U.S. clients.

We seek to bring wealth planning best practices and a wide range of non-proprietary solutions to our clients. We also conduct our own research and diligence on world markets and investment alternatives.

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