RAA

THE COMPASS

estate plan | poa for children | 2018 withholding | staying the course

JULY 2018

WHO NEEDS AN ESTATE PLAN?

By Richard Winters, CFP®, Relationship Manager

Over the last 30 years, we've helped countless pilots and their families navigate their estate planning needs. During this time, we've come to understand that there are simple steps that can be taken today to ensure your legacy is properly cared for when the time comes. In this article, we share some of what we've learned over the years. As always, if you have any questions, please contact your team at RAA.

ESTATE PLANS ARE NOT JUST FOR THE ULTRA-WEALTHY

There is a very common misconception that only the very wealthy, or those nearing the end of their lives, need to have a comprehensive estate plan in place. The reality, however, is that every investor - regardless of assets or age - should have a carefully crafted estate plan that defines their wishes. While we certainly hope that all our clients have the opportunity to enjoy their retired years to the fullest, we know that the unthinkable can, and does, happen.

THE FIVE DOCUMENTS THAT ARE INCLUDED IN A COMPREHENSIVE ESTATE PLAN

While an estate plan may sound like a single document, it really includes five individual components. Once all of these documents are in place, you can be confident that your life's wishes are documented, and your family will be prepared for whatever comes next.

Will

This document defines who will receive your assets after your passing, how much they will receive, and any limitations or caveats regarding how these assets may be used. This document may also define charities or endowments that should receive a portion of your life's work. For clients with minor children, your Will appoints guardianship for their care and well-being.

Living Will

This is a very specific document which details your wishes for end-of-life care. Within this document, you can define whether you would like to be kept on life support, receive artificial hydration, or receive other types of specialized care. A Living Will is only used when you are unable to communicate these very personal wishes with medical professionals or family members.

Durable Power of Attorney

A durable Power of Attorney (POA) gives someone else, called the "agent," the legal authority to make business, legal, and financial decisions on your behalf. It is referred to as a durable POA because it remains in place if you are disabled and unable to make these decisions on your own. This document differs from a Living Will, as it gives broad decision-making authority to the agent. The Living Will, on the other hand, provides very specific instructions.

Medical Power of Attorney
A medical POA is strictly limited to medical and healthcare decisions. When you grant someone medical POA, they are given the authority to request care and make critical decisions on your behalf. It's important to understand that the individual trusted with durable POA and medical POA does not need to be the same person. Many of our clients entrust one family member with durable POA and another family member with medical POA.

Trust Documents
A trust allows a third party, the "trustee," to hold assets on behalf of another person, called the "beneficiary." If a trust will be the beneficiary of your IRA or 401(k), it is critical that RAA and your investment account custodians have your trust documents on file. A "Custodian" is the bank that your financial institution uses to hold your funds. For RAA clients, this is most likely Fidelity or Charles Schwab.

These five documents not only provide you with peace of mind, they also provide your loved ones with a clear path forward during one of life's most difficult moments. Disability and death are not easy, but we are confident that an estate plan can help simplify the process and empower your family to continue the legacy you've worked years to build.

ESTATE PLANNING IS AN ONGOING PROCESS

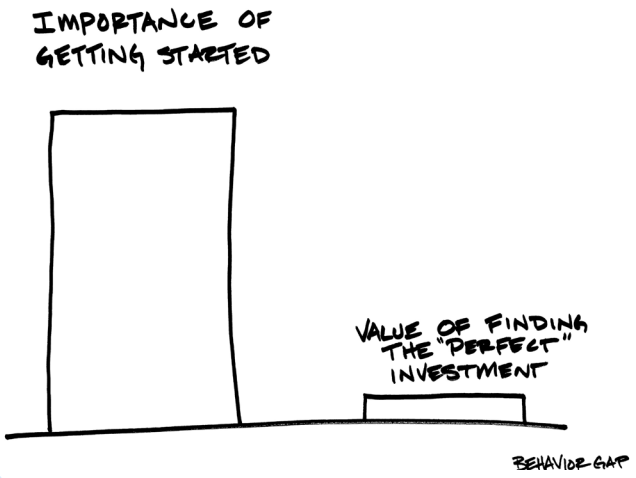
Lastly, it's important to understand that estate planning is not a "one-and-done" process. It is recommended to review your estate plan every three to five years, but this review should also happen any time your life significantly changes. Moving households (especially to another state), welcoming a new child or grandchild into the family, a death, a substantial increase in property value, or shifts in your personal desires are all signs that it is time to take another look at your estate plan and ensure it matches your current family makeup and outlook on life.

Your RAA Relationship Manager is your partner for this review process, and we like to review estate plans with our clients each year. During your plan review, we will discuss any changes in your life which might require an estate plan update and can assist you in implementing these changes. For this process to be effective, it's important that we have copies of every current estate planning document you have available. All documents are stored in a confidential and secure location until needed.

Contact your RAA Relationship Manager if you would like to establish your estate plan, provide documents from an existing plan for review, or have any questions about the process. Our goal in all of this is to have your last wishes carried out and your family members supported when they need it most.

"If you want your children to turn out well, spend twice as much time with them and half as much money."

--Abigail Van Buren



THE GRANDPARENTS' ROLE IN A POWER OF ATTORNEY FOR YOUR CHILDREN

By Clay Caldwell, CFP®, Vice President, Estate Planning

For most of us, we think about a Power of Attorney (POA) coming in to assist when a parent is approaching the end of their life. This document gives you the authority to make medical, legal, and financial decisions on your parent's behalf when they are no longer capable of making these decisions on their own.

While this document is critical for aging parents, there is another important way that a POA can be used within your family: giving grandparents POA over your children if you are unable to make critical choices on your children's behalf.

SIMPLIFYING BIG AND SMALL DECISIONS

Consider a simple example involving a school field trip. If you and your spouse are out of town, you may be unable to sign documents required to have your child attend the event. A POA agreement provides your parents with the ability to sign this document in your absence. This is a low-consequence example, and the POA agreement becomes more valuable as the decisions become more important.

Consider another example where your child has been in an accident and is in the hospital. What happens if doctors need direction on whether to perform surgery and you or your spouse cannot be reached? In many cases, an inability to contact the legal guardian can delay care, result in procedures which are not wanted, or both. The POA becomes critical here, as it gives a grandparent the ability to step in and make important decisions on your child's behalf, when you cannot do so.

The most serious example of grandparents having to use a POA is if you are mentally or physically unable to make decisions for your child. This is a situation we hope you never encounter, but the POA arrangement can help streamline and simplify what is a very difficult situation for any family.

A SAFETY NET WHEN YOU NEED IT

For many parents, it can be easy to think that these things won't happen to their family. The reality, however, is that these types of situations are much more common than you may realize and, just recently, a grandparent POA came in handy for one of our clients here at RAA.

Our client was watching their grandkids for a few days while the parents went on a short vacation. One evening, one of the young grandkids fell and bumped their head on the family's coffee table while playing. While it looked like a minor cut, the grandparents took the child to the emergency room to be cautious. Since this family had the grandparent POA established, the grandparents were able to make simple care decisions on behalf of the grandchild that evening while the parents were out of cell phone service. Everything was fine in the end, but this highlights just one example of how a POA can be used.

SETTING UP THE POA

Not all POAs are created equal, and there are a number of constructs to choose between. Some POAs provide general legal power, some provide very specific decision-making ability, and some only come into effect following a specific event within your family. It's also important to know that you can have multiple POAs in place for your children. One grandparent can make financial decisions while another grandparent makes medical decisions, for example.

There are many options to choose from and, as with any legal document, it's critical to consult an attorney when establishing a POA within your family.

FINAL THOUGHTS

We hope you never encounter a situation where a grandparent POA is needed, but our role is to identify risks within your life and address them. If you have questions about the POA process, request a call with your Relationship Manager to discuss your options.

2018 TAX WITHHOLDING & ESTIMATES

By Kristi Cherry, CPA®, Tax Services Manager

Last December, the Senate passed the Tax Cuts and Jobs Act of 2017. While many pieces of legislation have negligible impacts on your financial plan, this was certainly an exception. By most accounts, it was the most significant change to the U.S. tax code in nearly three decades. While the 2018 filing deadline is still 10 months away, it's important to start the process now of understanding what has changed and how you can minimize your tax liability moving forward.

At a high level, we expect most of our clients to pay lower federal income taxes in the new year. This is a result of the new federal tax brackets on ordinary income which have been decreased by 1% to 4% for many Americans. While this is our expectation, there are exceptions, and the table below shows how the tax code has been adjusted for married couples who will be filing jointly.

TAX CODE CHANGES FOR MARRIED COUPLES FILING JOINTLY

2017 TAX YEAR		2018 TAX YEAR	
Ordinary Income	**Tax Liability**	**Ordinary Income**	**Tax Liability**
$0 - $19,050	10%	$0 - $19,050	10%
$19,050 - $77,400	15%	$19,050 - $77,400	12%
$77,400 - $156,150	25%	$77,400 - $165,000	22%
$156,150 - $237,950	28%	$165,000 - $315,000	24%
$237,950 - $424,950	33%	$315,000 - $400,000	32%
$424,950 - $480,050	35%	$400,000 - $600,000	35%
$480,050+	39.6%	$600,000+	37%

ORDINARY INCOME IS JUST ONE PART OF THE EQUATION

As we know, annual income is just one component of your tax liability each year. Some other items you should consider as you think about the 2018 tax planning process are:

- The standard deduction is now increased to $24,000 for married couples.
- Property, state income, and sales taxes are now limited to $10,000.
- Miscellaneous itemized deductions have been eliminated. These include non-reimbursed employee business expenses, per diem, union dues, and investment fees.
- All exemptions have been eliminated.
- The Child Tax Credit has doubled and the threshold for income levels have greatly increased.
- Tax brackets and tax rates have decreased for many high-income earners.
- The alternative minimum tax exemption amounts have increased, and income levels where the exemption phases out have also increased.

IT'S PROBABLY TIME FOR A PAYCHECK CHECKUP

With all of these changes to the tax code, it's wise to consider how your 2018 income has changed and whether your W-4 on file with your employer is still accurate. This document, known as the Employee's Withholding Allowance Certificate, is where you declare the number of allowances you will claim and - most importantly - how much you would like your employer to withhold from your paycheck each pay period for federal income taxes.

The higher the number of exemptions, the less withholding is taken out of your paycheck. If this number is too high, you may owe taxes when you file your tax return in April. If the exemption number is too low, you may receive a refund. Keep in mind that this refund is money that you could have used throughout the year instead of letting the government "borrow" it. The more accurate your withholding amount, the better.

With many clients now in a lower overall federal income tax bracket, it's possible that your 2017 W-4 would dictate that more money is withheld from each paycheck than is necessary for your 2018 taxes. The only way to know for certain is to run the numbers or work with a professional to get a comprehensive analysis completed.

To see how this might look for you, consider an analysis I recently completed for a client that files jointly with their spouse. This client's 2017 total income was $250,000, and their total itemized deductions were $62,000. They were able to deduct $16,200 in personal exemptions

and, as of a result, their taxable income was $171,800. Their regular tax was $35,000, and alternative minimum tax (AMT) was $5,000, for a total tax liability of $40,000 in 2017.

	2017	2018
Total Income	$250,000	$250,000
Itemized Deductions	$62,000	$34,115
Personal Exemptions	$16,200	$0
Taxable Income	$171,800	$215,885
Regular Tax	$35,000	$38,400
Alternative Minimum Tax	$5,000	$0
Child Tax Credit	$0	$2,000
Total Tax Liability	$40,000	$36,400
Marginal Tax Rate	28%	24%

When the new tax code for 2018 is applied to this client's 2017 numbers, their itemized deductions decrease to $34,115. This was largely due to the client having deducted large state income taxes in 2017, which are limited to $10,000 in 2018. Their taxable income is now $215,885 which is roughly $44,000 more than in 2017. However, their 2018 tax liability will actually be lower because they will now fall under the 24% marginal tax bracket instead of the 28% tax bracket.

Lastly, they are no longer subject to the alternative minimum tax, and even though their personal exemptions are now eliminated, they get to take advantage of a $2,000 child tax credit for their dependent that is under age 17. With all of this in mind, I recommended that the client increase their exemptions by two on Form W-4 so they would not have more money than needed withheld for taxes each pay period.

CONSIDERATIONS FOR RETIREES

The tax code change didn't just impact wage earners. For clients who are living the retired life and no longer collecting a paycheck, tax withholding from retirement distributions and/or IRA required minimum distributions may need to be adjusted for a lower or higher tax liability under the new tax law.

HOW RAA CAN HELP

If you would like to learn more about the specifics of the new tax law and how this might impact your financial plan moving forward, we are here to help. I joined the team in 2017 as the Tax Service Manager and bring 20 years of tax and accounting experience to the financial planning process.

To request a tax planning session, go to raa.com/tax or contact your Relationship Manager directly.

RAA PROFILE - MARK FANNING

CLIENT SERVICE ADMINISTRATOR

FAMILY Getting married this August!

PETS Sheltie named Maple

HOMETOWN Bellevue, Suburb of Seattle

HOW LONG HAVE YOU WORKED AT RAA? Joined RAA in October 2017 and previously worked at RNAV for a few years in a similar role

WHAT DID YOU DO PRIOR TO JOINING RAA? Before RAA and RNAV, I co-operated a Mongolian grill type of restaurant with my mother

WHAT DO YOU ENJOY DOING WHEN YOU ARE NOT WORKING? I play underwater hockey, enjoy hiking in the summer, and snowboarding in the winter

CURRENT BOOK YOU ARE READING The third book in a series called The Stormlight Archive. Almost finished with all 1200 pages!

BEST VACATION Traveling through India and the surrounding countries

FAVORITE MOVIE Superbad

FAVORITE SPORT / TEAM Seattle Sounders - Soccer

HOBBIES / SPECIAL INTEREST/ COLLECTIONS Gardening, making bread, brewing kombucha

FONDEST MEMORY Building treehouses as a kid in the summertime

CHILDHOOD AMBITION To build bigger treehouses

STAYING THE COURSE

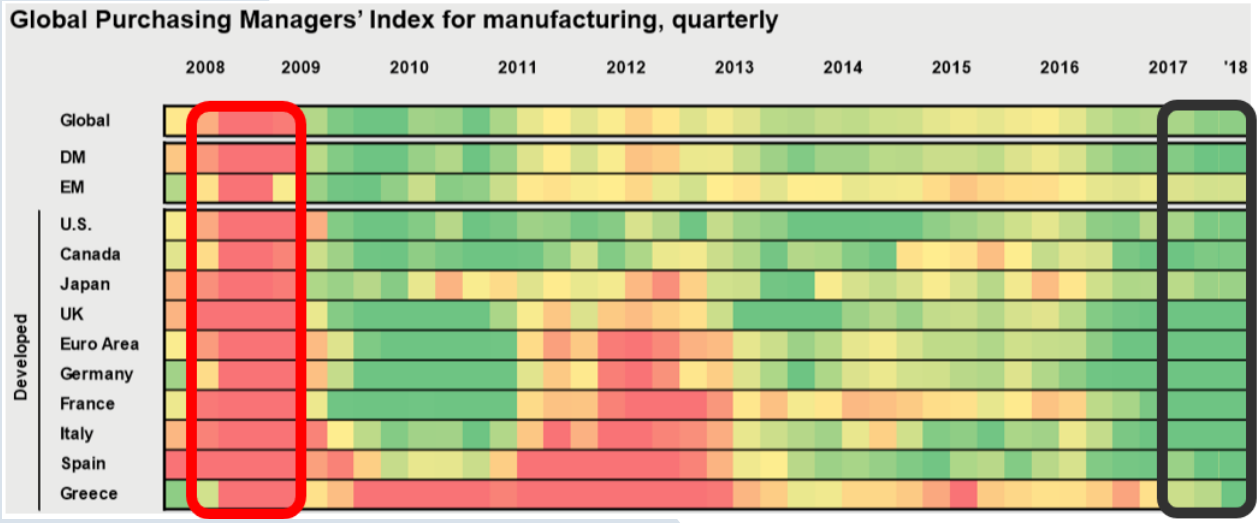
By Jeremy Merchant, SVP & Chief Investment Officer

This time last year, I had the opportunity to visit with some senior leaders in Washington D.C. from Congress and the White House to discuss fiscal policy, monetary policy, and foreign policy topics such as North Korea. During these interactions, I focused on RAA's portfolio posture given the current environment. As you may remember, the environment at the time was one that was full of worry over North Korea.

I took every opportunity to gain insight into what might happen with North Korea while in those meetings. From my Google Alerts to various one-on-one meetings, I wanted as much insight into this topic as possible. At the time, media ratings were skyrocketing and clearly the North Korea stories were captivating America. Now, one year later, the news on North Korea seems to be tilting towards guarded optimism. Today's in-vogue item of coverage is potential trade tariffs.

There is no doubt that each day the market brings new optimistic and pessimistic topics for us to debate. Fortunately, these topics can be filtered through our disciplined and proven investment process. Looking back on last year, despite worries over North Korea, our quantitative valuation model kept our portfolios neutrally postured which allowed clients to fully participate in last year's market. This model remains in a neutral posture today, thanks to strong corporate earnings and improved economic growth looking forward.

In the graphic below, we can see that for the first time since the great recession, we are experiencing synchronized economic growth. During the great recession, we had a synchronized slowdown. From 2009 through 2016, many economies drifted between slow growth and no growth.



Today, all major developed economies are experiencing synchronized growth. In our view, this is favorable for equities in the near term.

In addition to synchronized economic growth, we are also witnessing extremely strong corporate earnings. In 2016, we experienced corporate operating earnings of $106. In 2017, corporate operating earnings were $124. Currently, the 2018 estimates for operating earnings will be over $150. This level of corporate earnings growth is very friendly for the market and means that the market is not nearly as expensive as historical valuation measures might suggest. This trend is being picked up by our valuation model which measures something called a "Price-Earnings-Growth" ratio (or PEG ratio). We are currently seeing favorable PEG ratios for most of the equity market. Note the trend in corporate earnings within the Quarterly Operating Earnings graphic above.

Within fixed income, upward pressure on interest rates continues to be the theme in 2018. These increases are largely due to the Federal Reserve, as they slowly reduce their accommodative policies. In addition, the federal funding requirement caused by deficit spending is creating additional upward pressure. This combination of reduced demand from the Fed and increased supply as a result of deficit spending is driving bond prices down and rates up.

From a portfolio construction viewpoint, we continue to remain neutral to slightly overweight equities. Within equities, 30% of the equity allocation remains dedicated to foreign equities. We continue to overweight emerging market equities where valuations and growth rates remain favorable. From a fixed income perspective, we are focused on high-quality credits and avoid high-yield bonds. We remain protectively postured in a rising rate environment with a slight underweight to duration.

As we move through the summer months of 2018, we will continue to keep you updated, as always.

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	-	○○○	●	○○○

KEY THEMES AND THEIR IMPLICATIONS

Themes	Category	Rationale
Equities	Economic Growth	Global growth and corporate earnings continue to improve
	Business Cycle	Growth looks to increase as we move towards Q3 of 2018
	Inflation	Inflationary pressures are not a concern at this point
Bonds	Bond Yields	Gradual and controlled increase in rates are expected
	Duration	A slow rising interest rate environment is expected
	Quality	Higher quality credits are still preferred due to valuations

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