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Just Ask Us

How is the Social Security trust fund doing?

The 2018 report of the Board of Trustees for Social Security trust funds is out, and the news is not great. This year is expected to be the first since the 1980s in which the expenses and distributions are larger than total trust fund income. Expenses first outstripped tax revenue in 2010, but the difference has been covered by interest payments on the accumulation of long-term trust funds over the decades. Last year, for example, OASDI expenditures were \$952 billion, and total tax revenue was only \$911 billion. Interest earnings came to \$85 billion. The reserves are projected to become depleted in 2034.

Medicare Part A is in even worse shape, projected to run dry in 2026. Medicare suffers from too much success. New and better medical treatments are being developed all the time. Unfortunately, they can be costly, and when they work, they extend the lives of seniors and the length of time that seniors will be making claims on Medicare.

Better economic growth in the coming years could make these problems less severe.

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Q QUARTER NOTES

Third Quarter 2018



Paul R. Mancuso

The latest perk: “Financial wellness”

One residue of the last recession was a feeling of financial anxiety among large swaths of the population. As recently as 2017, a PwC study found that 53% of adults with full-time jobs felt stressed about their financial situation. Employees who are worrying about their finances are likely to be distracted and less productive, and they may be prone to adverse health effects from stress as well.



In the past few years, many large employers have begun to address this problem with programs promoting “financial wellness.” According to the 8th annual survey on corporate Health and Well-being from Fidelity Investments and the National Business Group on Health, released in 2017, 84% of large and mid-sized companies had financial wellness programs in place, up from 76% the year earlier.

What is involved with this newest employee benefit? Seminars and webinars focused on financial planning issues are the most common, followed by online tools, calculators, and other resources to help employees understand mortgages, budgeting, and income protection. Fewer companies

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Confidence

The theme of this issue of *QuarterNotes* is confidence—in your financial plan, in your professional advisors, and in your estate plans. Markets have grown more volatile in 2018, and interest rates are on the rise. The political situation has been volatile as well, and that can also move the financial markets at times.

Still, the economy is strong, with low unemployment, steady GDP growth, and high consumer confidence. There's that word again.

Do you have concerns about the adequacy of your financial plans or the soundness of your investment strategy? We will be pleased to discuss them with you.

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Community Brokerage & Investment Services

"Financial wellness" . . . continued

offer specific, personalized financial counseling. There may be a concern about fiduciary responsibility with respect to the advice being offered, and on the other side employees may not want to share their personal financial details with an employer, or even the employer's agent.



A regulation dies and is reborn

The Dodd-Frank legislation, enacted after the meltdown in the financial services industry in 2008, required the Securities and Exchange Commission to study the pros and cons of putting all investment advisors on a "fiduciary" standard. What does that mean?

Whenever a financial professional provides investment advice, one of two different standards applies:

1. whether the recommendation is "suitable" for the client; or
2. the recommendation is in the client's best interest.

To the layman, the difference in these two statements may not seem like much. To lawyers and regulators, there is a world of difference. Standard 1 has been in general use among brokers. Standard 2 is the

Trusted advice

It's great when the employer wants to cover the cost of a valued service, but financial wellness is something that everyone should be seeking. It is something worth having, and something worth paying for.

Financial wellness includes:

- ▲ Developing a budget, and sticking to it.
- ▲ Building emergency savings.
- ▲ Paying off debt.
- ▲ Designing a plan for home ownership.
- ▲ Establishing capital for education funding.

"fiduciary" standard, and it applies to Registered Investment Advisors, to fee-only financial planners, and to trust departments.

When the SEC was slow to respond to the Dodd-Frank mandate, the Department of Labor got into the picture with a rule of its own. The DOL decreed that Standard 2, the fiduciary standard, would apply whenever investment advice was provided with respect to qualified retirement assets, including IRAs and IRA rollovers.

Earlier this year, the Fifth Circuit Court of Appeals ruled that the DOL had strayed too far into the SEC's territory, and voided its rule. DOL decided not to appeal that decision.

But now, the SEC finally has come forward with its proposal concerning working in the client's best interest. This effort could affect all investment accounts, not just retirement accounts. The SEC proposes

▲ Optimizing investment plans for an appropriate balance of risk and reward.

▲ Protecting assets for the future, through insurance investments and thoughtful estate planning.

A financial planner can help work through these issues.

Let us be a resource for you

If you have questions about the adequacy of your savings or the volatility of your investments, we are available to meet with you. Financial independence doesn't happen by accident; it takes hard work, discipline, and investment knowledge. We would be pleased to share our insights with you.

new levels of communication and disclosure between financial professionals and their clients, as well as steps to eliminate possible conflicts of interest.

The proposal's effects upon compliance costs are not yet fully understood, but certainly costs will not be going down. Given that all broker-dealers already had been gearing up to comply with the DOL rules, there may not be as much push-back from the industry as there might have been years ago. Comments on the proposal will be accepted until August 7, 2018.

The new estate planning

The big tax reform bill enacted last December included a rough doubling of the amount exempt from federal estate taxes, to more than \$10 million (\$20 million for married couples). That falls far short of the goal of some to fully repeal the federal estate tax. What's more, the change is temporary, and expires as 2026 begins.

Planning for managing estate taxes is now a concern of the very wealthiest families. But estate planning remains vitally important to everyone.

Estates under \$10 million

A wealth management plan built upon the foundation of a will and one or more trusts will still be essential to providing family financial security. Key points to consider:

▲ Without a will the state's intestacy laws will control distribution of the estate assets. Intestacy laws are drafted to provide what legislators assume the decedent would have wanted done with his or her property at death. Those assumptions may or may not be accurate for particular families. A will takes the guesswork out of the picture.

▲ Some states still have their own death taxes. Although a majority of states have eliminated their estate and inheritance taxes, many of those that retain such death duties do not coordinate with the federal exemption levels. Much smaller estates may be subject to tax. If you live in one of these states—or own property in one—tax planning may still be important to you.

▲ Basis planning is now important. Forgiveness of capital gains taxes at death is an important benefit that smaller estates should take into consideration. To maximize this benefit, highly appreciated assets should be kept until death.

Key estate tax numbers

| | |
|--|-------------------|
| Lifetime federal estate and gift tax exemption, 2018 | \$11.18 million |
| Federal exemption for married couples | \$22.36 million |
| Expiration date | December 31, 2025 |
| Annual federal gift tax exclusion | \$15,000 |
| Gift tax exclusion for married couples | \$30,000 |
| Expiration date | None |
| States with an inheritance tax in 2018 | 6 |
| States with an estate tax in 2018 | 12 |

Source: M.A. Co.

From \$10 million to \$20 million

All of the considerations for small estates apply with equal force to the medium-sized estate. Other issues to consider:

▲ Programs of annual gifts to take advantage of the gift tax annual exclusion. An individual may give \$15,000 to each of as many beneficiaries as desired each year without touching the lifetime exemption from the federal gift tax. Married couples may give \$30,000 by splitting their gifts. A couple with three children and five grandchildren may give them each \$30,000—a total of \$240,000—each year without touching their federal gift tax exemption.

▲ Portable exemptions. For married couples, the election for the Deceased Spouse's Unused Exemption (DSUE) amount is going to be very important. The election may preserve the enlarged estate tax exemption into the years beyond 2026, should one marital partner die before then.

Estate tax targets

Estates of \$20 million and up will need to do some estate tax planning, even with the doubled exemption. The good news for these estates is that aggressive strategies remain available, such as gifts of minority interests in family limited partnerships, dynasty trusts, and short-term grantor retained income trusts.

The trickier question is whether a large taxable gift should be made before 2026 so as to "lock in" the enlarged lifetime gift tax exemption. This was a conundrum faced by the wealthy in 2012, when for a time it appeared that the federal exemption might drop all the way down to \$1 million. As it turned out, a \$5 million exemption was made permanent. Some of those who made irrevocable gifts in 2012 reportedly then regretted their actions.

If the estate tax exemption is reduced in the future, as scheduled, tax savings of several million dollars could be achieved by making irrevocable gifts of assets before that happens. The new tax law includes a direction for the IRS to provide instructions on what happens if the exemption is reduced in the future.

No job for amateurs or DIYs

One can find sample forms for wills and trusts online, and there may be a temptation to save the attorney's fees and execute a will without professional supervision. Although do-it-yourself may be better than relying on the state's intestacy statute, it has proved to be a false economy in many cases. The fee charged by an experienced estate planner for the drafting and execution of a will and, if appropriate, a trust will be an investment in the family's future financial security.