Fee Only Financial Planning & Investment Management

Resolute Connections

July 2019

We put your interests first.®

In this month's newsletter, *Data Protection Protocols* reviews some steps we can all take to cut down the odds of becoming a victim of cyber theft, which we see increasing at an alarming level.

While the new tax law did cut most tax payer's tax bill, it also made it hard to know how much to withhold from your paycheck every few weeks. As a result, many people withheld less than they might otherwise have, and either received a smaller rebate than expected or had to pay additional taxes in April. *Withholding Changes* reviews a new website the IRS offers to help estimate how to fill one's withholding form, called a W-4, which could be a valuable tool for all of us moving forward.

Retirement Patchwork tries to make sense of the confusing array of retirement savings vehicles and the updated 2019 contribution limits. And as you may know, the Social Security trust fund is due to run out of money—or "deplete its reserves" by the year 2035. *Fixing Social Security—Once and For All* reviews the most likely actions that will need to be taken to keep the system capable of meeting its obligations.

Our final article, *Are Americans Really that Destitute?*, dispels a common theme being promoted in campaign speeches that many Americans couldn't pay a small $400 emergency expense; politics can make for great theater but rarely seems grounded in reality.

If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

Data Protection Protocols

Our personal information has never been so easy to steal. And mostly we have ourselves to blame.

Come again? Companies and consumers have been warned against sending out sensitive information as email attachments. And yet many companies still send out credit card forms and signature details. Medical offices use email for their patient communication. People accept and return emails with attachments that contain everything from their financial balances to their medical history. After all, the message is directed only to the recipient, so what can go wrong?

Emails are particularly vulnerable to cyber theft because they are stored in a variety of places, including, of course, the sender's and receiver's device. If someone hacks into your computer, your email is just sitting there for them to read. Rifling through email is now the most common process of malware, and malware is everywhere. The other points of possible attack are your Internet Service Provider and the sender's or recipient's. If your email is hosted on a service provider like Gmail, then it, too, is subject to attack. There are network connections between these email providers. How could you possibly know if all those connections are secure?

And that's not the only places where a copy of your email might be stored. Each email service provider keeps messages in archive on its own servers, which can be hacked and messages downloaded by cyberthieves. The bottom line: once an email message leaves your server, or leaves the sender's server, it's out of your or their control.

What can you do? The first and simplest rule of cyber safety is never to send sensitive information in an email message or an attachment. That means avoid including Social Security numbers, passwords, sensitive tax or investment account information, and even date of birth in your messages, even to people you trust. If you must

communicate this type of information, there are a variety of much safer ways to share information, including Egnyte, ShareFile, PeerLink, Box, FileCloud and DropBox. Or you could encrypt your email messages using programs like Infoencrypt or SafeGmail. The messages are encrypted at the sender's computer and decrypted within the recipient's browser, and they remain encrypted in both the sender's and receiver's email boxes. Hackers who gain access to your computer, to the service providers or the archives come away with nothing but unreadable gibberish.

Yes, protecting yourself sounds like a hassle. But all of these programs, and others, are much more user-friendly than they were ten years ago. And being careful with your messages takes a lot less time and trouble than dealing with a stolen identity or having your personal information floating around the Dark Web.

Withholding Changes

The new tax law made it hard to know how much to withhold from your paycheck every few weeks. As a result, many people withheld less than they might otherwise have, and either received a smaller rebate than expected or had to pay additional taxes in April.

Now the tax agency has released a proposed new updated Form W-4, which reflects the changes from the Tax Cuts and Jobs Act—including the doubling of the standard deduction, eliminating personal exemptions and limits on certain itemized deductions. You can find it here: https://www.irs.gov/pub/irs-dft/fw4--dft.pdf, and the plan is for everyone to use some version of this in 2020.

The current W-4 asks taxpayers to note the total amount of allowances they're claiming (the more, the less tax withheld), and any additional amount they want taken from each paycheck. The new form will ask you to account for multiple jobs within your household, and to spell out the details of any other income that didn't have taxes withheld, including interest, dividends and retirement income. An additional section asks taxpayers to claim their dependents, and to factor in the $2,000 child tax credit for those under 17, or the $500 credit for other qualifying dependents.

Retirees also need to reevaluate their withholding amounts. They can use Form W-4V to withhold a flat rate from their Social Security check or Form W-4P to withhold from their pension.

Tax experts say the best way to fill out the new W-4, when it's approved and online, will be to sit down with an expert or tax preparer, with last year's Form 1040 in front of you. That way, you can account for all the income you may receive in the coming year, and do a better job of withholding the appropriate amount.

Retirement Patchwork

If you imagine that the U.S. congress would create a simple, easy-to-understand system for determining when you can make contributions to retirement accounts, and which accounts, and how much, then you would be totally wrong. Nobody knows why the patchwork of ages, accounts and contribution amounts has to be so complicated, but this is the world we have to live in.

This year, the contribution limit for both traditional and Roth IRAs is $6,000—but you can only make that contribution if your taxable income is greater than that amount. Otherwise, you would just be able to contribute the lesser taxable income amount. People age 50 and older are entitled to contribute an additional $1,000. But (here's where it starts to get complicated) people over age 70 1/2 currently cannot continue to contribute to a traditional IRA. But people of any age can contribute to a Roth IRA, so long as the household earns enough money.

You probably already know that your Roth IRA contribution will be part of your taxable income, while the traditional IRA contribution is not taxed until it comes out, and then it's taxed as ordinary income, not capital gains. But when you take the money out of a Roth IRA, the distribution is not taxable. Thus, with each account, the government avoids double taxation. More complexity: people over age 70 1/2 are required to start taking distributions from a traditional IRA account, with the percentage of the total account growing each year, based on the government's life

expectancy tables. Roth IRA money doesn't have to be distributed until or unless the account is inherited.

When Roth or traditional IRAs are inherited, some of the money must be distributed to each of the heirs under relatively complex rules that are, once again, based on the life expectancy of the new owner. But whatever money is still in the account is able to continue to compound tax-free.

For Simplified Employee Pension (SEP) plans, employers are allowed to contribute 25% of an employee's compensation, or $56,000, whichever is lower.

If your company has a Savings Incentive Match for Employees (SIMPLE) retirement plan, then the limit this year is $13,000 for employees under age 50, and $15,000 for employees over 50. But if the employee is participating in another employer plan (say, a 401(k) plan) during the year, the cumulative contribution amount for both plans cannot exceed $19,000. More complexity: there is no upper age limit to contributing to a SEP account, so long as the employee is still working and earning an income. But (more complications) unlike the other accounts here, people under age 21 cannot contribute to a SEP account.

Fixing Social Security—Once and For All

Chances are that you know that the Social Security trust fund is due to run out of money—or "deplete its reserves" as economists put it—by the year 2035. The actual time frame depends on some forecasts, including economic growth, number of workers who remain in the workforce and the number who retire—but the clear point is that Congress is going to have to take action in the next few years if it wants to prevent a lot of angry seniors from heading vengefully to the polls.

What would happen if no action was taken and the trust fund were depleted? Right now, there is a surplus of funds above what is needed to pay current retirees. Each year, the Social Security system collects FICA taxes from American workers, which comes to about 10.6% of earnings, and pays out somewhat more than that amount to Social Security beneficiaries—in the form of the checks that were promised. It is the

difference between the amount collected and the amount being paid out—currently about 3.7 percentage points—that is moving us toward a crisis.

Once the trust fund can no longer make up the difference, Social Security recipients would simply receive, collectively, however much was collected by workers. Based on those same complex economic projections, economists guesstimate that this will be about 25% lower than the Social Security benefits that people had been promised and expecting.

A new paper prepared by the Center for Retirement Research at Boston College offers Congress a few choices when they finally decide to perform surgery on the nation's retirement program. The paper focuses on the difference between what is paid out and what is collected, and says that this difference is due to "Social Security's Missing Trust Fund"—a pool of assets that should have been set aside at the outset to generate enough interest to make up the difference. The paper suggests various ways to create a Missing Trust Fund of roughly $2.7 trillion.

One is to raise the payroll tax rate on existing workers. The calculations say that Social Security can be restored to full self-sufficiency in 75 years if the payroll tax were raised on all workers by 6.5 percentage points. If you wanted to take a more gradual approach, the payroll tax could be raised by just 4.5 percentage points over the next 150 years. In both cases, the payroll tax could then be restored to current levels going forward.

The paper also looks at not only raising the payroll tax, but also eliminating the cap on how much of a person's income is subject to FICA taxes. (Currently, only the first $132,900 is subject to the tax). In that case, the payroll taxes would only have to be raised by 5.3 percentage points (for a 75-year solution) or 3.7 percentage points (for a 150-year solution). Again, after that time period, both the tax rate and the inflation-indexed income limit would be restored.

Finally, the paper looked at raising income taxes to help fund Social Security's Missing Trust Fund. According to its calculations, simply raising the payroll tax would force the top quartile of workers to take on 54% of the burden of restoring Social Security back to solvency, compared with 29% for the second quartile, 13% for

the third and 4% for the bottom quartile. Raising the payroll tax plus eliminating the cap on income would shift those figures to 65% (top quartile), 22%, 10% and 3%. Raising income taxes plus the payroll tax plus eliminating the income cap would throw 84% of funding the Missing Trust Fund into the collective lap of top quartile earners, with the second, third and bottom quartiles shouldering 12%, 4% and 1% of the burden, respectively.

Which of these will Congress adopt? Will it act at all? The debate is worth watching as the Presidential race heats up—and now you know the most workable proposals that are likely to be discussed.

Are Americans Really that Destitute?

You've probably heard, in campaign speeches by Democratic Presidential contenders, that almost half of all Americans couldn't cover a $400 emergency expense. Senators Kamala Harris, Elizabeth Warren and Bernie Sanders have all told audiences some version of this line. Basically, they're saying that many of us couldn't afford to pay for a flat tire or fix our water heaters—but in the real world these expenses crop up all the times and most of us seem to get along fine.

A recent article in Bloomberg traces the $400 claim to a single line in the Federal Reserve Board's annual "Report on the Economic Well-Being of U.S. Households. It tells us that 61% of adults would cover a $400 unexpected expense using cash or its equivalent. Ergo, according to our political leaders, that means 39% cannot come up with the money they'd need to handle this situation.

However, the Fed report makes clear that "the remaining 4 in 10 adults" would be able to make it work by carrying a credit card balance or borrowing from their friends and family. It goes on to say that "Twelve percent of adults would be unable to pay the expense by any means." That's 12%, not 39%. In a footnote, the report cites a 2016 study finding that 76% of households have $400 in liquid assets, even after taking into account monthly expenses.

Other questions in the survey also suggest that Americans are not as poverty-stricken as that first question indicates. Respondents were asked whether they are able to pay all of their bills in full. Only 17% said they cannot pay some bills. Presumably at least some of those hold credit card balances. The Fed also asked how a $400 emergency expense would affect respondents' ability to pay their other bills. 85% reported that they would still be able to pay all their bills.

There is no question that a certain number of Americans are living in desperate financial circumstances. If that number is 12% or 15% or 17%, it is probably too high for most of us to be comfortable with. But the 39% figure that is being cited by politicians, or "almost half" that is cited by others, is an exaggeration of the problem in order to rile up voters or attract readers. Don't believe everything you hear.

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.

Resolute Financial, LLC is an independent Fee-Only Financial Planning and Investment Management firm based in Newburyport, MA with offices in Chelmsford and Lynnfield, MA along with Portsmouth, New Hampshire. The principal financial advisors are all Certified Financial Planners (CFP®) and are members of the National Association of Personal Financial Advisors (NAPFA) an organization of fee only financial planners. As a fee-only advisors we are not paid commissions or fees of any kind by any product provider, mutual fund, or insurance company; we are paid solely by the client. This allows the firm to work for its clients in a fiduciary capacity; therefore, we will act in good faith and in the best interests of the client at all times as required by the NAPFA Fiduciary Oath we have signed. This newsletter contains general information, and is not intended as individual advice.