Fee Only Financial Planning & Investment Management

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Resolute Connections

In this month's newsletter our first article, *Last Call for HARP,* reviews one of the few valuable consumer rescue programs to come out of the 2008 recession; take note is expires this year, so if you know someone under water on their home-mortgage it is worth checking out. *DB Plan for All* discussed a new company that is offering a personal pension program – an interesting opportunity for those that need more guaranteed income in retirement than that provided by a 401k style program.

You may remember that when the new tax law was debated in 2017, there was a lot of talk around the possibility that Congress would totally eliminate the deduction for charitable contributions. That proposal never made it into the final bill, but in other ways the tax changes may wind up having a similar effect on many taxpayers. R*eclaiming Charitable Deductions* shows how one may still get the charitable deduction despite the impact of the new law. Finally *The Amazon Model* touches on an interesting proposition: which firm will be the first to reach a market value of $1 trillion Amazon or Apple?

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

Last Call for HARP

One of the most beneficial consumer rescue programs from the Great Recession era is about to expire. The Home Affordability Refinance Program—known as HARP—was passed by a bipartisan Congress in 2009, to enable borrowers who were under water

on their homes, or close to under water, to refinance into more affordable mortgages. The guidelines said that you had to have between an 80% to 125% loan-to-value ratio to qualify. (Anything over 100% means you owe more than the home is worth.) Now there is no limit to how under water the borrower must be to qualify. The loan must have been issued before May 31, 2009.

The additional qualifier is that the loan must to be owned or guaranteed by either Fannie Mae or Freddie Mac—which is actually a very high percentage of the total. And people who apply for HARP relief have to be current on their mortgage—meaning no 30+ day late payments in the last six months, and no more than one late payment in the last 12 months. People can apply for shorter term loans, or change from an adjustable to a fixed-rate mortgage—and it doesn't matter what their credit score is.

Obviously, as we get further from May 31, 2009, the number of people who would qualify has gone down. But privately, some economists estimate that there are still thousands of homeowners who are still struggling to stay current on mortgages that are at or near the value of their homes. The end date to get a HARP refinance is December 31 of this year, so those people are running out of time.

People in this situation can get a lot of helpful guidance from the HARP.gov website. They can do a quick check of their eligibility using an online tool here: http://harpguide.org/q/check-eligibility? And they can calculate how much they would save by refinancing if they use Freddie Mac's online calculator: https://www.lowermybills.com/lending/home-refinance/index.loan. The refinancing would be available through many banks, probably including wherever they're currently banking.

DB Plan for All

Few people have a defined benefit pension plan any more, thanks to the popularity of the 401(k). But the DB concept is simpler: a corporate annuity that pays out retirement income every year based on the amount contributed to the plan over the years. Yes, you can buy annuities on the market which replicate the same concept,

but many annuities are expensive, and the annuity market can be complicated. Why couldn't somebody establish a global defined benefit plan that anybody can contribute to, that would sock the money away and pay a guaranteed income when the worker decides to retire, no matter where he or she happens to be working?

Somebody has. A company called Blueprint Income, in New York City, now offers a "personal pension"—a monthly paycheck in retirement, based on how much you contribute. The company requires an initial investment of $5,000, but subsequent contributions can be as small as $100 a month.

To accomplish the defined benefit payouts in the future, Blueprint Income has negotiated an arrangement with several annuity providers, where contributions are forwarded to the insurance companies, which track the value of the annuities for each Blueprint Income customer. For its part of the deal, Blueprint Income earns a commission of 1% to 5% from the insurers, which is factored into the amount of income you would receive. There are no surrender fees because there is no option to surrender and get all your contributions back. If you stop making contributions, your monthly benefit will lock in to reflect what you've contributed so far.

The commission and lack of liquidity make this an "investment" to carefully consider before committing to. Another consideration is the return, which will be more bond-like than stock-like over the life of the investment. Younger people with longer time horizons will probably need stock-like returns to protect their future purchasing power—but they might consider converting the bond part of their portfolio into Blueprint Income contributions. The great thing about a defined benefit pension is that it goes on for as long as you live—and with Blueprint Income, any money you've contributed that wasn't paid out will be distributed to your beneficiaries.

Reclaiming Charitable Deductions

You may remember that when the new tax law was debated, there was a lot of chatter around the possibility that Congress would totally eliminate the deduction for charitable contributions. That proposal never made it into the final Tax Cuts + Jobs

Act, but in other ways the tax changes may wind up having a similar effect on many taxpayers.

How? By doubling the standard deduction, the Tax Code will greatly reduce the number of tax filers who itemize. Another part of the new law adds to the reduction in itemizing by capping the value of the deduction for state and local taxes at $10,000—far below what many taxpayers living in high-tax areas of the country will actually pay.

The result? In the past, roughly 30% of us were itemizers. That number is expected to drop to 10% by the time we start filing this year's taxes. Of course, if you don't itemize your deductions, you don't get to deduct your charitable contributions.

Some quick math shows how this works. Let's suppose a married couple plans to make $14,000 worth of charitable gifts this year. Their state and local tax deduction is capped at $10,000. Together, the two equal $24,000—which happens to be the same as the new standard deduction. They get no incremental deduction for their $14,000 of charitable gifts.

What to do? One way to overcome the impact of the new tax provisions is to bundle several years' worth of charitable contributions into a single tax year, contributing the higher amount to a donor-advised fund rather than to the charities directly. If the same couple were to give two years' worth of donations to a donor-advised fund, that would come to $28,000. Add in the $10,000 maximum deduction for state and local taxes, and suddenly it makes sense to itemize. The additional $14,000 results in a tax savings of about $5,180 for people in the 37% tax bracket.

Of course, if the couple were to bundle five or ten years' worth of charitable contributions into the same tax year, that would further increase the value of the deduction, and they can happily take the standard deduction in the other years. Going forward, the money in the donor-advised fund can be contributed each year to charitable causes just as it had been before, in $14,000 annual increments. Meanwhile, the assets that remain in the fund are growing tax-free, creating additional charitable assets for future donations.

The Amazon Model

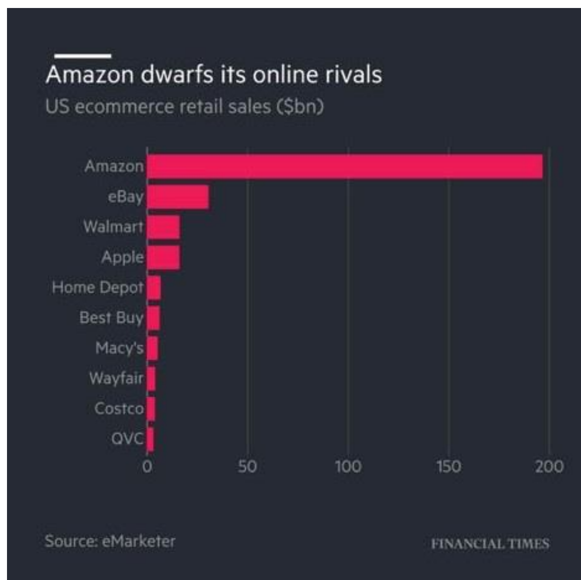
Two companies—Amazon and Apple—are in a tight race to become the first company to have a total market value greater than $1 trillion—that is, the value of all their outstanding stock would exceed that enormous figure. Apple is the higher-profile candidate, but the smart money seems to be on Amazon.

Why? When you look at the graph, you can see at a glance that Amazon dominates the e-commerce industry, and you know that the e-commerce industry is ruining the fortunes of traditional retailers like Sears and Toys 'R' Us. But what you may not realize is that much of the Amazon's $1.6 billion first-quarter profit came from activities other than retail sales.

Such as? Amazon Web Services, the company's cloud computing business, far exceeds the 3.7% margins of the retail and Whole Foods operations; it reported a 25.7% operating margin in the first quarter. The company's other revenue includes advertising ($2 billion in the first quarter), which, like Facebook, can directly target consumer preferences using information from purchasing and browsing history.

And then there's Alexa. If you think of Alexa as kind of like Siri on the iPhone, except installed in your house, you aren't seeing the bigger picture. To see the full Alexa vision, drive to a model home in Irvine, CA, where Amazon conducts tours of the future, coming soon to a home near you. The visitors can use the house's Alexa voice assistant to turn on the lights, lower the shades, adjust the thermostat and tell them who is at the front door. They can watch television programs and movies from Amazon's streaming business on its Fire TV device, and listen to music on an Amazon Echo smart speaker. And, of course, they can order virtually anything from the company's core e-commerce website with the push of an Amazon Dash button.

We don't know whether Apple or Amazon will get to $1 trillion first, or if either ever will. But Amazon's path to future profitability involves a lot more than selling books or groceries over the Web.



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