RAA®

THE COMPASS

withholding | life insurance | guardianship | structure

OCTOBER 2019

2019 TAX WITHHOLDING

By Kristi Cherry, CPA®, Tax Services Manager

Your tax strategy is an important piece of your financial plan and can propel you closer to achieving your financial goals. Your tax withholding amount in particular plays a key role in the success of your overall tax strategy.

EMPLOYER WITHHOLDING

Have you made any changes to your employer withholding this year? Even if you haven't, it's a good idea to review your 2019 estimated tax liability.

If you and your spouse (if you both are still working) are withholding at the married rate with zero exemptions and it is still not enough to cover the taxes on your taxable wages, then you need to check the box on line 3 of your W-4 that says "Married, but withhold at Higher Single Rate." If you still don't have enough to cover your taxes, there is the option to withhold an additional amount each paycheck.

Remember, tax withholding through your employer may not cover taxes owed on unearned income such as interest, dividends, capital gains, and passive income. If your unearned income is high enough, you may need to make quarterly estimated payments.

Ideally, the goal of withholding is to try to break even when you file your tax return. You don't want to send the IRS a large check or receive a big refund either. By breaking even, you make the most of your money with every paycheck instead of lending it to the government for part of the year.

REQUIRED MINIMUM DISTRIBUTION (RMD)

If you are age 70 ½ or older, you are required to withdraw a set amount of money from your retirement accounts each year to meet IRS requirements. Your RMD tax withholding amount will be reflected on Form 1099-R, with your federal withholding amount in Box 2 and your state withholding amount in Box 12.

RMDs are also required from all inherited IRAs. Just like with other IRAs, these distributions count as taxable income.

WITHHOLDING FROM IRA DISTRIBUTIONS

If you are not age 70½ or older, then you are not required to take an RMD each year. However, if you are still withdrawing money from your retirement account(s), then you have the option to have both state and federal taxes withheld.

All distributions (including tax withholding) from IRAs count as taxable income. When taxes are withheld from an IRA, your financial custodian is taking funds out of your IRA and sending it to the IRS on your behalf. Remember, since an IRA is "before-tax" money, any withdrawals from it will be taxed.

TAX LIABILITY

Consider the following example illustrated in the chart below.

Scenario #1 shows the tax liability for a $100,000 IRA distribution and other sources of income for a person over age 65. As you can see, $20,000 is the tax liability on their taxable income.

Scenario #2 shows the $100,000 IRA distribution plus the $20,000 of additional taxes for a total distribution of $120,000. The total tax liability is now $24,400. Therefore, the client increased their tax liability by $4,400 by having the taxes withheld from their IRA.

ESTIMATED 2019 TAX LIABILITY

INCOME	SCENARIO #1	SCENARIO #2
IRA DISTRIBUTIONS	$100,000	$120,000
TAXPAYER'S PENSION	$24,000	$24,000
TAXABLE INTEREST	$500	$500
TAXABLE DIVIDENDS	$2,110	$2,110
SOCIAL SECURITY	$28,500	$28,500
TOTAL	$155,110	$175,110
ITEMIZED DEDUCTIONS		
STATE TAXES	$10,000	$10,000
MORTGAGE INTEREST	$8,000	$8,000
CHARITABLE CONTRIBUTIONS	$3,000	$3,000
TOTAL	$21,000	$21,000
STANDARD DEDUCTION	$27,000	$27,000
TAXABLE INCOME	$128,110	$148,110
REGULAR TAX	$19,901	$24,301
NET INVESTMENT TAX	$99	$99
TOTAL TAX LIABILITY	$20,000	$24,400

Withhold $20,000 of taxes, which becomes taxable

Taxes increase by $4,400

Using after-tax accounts is a great way to pay the IRS less and save you thousands of tax dollars. If you incorporate an after-tax account into your financial strategy, you will need to pay your taxes by either going to the IRS website at www.irs.gov or by mailing a check directly to the IRS along with a quarterly estimated tax voucher.

RAA TAX SERVICES

Don't let withholding occupy too much space in your mind during the holiday season. Let RAA Tax Services help with your year-end multi-tasking. Our team of tax experts is here to ensure your withholding is accurate and to help you feel prepared and confident to tackle the upcoming tax season.

If you're unsure whether your withholding is accurate or if you want to review your overall tax strategy as we prepare for a new year, contact your Relationship Manager to schedule a detailed analysis.

DOES A STAY-AT-HOME PARENT NEED LIFE INSURANCE?

By Sally Jilek, CLTC®, Insurance Specialist

A common misconception about life insurance is that only the breadwinner in your family needs to be insured.

However, the reality is that the financial value of a stay-at-home parent should be protected as well.

While adding a spouse to an existing policy is beneficial, it's simply not enough to ensure that the lifestyle a stay-at-home spouse works hard to maintain will not completely fall apart if they were to pass away unexpectedly.

THE FINANCIAL VALUE OF A STAY-AT-HOME PARENT

According to Salary.com, the average salary of a stay-at-home parent in 2019 should be a staggering $178,201 (a 9.6% increase from the 2018 calculation) and is only expected to increase in coming years.[1] It's important to note that this calculated salary does not include overtime, though we all know the job of a stay-at-home parent never ends at 5:00 PM and weekends are not optional.

SPOUSAL LIFE INSURANCE POLICY

While a life insurance policy is typically used to replace income, a spousal life insurance policy replaces services. Have you ever calculated how much it would cost to replace the services your spouse does every day? Critical tasks such as housekeeping, disciplining, teaching/tutoring, cooking, chauffeuring, nursing, counseling, bookkeeping, and more.

If you were to lose your spouse today, could your current income absorb these additional expenses tomorrow? The cost of childcare alone can put significant pressure on your finances. According to Care.com, the average weekly childcare cost for one infant child is $199 for a family care center, $211 for a day care center, and $596 for a nanny.[2]

[1]Information obtained from Salary.com's article "How Much Is a Mother Really Worth?" Salary.com is an independent third party and is not associated with RAA.

[2]Information obtained from Care.com's article "This is how much childcare costs in 2019." Care.com is an independent third party and is not associated with RAA.

QUESTIONS TO CONSIDER WHEN SHOPPING

If you are unsure whether your current income could support services valued at over $170,000, then it's time to start shopping for an additional life insurance policy.

When shopping for spousal life insurance, consider the time frame you need to cover. Should the policy last through your children's college years or extend past schooling into the early stages of their careers?

You should also determine the answers to the following questions to further help you make the right coverage decision for you and your family:

- How many children do you have? What are their ages?
- How much would it cost to replace the stay-at-home parent's services?
- Would miscellaneous expenses increase? Such as more take-out versus home-cooked meals? Would your children need rides to and from school?

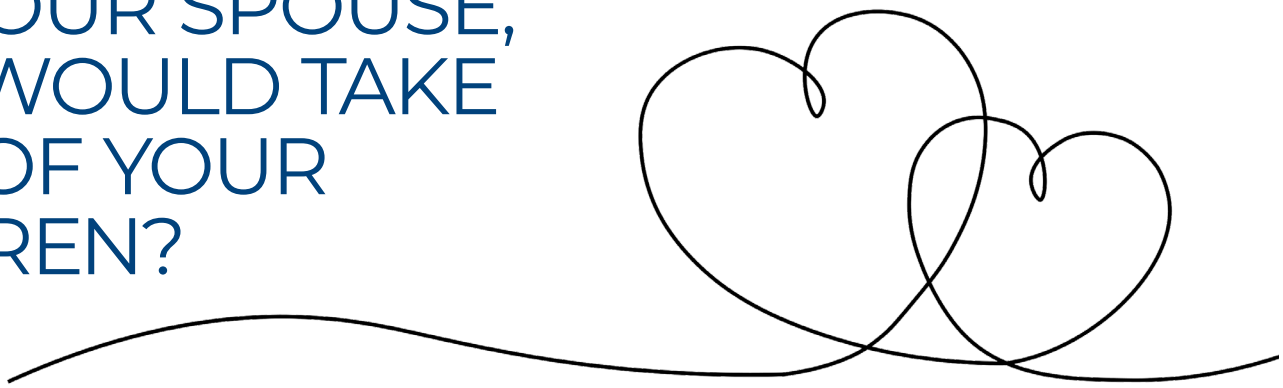
RAA RISK MANAGEMENT

Deciding which insurance to purchase for you and your family can be overwhelming. Let your team at RAA help you shop for the right life insurance to meet your specific needs.

RAA Risk Management offers multiple-carrier quoting through A-rated or better insurance companies and will work with your Relationship Manager to ensure your coverage is in alignment with your overall financial plan.

While a life insurance policy could never replace the loss of your spouse, it can help fill the financial gap their absence will leave behind. If you would like to schedule a complimentary insurance consultation, please visit **RAA.com/risk** or contact your Relationship Manager today.

IF SOMETHING WERE TO HAPPEN TO YOU AND YOUR SPOUSE, WHO WOULD TAKE CARE OF YOUR CHILDREN?



Establishing legal guardianship is one of the best things that parents can do for their children. If you and your spouse were to both die without establishing a plan for your children, then their wellbeing could be left to the court to decide.

HOW TO ESTABLISH GUARDIANSHIP

Guardianship is established within your Will. Simply add a clause that names a guardian of your children as well as an alternate in case your first choice is unable or unwilling.

You can choose whoever you would like to be the guardian of your children. It doesn't necessarily have to be a blood relative. You can also decide to assign a different guardian for each child or choose to assign joint guardians, such as a married couple.

Keep in mind that any legal guardian chosen must meet the following criteria:

- Is a legal adult as defined by state law
- Is physically able to perform the required responsibilities of a guardian
- Has time to raise a child
- Can afford to financially support a child, either through their own income or through the minor's inherited assets

Other important questions to consider when choosing a guardian are:

- Will this person love my child as I do?
- Does this person share my same values and expectations of how a child should be raised?
- What is this person's religious and moral beliefs?
- Does this person live in a different state than me and my family?

RESPONSIBILITIES OF A GUARDIAN

The responsibilities of a guardian can vary depending on the type of guardianship chosen. The two different types of guardianship are guardianship of a person and guardianship of an estate.

Guardianship of a person means that the guardian is responsible for the physical, emotional, and medical wellbeing of the minor.

Guardianship of an estate means that the guardian is responsible for handling the minor's inherited estate, which includes managing property and financial affairs. However, a guardian of an estate does not have control over a trust. The trustee would still maintain control of managing that asset.

Remember, you can decide to assign both types of guardianship if it makes sense for your unique situation. You can choose the same guardian for both types of guardianship or you can choose different people if, for instance, there are people in your life who are better caregivers than money managers and vice versa.

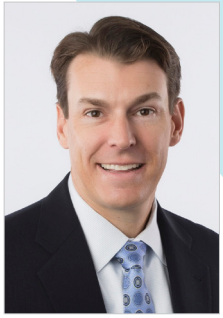
ATTN: GRANDPARENTS, HAVE A CONVERSATION

If your adult child does not have a Will, then you might not have control over the lives of your grandchildren if the unexpected were to happen. We know that this is neither what you want nor what your children want for your grandchildren. If you haven't already, start a conversation with your children about guardianship. Preparing for the unexpected does not assure that the worst will happen, but it can better help your loved ones find their footing if it does.

RAA ESTATE PLANNING

We are here to help you protect the wellbeing of your children and grandchildren. If you would like to schedule a complimentary estate planning consultation, please visit **RAA.com/estate-planning** or contact your Relationship Manager today.

GETTING THE STRUCTURE RIGHT



By Jeremy Merchant, CIMA®, Chief Investment Officer

Many investors tried to cope with this recent quarter's volatility by timing risk-on and risk-off trades and alternating between aggressive and defensive portfolio postures. For these investors, the problem was not always one of market timing, but a lack of structure and commitment to their long-term plan.

Structure is an important theme in an overall investment strategy and is also a concept that became all too real for me recently.

I have dealt with back issues for many years due to an injury I had when I was younger. Structurally, my lower back has not been sound for quite a while and has caused me a great deal of pain over the years.

Sometimes, I would deal with my back pain by trying to be more aggressive. I thought if I just ran farther or lifted weights more often, I could use strength to compensate and overcome. However, this short-term solution only made my issue worse over time. I also tried the other extreme, which consisted of laying on the couch and not participating in family activities. While this offered temporary relief, it was not a long-term solution either.

Thanks to my wife's counseling, I finally realized that flip-flopping between aggressiveness and conservativeness was not going to help me reach any lasting solution. I needed to address the structural issue.

Therefore, in late July, I had back surgery. By late August, not only was I feeling better, but I had grown over an inch taller. By addressing the real issue and being committed to the process required to stabilize my back, I was able to find the long-term solution to my problem. Looking back, I wish I had addressed this issue 10 years ago. If I had, I could have avoided years of discomfort.

LOOKING AHEAD

Looking ahead, we see a domestic economy that remains on track for growth this year. Within the first quarter of this year, the U.S. economy grew at 3.1%. Within the second quarter, the economy grew at approximately 2.1%. During the third quarter, we expect the economy to continue to grow slightly above 2%. By the final quarter of this year, economic growth might pick up somewhat as we move into the holiday season. Overall, we are on track for another year of economic growth in the U.S.

It's true that uncertainty regarding trade is having an impact on business sentiment. However, we have been living with trade uncertainty for almost three years now with very little economic impact. Overall, the economy is holding up well and is once again starting to benefit from a more accommodative U.S. Federal Reserve.

China is showing signs of weakness, but not a sharp slowdown. Weakness in Europe is occurring, notably in Germany as we have seen with their recent Global Domestic Product (GDP) data, but is by no means collapsing.

Meanwhile, the U.S. economy continues to create jobs at a fast pace. Unemployment rates are at a 50-year low. Employees' wages and salaries have grown 4.7% in 2017, 5% in 2018, and over 5% in the first half of this year. However, this growth is not strong enough to translate into inflationary concerns, which is good. Both household consumption, which powers our economy, and the household savings rate remain healthy.

In sharp contrast to the information about our country's continued growth is the media frenzy surrounding the 2-year and 10-year U.S. treasury yield curves recently inverting. Historically, an inverted yield curve has been a precursor to a recession. However, there is a large historical lag in which a recession occurs after an inverted yield curve. On average, the time between a yield curve inversion and a recession averages over 15.7 months.

Bond markets have certainly been distorted by the major role central banks have played this year. Now, the Fed has once again cut interest rates and suggested further reductions if needed. Overseas, the European Central Bank has noted that they can do additional quantitative easing if warranted. Overall, major central banks are encouraging investors to bet on lower yields. Such unprecedented intervention has probably reduced the treasury yield curve's value

as a predictor of future recessions. It seems as if the stock market and Central Banks are stoking each other's fears. However, if we step back and look at the real economic statistics, conditions are not bad. We simply have slightly slower growth on average.

YOUR PORTFOLIO

Within the portfolios, we continue to maintain our neutral stock versus bond posture. Within equities, we are focused on overweighting dividend-paying positions of large companies. These larger companies tend to be less volatile, on average, compared to smaller companies.

Within fixed income, we will remain focused on high-quality positions with above-average credit ratings. We remain overweight intermediate bonds within the portfolios. This posture has helped reduce volatility on days in which the equity markets have traded lower.

As a reminder, we manage the portfolios relative to diversified long-term strategic asset allocation targets. We can overweight and underweight these asset classes based on market conditions.

ACTIVE ALLOCATION VIEWS

Themes	Category	Change	Negative	Neutral	Positive
Main Asset Classes	Equities	-	○○○	●	○○○
	Bonds	-	○○○	●	○○○
	Cash	-	○○○	●	○○○
Domestic Equities	Large Value	-	○○○	○	●●○
	Large Growth	-	○○○	○	●○○
	Mid Value	-	○○○	○	●○○
	Mid Growth	-	○○○	○	●○○
	Small Value	▼	○○○	●	○○○
	Small Growth	-	○○○	●	○○○
	Tactical Equity	-	●●●	○	○○○
Foreign Equities	Developed	▼	○○○	●	○○○
	Emerging	▼	○○○	●	○○○
Fixed Income	Intermediate	▲	○○○	○	●○○
	Short Term	-	○○○	●	○○○
	High Yield	▼	○●●	○	○○○
	Cash	-	○○○	●	○○○

AVOID SHORT-TERM SOLUTIONS

Investors without a plan remind me of what I did seeking short-term solutions for my back. If you don't have a long-term plan, you are more likely to switch from one extreme to another, which inevitably delays you from reaching your overall goals.

As we enter the final few months of this year, our disciplined investment process continues to provide the structure needed to help you avoid high emotions within the market. As always, if you have any questions about the markets or our investment strategy, please contact your Relationship Manager.

KEY THEMES AND THEIR IMPLICATIONS

Themes	Category	Rationale
Equities	Economic Growth	Global growth and corporate earnings remain positive but have slowed.
	Business Cycle	Growth is moderating but remains slightly above 2%.
	Inflation	Inflationary pressures are not a concern at this point.
Bonds	Bond Yields	The Federal Reserve's policy is becoming more accommodative.
	Duration	Interest rates should remain low for longer.
	Quality	Lower quality credits should be avoided at this point.

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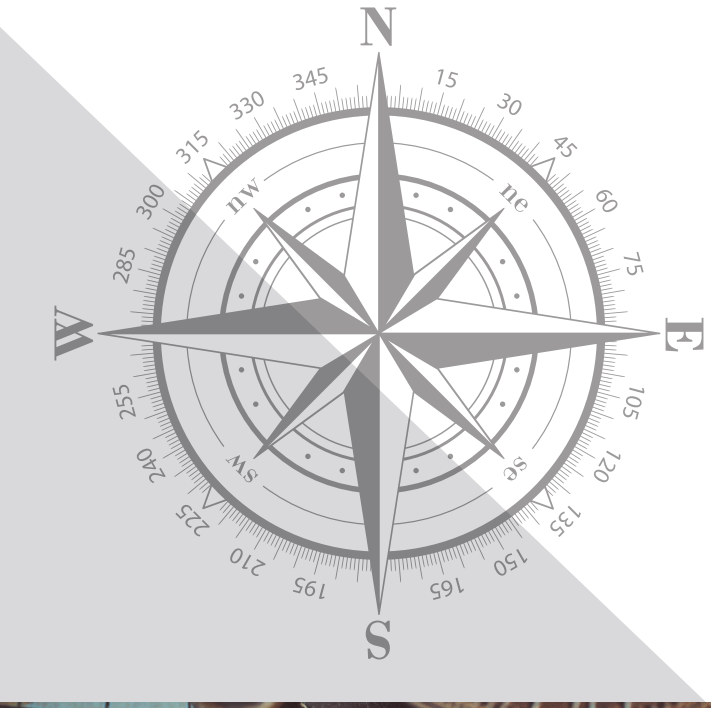

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