PROSPER

MANNING & NAPIER'S GUIDE TO FINANCIAL PLANNING | 2017

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Financial planning can be difficult and complex. Whether it's retirement planning, taxes, or understanding social security benefits, there are many components of a comprehensive financial plan.

As the Director of Manning & Napier's Family Wealth Management service, I often hear from people who are uncertain and anxious about their financial future. Rest assured—with over 100 years of combined experience, our team has helped clients navigate a diverse range of planning challenges. Our team includes experienced financial planners, attorneys, trust officers, and wealth management consultants—all of whom are available to help you and your family with your planning needs. Simply put, we are here to help you achieve your financial goals and simplify your life.

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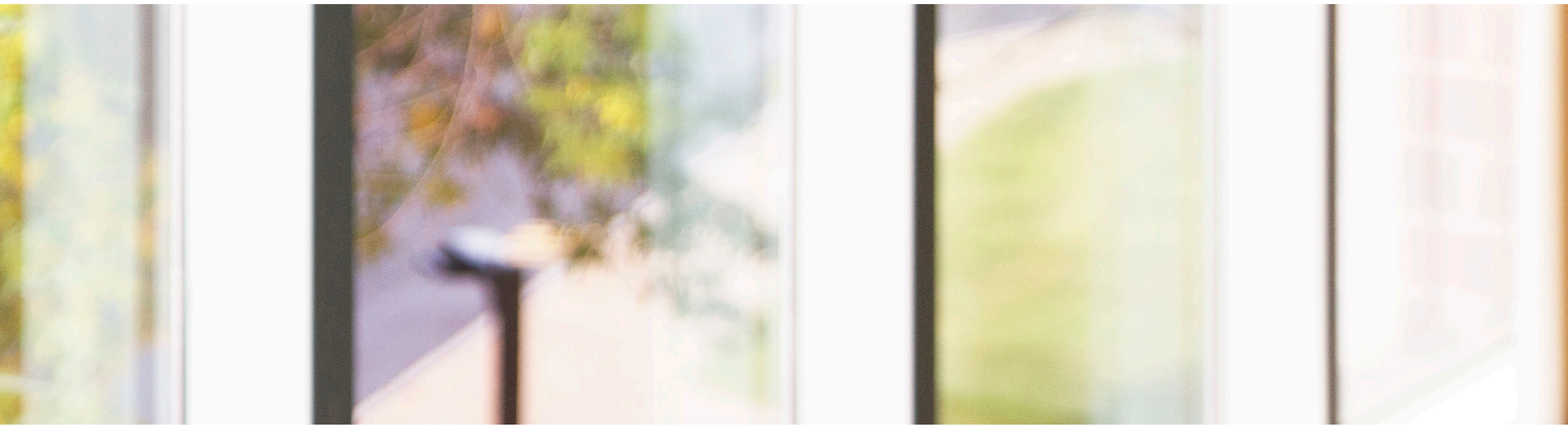
We encourage you to read and perhaps share our inaugural issue of *Prosper*. While we recognize that everyone's financial situation is different and complex in its own unique way, we hope you find comfort in the resources available here.

—**Dana Vosburgh, CFP®**
Director, *Family Wealth Management*



TRANSITIONING INTO RETIREMENT

George Marron, JD, CFP®
Senior Wealth Management Consultant

Are you ready for retirement? Even if you love work, colleagues, customers, and your regular routine, in all likelihood, you have dreamt about the 'perfect' retirement. But, have you really thought about what retirement means and are you prepared?

"Pre-retirement planning?" you say incredulously. "I have saved my money and invested. The whole point is to do what I want—a little travel, entertainment, golf, and have fun with the grandchildren." A word of caution: It may not be as easy as it sounds.

The reality is that the retirement transition may present one of the most significant changes in your life—emotionally, psychologically, socially, and financially.

For example, many clients in early retirement express some concern and anxiety over the transition from earner/saver to spender. Even if you continue to consult or work part-time, in all likelihood, you will start spending your savings in retirement. This can be disconcerting, especially, if you spent the last 30 years saving that money. Sometimes, clients look at their investment accounts as 'principal,' and grow concerned about generating 'income' to spend without dipping into the 'principal.' This may limit them to overly conservative asset allocations or reduced spending which makes for a stressful early retirement period.

It is critically important to understand your spending needs so that you develop appropriate investment objectives to support spending throughout retirement. Part of our planning mission is to help you connect your assets and spending needs to your current and long term retirement planning goals. Another is to develop a plan for that spending so you get real value out of lifestyle choices, social and family connections, and other early retirement activities. This helps reduce spending anxiety and hopefully makes the retirement transition enjoyable.

Ideally, you will start to focus on these issues in the 3-5 years before retirement. Placing financial and tax; life insurance; and estate planning fourth, fifth, and sixth on the accompanying list isn't accidental. Retirement marks a significant transition in life which is more than changing your income streams and updating your financial plan. While good financial planning is critical to retirement, we do recommend that you give equal thought to the emotional, psychological, and social aspects of retirement so that you have a solid framework for making decisions as you enter this new phase of life.

PRE-RETIREMENT PLANNING CONSIDERATIONS

1. Lifestyle

Do you know what you want to do in retirement? For example, travel, work/consult part time, volunteer, learn something new, hobbies, etc? If you are not exactly sure what you want to do, start a list and investigate your interests.

2. Social & Family Connections

Think of the people you want to remain connected with after retirement, or want to see more often, and plan to see them. Strengthening these social networks is crucial in early retirement.

3. Health & Health Care

Are you maintaining good health? Does retirement present an opportunity to make improvements? Have you investigated your heath care insurance options?

4. Financial & Tax Planning

Now is the time to consider consolidating assets, developing a spending and tax plan, reviewing social security, pensions and other non-investment income, reviewing asset allocation, and investment objectives.

5. Life Insurance

If you are no longer working, you may lose certain employer insurance benefits. Now is the time to determine if you need the coverage.

6. Estate Planning

Review your estate plan (wills & trusts, power of attorney & health care proxies) and beneficiary designations to confirm they are up-to-date and meet your goals.


MANNING & NAPIER
Independent Perspective | Real-World Solutions
MAKING THE MOST OF
Your Retirement
Retirement means something different to everyone. Whether it's traveling, spending more time with grandchildren, or starting a new business venture, our Family Wealth Management team can help you create a unique retirement plan.
To learn more, visit us at go.manning-napier.com/FWM
| Estate & Tax Planning | Investment Management | Trust Services |

THE POWER OF HEALTH SAVINGS ACCOUNTS

Rebecca Galliford, CFP®
Wealth Management Consultant

Does your employer offer a high-deductible health plan (HDHP)? If so, you have access to a powerful savings vehicle, the Health Savings Account (HSA). HSAs are tax-favored savings accounts that you can use to pay the high deductibles associated with HDHPs. Once the maximum out-of-pocket costs are met, insurance typically covers any additional costs, and the money left in your HSA earns interest and is yours to keep.

HSAs and FSAs (Flexible Spending Accounts) are often confused with one another. Unlike a flexible spending account, HSA assets do not need to be used by a certain date, are investable, and portable between jobs. This means the cash saved in an HSA can compound over the years and become another significant source of savings. FSAs need to be used on medical expenses, and any unused money leftover at the end of the year in an FSA is no longer yours. When you consider that the average 65-year-old couple is projected to spend $260,000 on healthcare in retirement, the potential value of these vehicles starts to sink in.

HSAs also offer a triple tax benefit to consumers. First, contributions are tax-free and can generally be made through pre-tax payroll deductions. There is, however, a limit to how much you can contribute on an annual basis. For 2017, $3,400 is the contribution limit for individual participants and $6,750 is the limit for families. Additionally, participants over age 55 are allowed a catch-up contribution of up to $1,000.

> HSA assets do not need to be used by a certain date, are investable, and portable between jobs.

Second, while HSAs are often set up like personal savings accounts and likely earn similarly low interest rates, there is the potential to invest HSA assets. Once invested, assets grow tax-free. When deciding how much of your HSA assets to invest, it's important to consider how much cash you'll need on hand to cover your deductible or if you have sufficient funds outside of your HSA to cover those amounts. You'll also want to consider your investment style—do you want your investment decisions made for you by a professional, or do you want to make your own asset allocations? Once you determine which approach is right for you, you can make your investment selection. You can work with your HSA trustee to see which investment options are available, and work with your financial planner to make your investment elections.

Lastly, withdrawals are tax-free if used for a generous list of qualifying medical expenses, including those not covered by health insurance, like dental and vision care. While using HSA savings for health care expenses offers the greatest tax advantage, dollars can be withdrawn for any purpose beginning at age 65. (Income tax is owed on the distribution, similar to 401(k) or IRA distributions.) Unlike other traditional retirement accounts, however, there are no required minimum distributions at age 70 ½. Any withdrawals made for non-qualifying medical expenses before age 65 will be subject to income tax, plus a penalty of 20%.

There are a few stipulations dictating who can and cannot open an HSA. If you are over 65 and receive Medicare, you are not eligible to start or contribute to an HSA. Consumers also currently need to have a high deductible plan to open an HSA, although this could change with future legislation.

Investing in an HSA can be an extra way to supplement your retirement, especially if you've maxed out your other retirement plans. Our Family Wealth Management team can help you assess your current financial situation and create a comprehensive financial plan.

SPENDING PATTERNS IN RETIREMENT

Ethan McKenney, CFP®
Senior Wealth Management Consultant

Ethan McKenney, CFP®
Senior Wealth Management Consultant

When it comes to planning for retirement, few people fully understand if they are financially prepared to move into the next phase of their lives. How much do you need to save? How much can you afford to spend each year? How much will your expenses vary from year to year? How long will you live? How will your investments perform and are they positioned appropriately? These are just a few of the questions that make planning for retirement so difficult.

Each person's unique situation makes it tricky (and perhaps unwise) to use a one-size-fits-all approach to retirement cash flow planning. At Manning & Napier, we believe it is crucial to understand the goals and expectations of each client in order to help them understand whether they are adequately prepared and on the right track to achieve their retirement goals.

There are several approaches commonly used to estimate retirement expenses. Individuals typically look at what has been spent during working years and then adjust this figure based on any estimated changes in retirement lifestyle. An estimate of an initial spending target can be approximated in two primary ways: by estimating the income that needs to be replaced in retirement or by creating a budget.

Income Replacement

One way to estimate an initial spending need in retirement is to begin by looking at what you have historically earned and then adjusting this figure lower, since a few things will change once you retire. First, depending on your situation (e.g., the source of funding for initial retirement spending), income taxes may decrease. Second, you will no longer be saving for retirement. Third, you will no longer be paying FICA taxes. Thus, taking your earned income later in life and reducing by these amounts will give you a solid initial spending estimate.

However, other factors will impact your spending rate in retirement. For example, this base spending figure could be further lowered by reducing for amounts that are related to employment expenses that are paid for out-of-pocket, such as transportation costs and work attire. Retirement also typically comes at a time when you are no longer paying for things for your children. In contrast, increased travel costs and greater expenditures on other leisure activities can result in increased spending in retirement, at least for a period of time. Likewise, Medicare/health insurance and other health care costs can also impact expenses. While many of these figures are likely to vary throughout retirement, it is best to begin by estimating how much will be spent in the first few years of retirement.

Budget Analysis

Rather than basing a spending need on prior income, another common approach involves the creation of a budget, and adding up each incremental expected expense. While this seems like a logical approach, one issue with this strategy is that many items are often overlooked, resulting in an understated budget. Therefore, this type of retirement spending approach is best suited for those with accurate spending records (made easier today by credit card, bank, and third-party aggregator services) and the willingness/desire to dig in to the details.

Once an initial spending goal is calculated, the next step is to determine how this rate of spending will vary throughout retirement. With the exception of known one-time expenses, such as paying for a child's wedding, it can be difficult to estimate how spending will fluctuate throughout retirement. Several research studies tackle this question and many of the conclusions vary significantly.

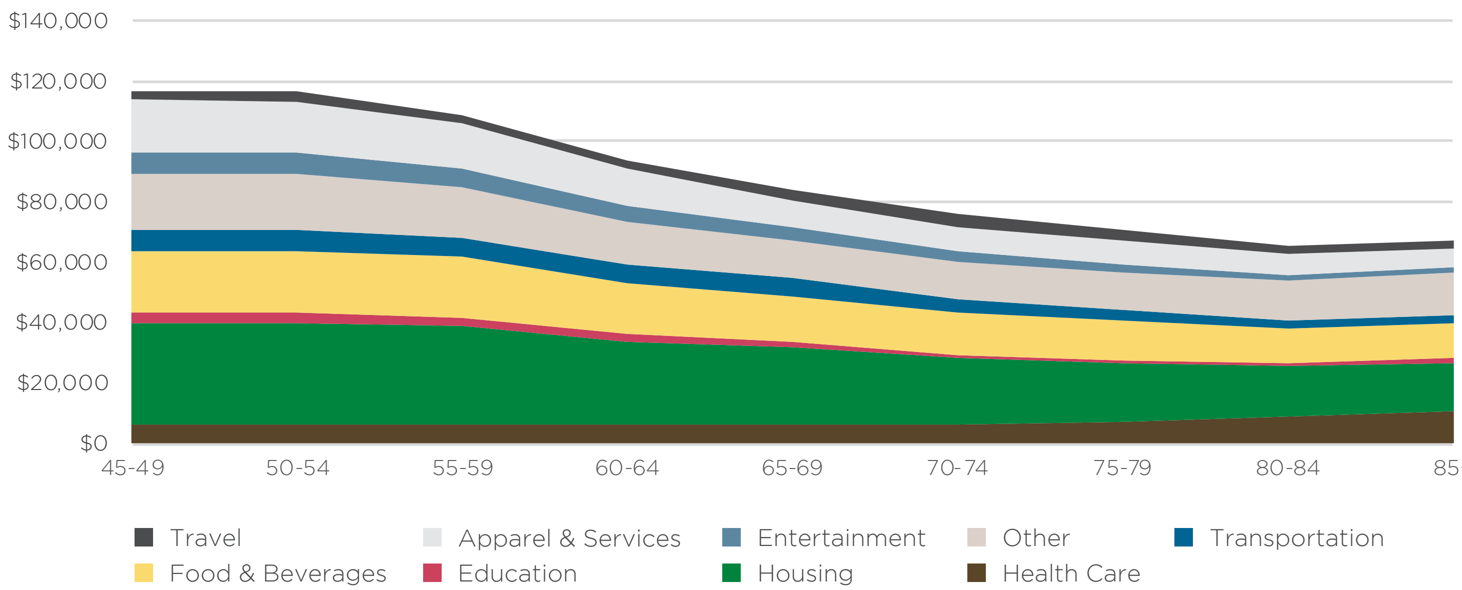
A JPMorgan Chase study (right) that tracks actual spending by its affluent retiree clients, indicates total spending throughout retirement tends to decline. This is generally due to a few common trends. First, the biggest reduction in spending tends to be the result of a decline in housing costs. As people move through retirement, it is common to pay off mortgages and to reduce the number of home remodels that are completed. Thus, as these large-scale expenses diminish, it is not surprising that total spending may decrease as well. This chart uses real spending figures, meaning that it illustrates figures in today's dollars (i.e., actual dollars spent in the future likely will be higher due to inflation).

> We believe it is crucial to understand the goals and expectations of each client.

As a second example, a study completed by Morningstar finds that spending in retirement declines more rapidly during the first half of retirement than was found in the JPMorgan study. However, this study also found that spending later in retirement has a sharper increase, again largely due to health related expenses. One difference between these two studies is that the second study uses a larger cross-section of the population, and not just wealthier Americans. This may explain the steeper decrease in spending earlier in retirement because the sample was reducing spending based

ANNUAL SPENDING AMONGST AFFLUENT RETIREE HOUSEHOLDS BY AGE

source: www.kitces.com



on their savings (i.e., because a larger group in the study had to reduce their spending to match their lesser savings, the overall spending appears to decline more rapidly).

So this begs the question: How do you know how much your spending will change in retirement and how do you plan for such a vast unknown? For many people, the best way to answer this question is by sitting down and asking themselves how they truly want to spend their retirement. How much do they want to travel, what else do they want to spend money on, and how willing are they to change their plans later in retirement should their retirement portfolios achieve returns that are either far better or worse than what they had projected?

While the studies referenced above may provide a rough guideline, they do very little to help a person understand how his or her spending may change in retirement. In fact, the best way to answer this question effectively is to work with a financial planner. They can help to prioritize your goals/risk and to understand what variables may impact a person's ability to meet their expected retirement cash flows.

Manning & Napier understands the importance of comprehensive retirement planning and can help clients model their future cash flows to help them understand if they are on track to achieve their goals. Our modeling capabilities are highly customizable to our clients' unique circumstances, and can consider a broad range of assumptions. This includes, but is not limited to, making larger one-time purchases, changing state residency at a point in life (i.e., and a resulting change in estimated income taxes paid), the varying impact of retirement income sources such as Social Security, pensions, trusts, rental properties, multiple investment returns scenarios, the impact of a future inheritance, the possibility of paying off a mortgage, and many more.

In general, the more that Manning & Napier understands about our clients' goals and needs in retirement, the better we can manage their investments to be in line with their goals. For example, different portfolios can be managed under different investment approaches given each portfolio's withdrawal needs and time horizon.

The cited studies imply that withdrawals in retirement may be generally level on a nominal basis for high-net-worth retirees, and that spending declines when inflation is factored in. From working with clients over the years, we have found that this is generally true.

In fact, most of our retired clients tend to see portfolio withdrawals stay level over time (i.e., with a decline in purchasing power when inflation is considered). This may be due to a number of reasons, including inertia (it is easier to maintain a level monthly withdrawal than it is to determine what amount to change it to) as well as the fact that there has been limited inflation over the past decade.

Despite this observation, Manning & Napier uses conservative assumptions in its cash flow modeling for our clients, including an annual increase in withdrawals to adjust for future inflation (i.e., in order to maintain the same standard of living in today's dollars).

Planning for retirement spending and cash flow needs is difficult for a number of reasons. In reality, nobody knows what the future holds, and many factors out of a retiree's control will impact their ability to spend money in retirement, both positively and negatively. Nevertheless, it is imperative to have a plan that provides a roadmap so you are able to better enjoy retirement and have the tools in place to navigate a changing world.

SOCIAL SECURITY: BY THE NUMBERS

Social Security benefits can be an important source of retirement income. Benefits are guaranteed to last for the rest of your life no matter how long you live and are adjusted for inflation each year.

RECEIVING BENEFITS

The age you sign up to start receiving your Social Security benefits plays an important role in determining how much you will receive monthly.

Age 62 | Workers are eligible to begin receiving Social Security benefits, but at this age benefits are reduced by 25%-30%.

Full retirement age is 66 or 67

Age 70 | If you delay receiving benefits until after age 62, benefit amounts will increase each year until age 70.

FULL RETIREMENT AGE

The age that you can begin to collect your full Social Security benefits depends on the year you were born.

Birth Year	Full Retirement Age
1943-1954	66
1955	66 and 2 months
1956	66 and 4 months
1957	66 and 6 months
1958	66 and 8 months
1959	66 and 10 months
1960 or later	67

The 35 years you earn the most throughout your career are used to calculate your Social Security benefit.

DETERMINING YOUR MONTHLY BENEFIT

You can begin taking Social Security retirement benefits as early as age 62 or delay benefits until as late as age 70. The following example assumes a $1,000 monthly benefit at the full retirement age of 66.

Age	Monthly Benefit Amount
62	$750
63	$800
64	$866
65	$933
66	$1,000
67	$1,080
68	$1,160
69	$1,240
70	$1,320

BENEFITS FOR SPOUSES

Married couples can claim up to 50% of the higher earner's benefit if that amount is higher than benefit based on their own work record. Claiming early will reduce the benefit.

AGE	62	63	64	65	66	67
Retire at 66	35%	37.5%	41.7%	45.8%	50%	
Retire at 67	32.5%	35%	37.5%	41.7%	45.8%	50%

KNOW YOUR NUMBERS

To see your annual earnings, the taxes you have paid into Social Security, and to get a personalized estimate of how much you will receive in retirement, create an account at **www.socialsecurity.gov/myaccount.**

UNDERSTANDING ROTH IRA CONTRIBUTIONS

Dana Vosburgh, CFP®
Director, Family Wealth Management

As part of the Taxpayer Relief Act of 1997, the Roth IRA officially became a retirement savings vehicle. Over the past 20 years, the Roth IRA evolved from a somewhat confusing and quirky retirement account to one that is now viewed commensurate, if not more favorably by some, than its close relative, the traditional IRA. Roth IRAs are an extremely powerful and flexible savings vehicle and one that can appeal to a broad range of investors. There are benefits to contributing to Roth IRAs, but they differ for young investors earning lower incomes than high earning investors.

Lower Income Considerations

According to a recent study, 85% of millennials believe it is important to start saving for retirement before the age of 28. However, millennials find it hard to save and prioritize paying down their debt to saving for retirement. Saving and investing just a small amount of money each year starting in your late teens or early twenties can have a significant impact on your ability to build a meaningful nest egg. If you save $1,000 every year starting at age 18, growing at an annual rate of 6%, the account can have a value of nearly $200,000 at age 60. All else equal, if you start saving at age 30 the account will have a value of just under $90,000 at age 60. GET SAVING!

Younger investors, particularly in high school or college, likely don't have very high incomes and therefore pay very little income tax. For instance, the lowest income tax bracket tops out at $9,325 for single filers and faces an income tax rate of 10%. When incorporating the standard deduction of $6,350, people in the lower brackets may pay little-to-no income tax.

> Roth IRAs are an extremely powerful and flexible savings vehicle.

What does this have to do with Roth IRAs? Contributions to Roth IRAs are made with after-tax money (up to the lesser of $5,500 or earned income), as opposed to pre-tax dollars like a traditional IRA or qualified retirement plan. But, if you aren't paying tax anyway the after-tax contribution doesn't matter.

Also, any growth within the account will be tax and penalty free in the future after meeting the 5-year holding period and the owner is over 59 ½. If someone can start saving in a Roth IRA at a young age, it's possible that money can be tax free forever—no taxes paid to put the money in, and no taxes paid when the money comes out later. A Roth IRA can be a powerful tool to help grow wealth, even with younger investors who have not yet reached their highest earning potential.

Higher Income Considerations

One limitation to Roth IRAs is the income limit for contributions. Currently, people earning over $133,000 (single) or $196,000 (married filing jointly), cannot contribute to a Roth IRA. So it looks like the plan we outlined above for putting money away in a Roth IRA early and often can come to an end if someone's career takes off and starts to earn significant money. Not so fast. The IRS doesn't impose an income limit on traditional IRA contributions. In addition, since 2010 there have been no income limits on Roth IRA conversions (moving money from a traditional IRA, paying the tax on the amount, into a Roth IRA). Therefore, these rules create an opportunity for higher earners to continue adding money to a Roth IRA. It's referred to by many as "the backdoor Roth IRA contribution."

The process works like this: step 1; make a contribution to a traditional IRA with after-tax money (non-deductible contribution). Step 2; at some point after, convert the amount in the traditional IRA to a Roth IRA.

There is no tax on the conversion because the amount is based on what was just contributed with after-tax money (unless there is growth in the IRA between the time of the contribution and subsequent conversion). This process can be followed each year as someone's income exceeds the income limits for Roth IRA contributions. It's worth noting the tax-free nature of this process can be impacted if you own more than one traditional IRA. The IRA aggregation rule requires you to combine all IRAs together to determine the tax consequences of a conversion.

Tax laws are always subject to change, however, and this is one that may have a target on its back. Roth IRAs are an option for higher earners to help them keep saving money for potential tax free growth.

FUNDING YOUR LONG-TERM CARE NEEDS WITH HYBRID INSURANCE

Corey Jackson
CLU, CFP®, ChFC, CASL
Wealth Management Consultant

The past decade has been a very interesting time in the long-term care (LTC) marketplace. Today there are a limited number of insurance companies still offering traditional LTC policies. Low interest rates have played a major role in the departure of many insurance companies from the business.

Typically, an insurance company will invest the premiums that the insured pays to make a profit, but due to today's historically low interest rate environment, it is extremely difficult for insurance companies to make a profit with their LTC business. To make up for these lost profits, the insurance companies have increased their premiums for their new policies as well as their existing policies. Some existing policyholders have seen premium increases as high as 60%. This puts policyholders in a difficult position and forces them to choose between paying significantly higher premiums to maintain their coverage or to reduce their coverage to keep their payments the same. These situations have forced many people to begin looking for other options when it comes to funding their needs.

Hybrid insurance products that combine LTC insurance with other forms of insurance are becoming increasingly common because of the changes in the marketplace. These products are attractive to individuals who are concerned they will pay LTC insurance premiums for years and never receive benefits.

There are many ways to obtain insurance through a hybrid product. One of the most common vehicles is a life insurance policy with a LTC rider. The rider allows the insured to access the death benefit of the life insurance policy to pay for their care after certain requirements are met. This option may be beneficial for someone who has the need for both life insurance and LTC insurance and can afford to pay the required premiums. It is also potentially appealing because a hybrid product provides an individual's heirs with a tax-free death benefit if the money isn't used for LTC.

There are some additional steps that need to be taken during the underwriting process to add the rider to a life insurance policy, but the extra effort can pay significant dividends in the future. Additionally, some companies offer annuities and disability policies with LTC riders or options. Hybrid LTC policies may have more limited coverage than standard policies so the costs and coverage should be evaluated closely when comparing different vehicles. It is also important to evaluate the financial stability of the insurance company and research their history in the industry.

LTC is a service that many people may need at some point in their lifetime. It is important to consider how you can prepare to pay for this service, especially with the rising costs of care. LTC insurance is one financial planning tool that may allow you to protect your assets and relieve the burden of paying for care from your family.

Many individuals feel that if their net worth would allow them to pay for their coverage out-of-pocket, that they need not consider a LTC insurance policy. However, even if that is the case, there are significant reasons to consider such a policy, such as peace of mind and potentially preserving the assets you would have used to pay for your care. An individual should speak with their insurance expert to deem how much and what kind of LTC insurance may best suit his/her future needs and concerns.

UNDERSTANDING YOUR MEDICARE OPTIONS

THERE ARE FOUR MAIN MEDICARE COMPONENTS

Part A	Part B	Part C	Part D
Hospital Insurance	Medical Insurance	Medicare Advantage	Prescription Drug Coverage

There are two main ways to obtain Medicare coverage. Each has a different set of options to consider. Use this graphic to help better understand your options.

TRADITIONAL MEDICARE PATH

Part A - Hospital Insurance

- Coverage is provided directly by Medicare
- You can use any doctors, hospitals, or providers that accept Medicare
- You generally pay any costs for deductibles, copayments or coinsurance

Part B - Medical Insurance (Optional)

- Coverage is provided directly by Medicare
- You can use any doctors, hospitals, or providers that accept Medicare
- You generally pay any costs for deductibles, copayments or coinsurance
- Part A is generally "free." Most recipients pay a monthly premium for Part B

+

Part D - Prescription Drug Coverage (Optional)

- Join a Medicare Prescription Drug Plan
- Coverage is provided by private insurance companies approved by Medicare
- Most recipients pay a monthly premium, which varies by plan / coverage

+

Supplemental Coverage - Medigap (Optional)

- Pays costs not covered by Original Medicare, such as copayments, coinsurance, and deductibles
- Medicare Supplemental Insurance Policies are offered by private insurance companies
- Premium amounts, coverage, and additional costs can vary by plan

PRIVATE INSURANCE PATH

Part C - Medicare Advantage

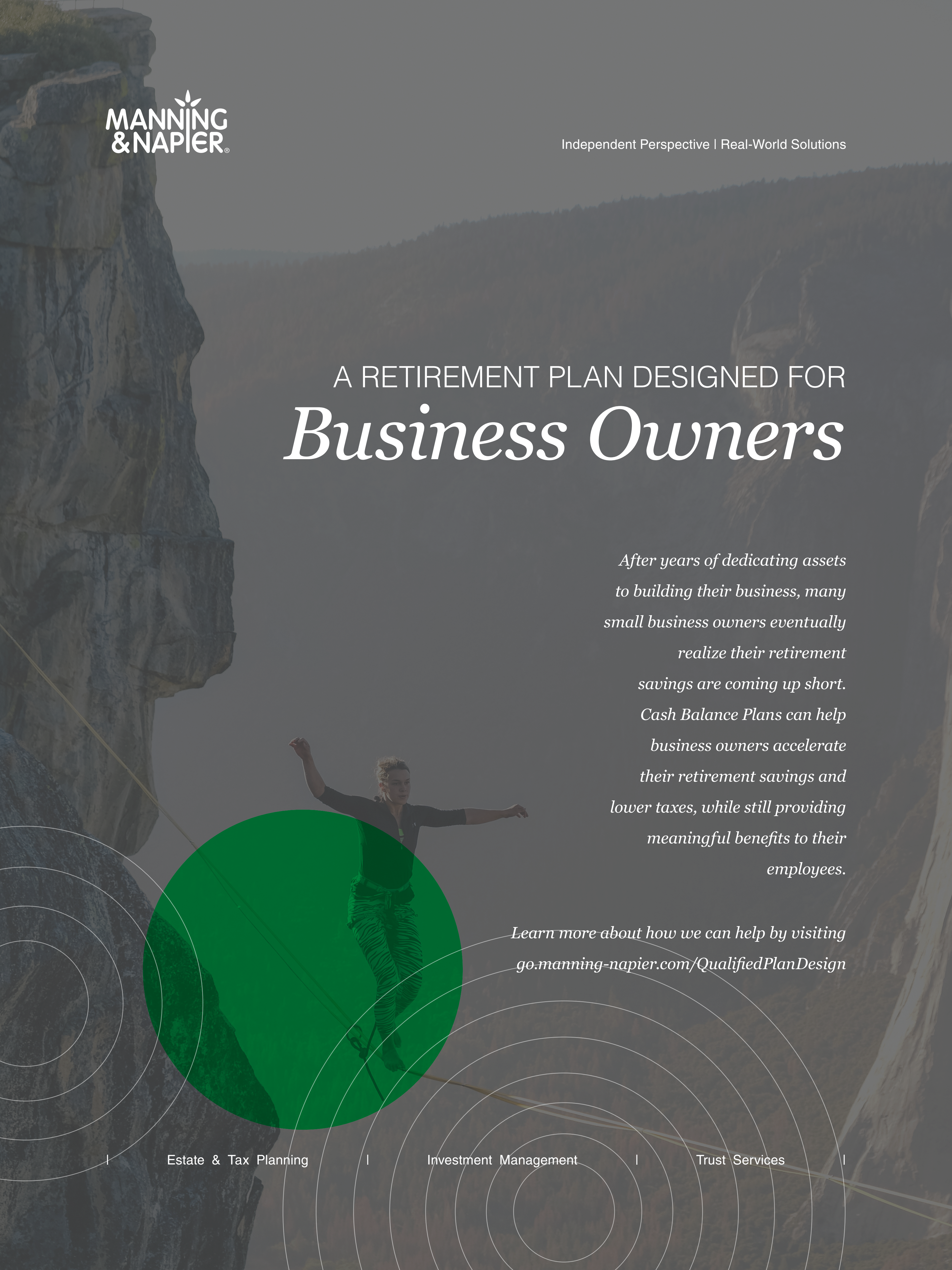
- This includes the benefits of Part A and Part B
- Coverage is provided by private insurance companies approved by Medicare
- You typically must use doctors, hospitals, and providers within the plan, otherwise, you may have to pay all of the costs
- You will likely pay a monthly premium along with costs for deductibles or coinsurance
- Premium amounts, coverage, and additional costs can vary by plan

+

Part D - Prescription Drug Coverage (Optional)

- Obtain coverage through the Medicare Advantage Plan
- Premium amounts, coverage, and additional costs can vary based on the Medicare Advantage Plan selected
- You may have an option to select a Medicare Prescription Drug Plan if drug coverage isn't offered by your Advantage Plan

It's important to note under the two coverage paths, you can't use a Medigap plan to pay out-of-pocket expenses incurred from a Medicare Advantage Plan. In other words, if you have Medicare Advantage, you can't have a Medigap Plan too. In order to have Supplemental / Medigap coverage, you must be enrolled in Original Medicare.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A RETIREMENT PLAN DESIGNED FOR
Business Owners
After years of dedicating assets to building their business, many small business owners eventually realize their retirement savings are coming up short. Cash Balance Plans can help business owners accelerate their retirement savings and lower taxes, while still providing meaningful benefits to their employees.
Learn more about how we can help by visiting go.manning-napier.com/QualifiedPlanDesign
| Estate & Tax Planning | Investment Management | Trust Services |

A DEFINED BENEFIT PLAN SURGING IN POPULARITY

James Vito Esposito, QPA
Qualified Plans Consultant

Qualified retirement plans are generally considered to be the best way to accumulate tax-advantaged retirement savings. In exchange for these valuable tax benefits, the government places limits on the amounts that can be contributed to a defined contribution (DC) plan, and on the retirement benefit amounts that can be provided by a defined benefit (DB) plan. In a DC plan, limits restrict:

1. The amount participants may voluntarily contribute in a calendar year as a percentage of compensation.
2. The amount of employer and employee contributions that may be allocated in total to a single participant.
3. The amount an employer may tax-deduct as a percentage of participant payroll.

For a DB plan, rules limit the annual normal retirement benefit that can be promised to a participant. Whatever amount is required today to fund that promise is a tax-deductible contribution for the employer. Rules also limit the amount of compensation that can be recognized in calculating benefits for DB plans, and contributions to DC plans. Limits are generally adjusted upward on an annual basis.

Continued >

Defined Contribution Plan Limits

DC plans allowing participants to make voluntarily contributions are known as 401(k) plans. In 2017, 401(k) plan participants may contribute the lesser of 100% of pay or $18,000. This is a calendar year limit which applies to individuals. If an individual has two jobs and participates in two separate 401(k) plans, the total salary deferral across both plans must not exceed the calendar year limit. A catch-up of $6,000 applies for any participant that turns 50 during the year and reaches either any legal or plan imposed addition limit—effectively increasing the limit to $24,000 for such participants.

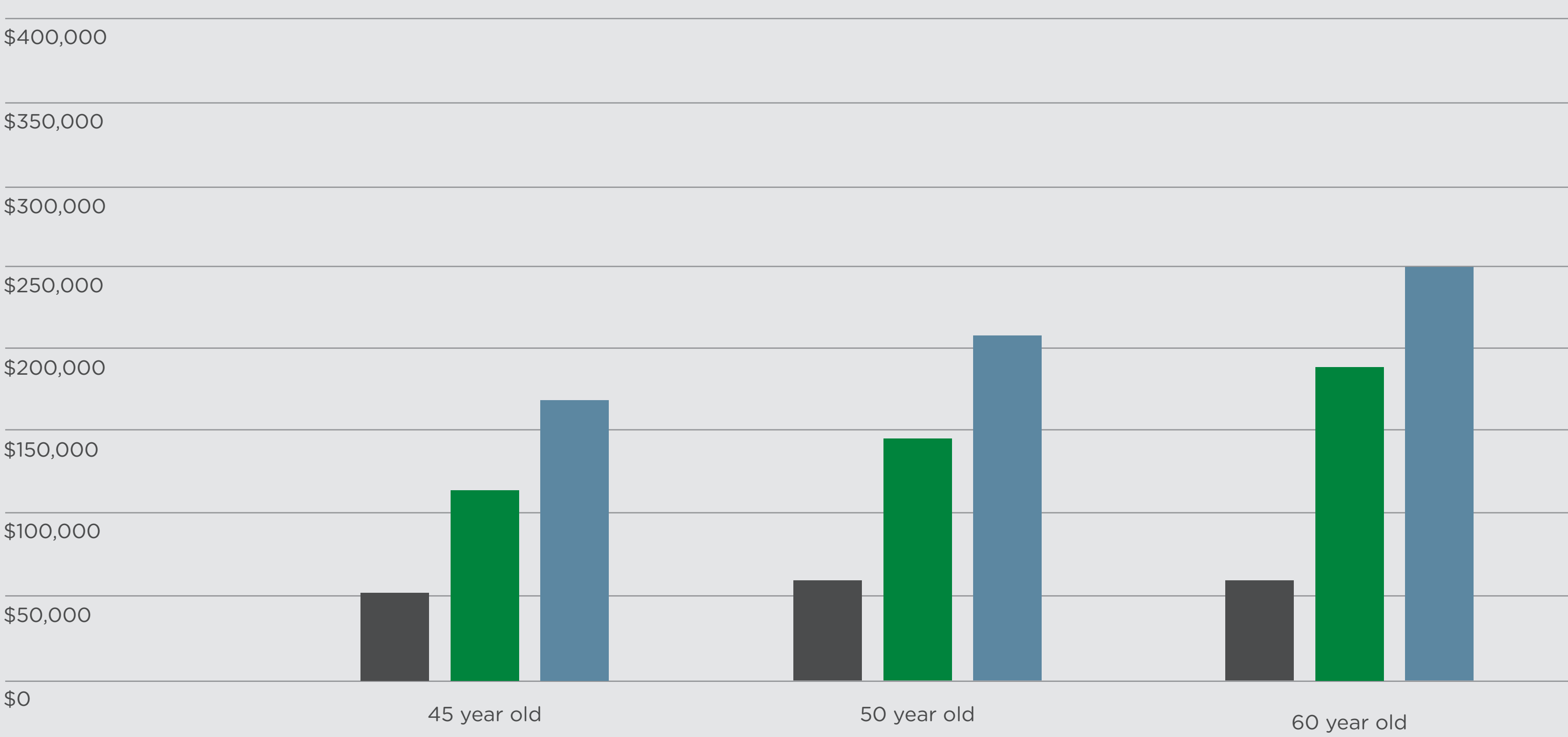
The total annual addition for a DC plan participant is limited to the lesser of $54,000 (as indexed for 2017), or 100% of the participant's current compensation. The term "annual addition" includes employer and employee contributions, as well as forfeitures. In other words, the sum total of employee contributions and employer contributions to a participant's account cannot exceed $54,000 or $60,000 if catch-up amounts are allowed in 2017.

The employer's tax-deductible contribution to a DC plan is limited to 25% of eligible payroll. Eligible payroll is the total payroll attributable to employees that are participants of the plan. Additionally, the compensation used to determine a participant's annual addition is limited to $270,000 (as indexed for 2017).

Defined Benefit Plan Limits

Unlike DC plans where limitations mostly affect current day contributions, limits for DB plans affect the amount of the annual benefit payable at retirement age, and the compensation used to determine that benefit. These limits are usually pro-rated actuarially for benefits paid prior to retirement age. The maximum annual retirement benefit that may be accrued in a DB plan is limited to $215,000 (indexed for 2017). The maximum annual compensation that can be used in determining these benefits is limited to $270,000 (indexed for 2017).

MAXIMUM 1ST YEAR CONTRIBUTION BY AGE (2017)



Source: Internal Revenue Service. Illustrates the maximum cash balance plan allocation that can be distributed as a lump sum to a terminated participant who has earned income of $265,000, is fully vested, and has one year of plan participation. It uses the 2017 Applicable Mortality Table at 5% for the monthly benefit and 5.5% for lump sum distributions; and a normal retirement age assumption of 65.

Dual Plan Limits

Special limits exist when an employer sponsors both a DB and a DC plan (i.e., a combination plan). Where a DB plan does not require coverage by the Pension Benefit Guaranty Corporation (PBGC), the full DB plan contribution can be deducted, plus an employer contribution of 6% in the DC plan. Where the DB plan is covered by PBGC, the full DB plan contribution can be deducted plus an employer contribution of 25% in the DC plan—in other words, the DB Plan is ignored for purposes of applying the 25% of pay deductible limit.

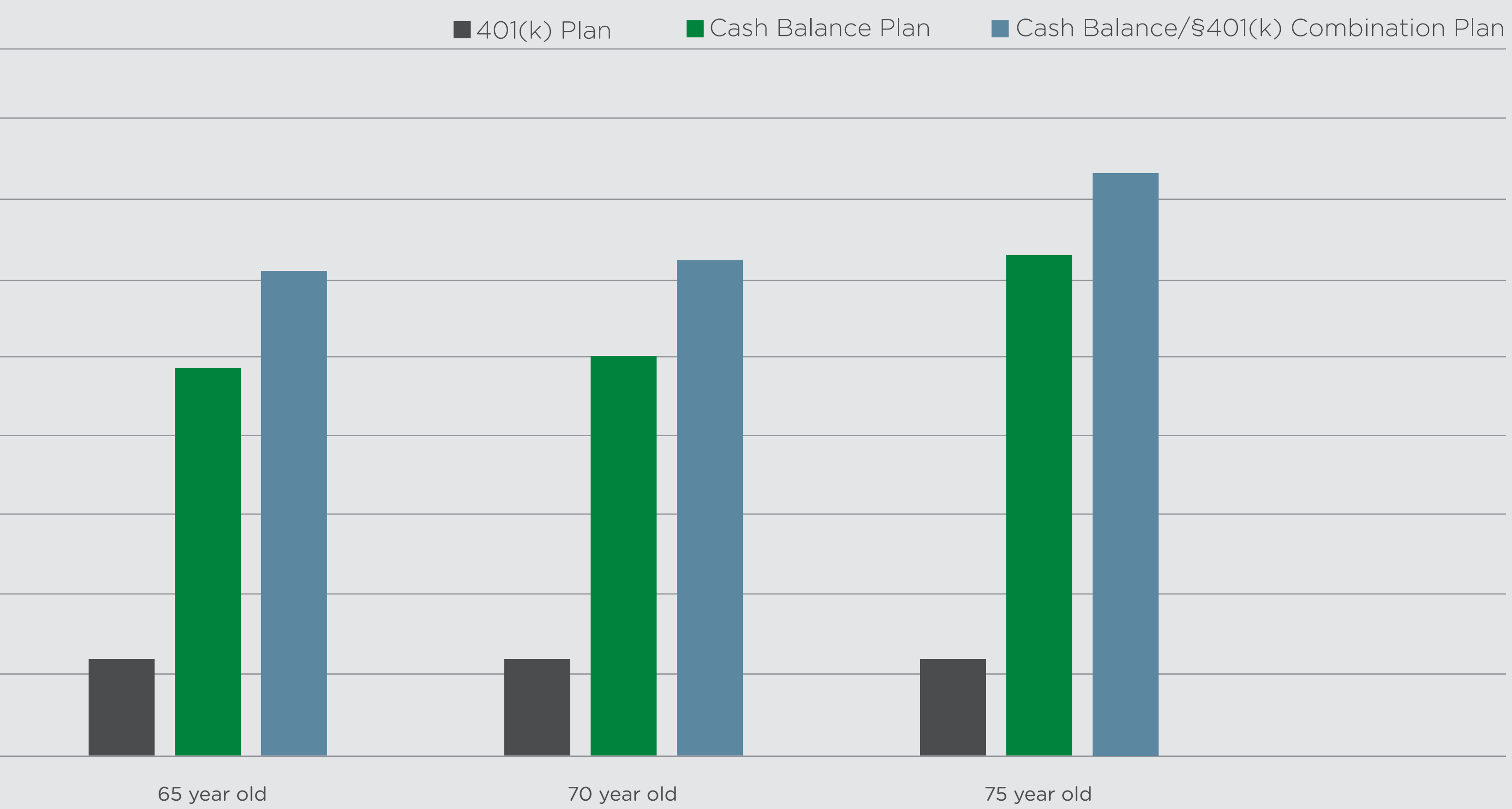
Cash Balance Plans

While traditional final average pay DB plans are becoming increasingly rare, one type of DB plan known as a cash balance plan is surging in popularity, especially among profitable, closely-held professional businesses (e.g. doctors, dentists, lawyers, etc.). The popularity of cash balance plans stems from the ability to generate the very large tax-deductible contributions associated with traditional DB plans, as well as the ability to aggregate them with a 401(k) plan to help achieve complex employer objectives.

For example, an individual 55 years old can receive up to roughly $189,000 in an annual cash balance plan allocation; and up to roughly $249,000 in an annual cash balance/401(k) plan combination. The chart below illustrates the range of maximum contributions possible with these arrangements.

Regulations limit the annual contributions to a DC plan by employers and employees; as well as the amount an employer can tax-deduct each year. These limits are generally based on a percentage of compensation or payroll. For DB plans, rules limit the annual normal retirement benefit that can be promised to a participant such that whatever is required today to fund that promised benefit is a tax-deductible contribution for the employer. Additionally, the amount of compensation that can be recognized in calculating allocations and benefits is also limited.

Traditional DB plans have moved to the wayside over the past 20 years due to many reasons. But, one type of DB plan—the cash balance plan—is more popular than ever due to reduced complexity over its traditional brethren, and because of the large allocations than can be generated when combined with a 401(k) plan.



ESTATE PLANNING MISSTEPS OF THE RICH & FAMOUS

Andrew DelMedico, CFP®
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Like us, celebrities create estate plans to direct the distribution of their assets, minimize estate taxes, and accomplish other goals. Also like us, while the vast majority of celebrity estate planning is sound, celebrities and their advisors are prone to making mistakes. However, for every story about a famous celebrity with an effective estate plan, there are twenty stories that point out the pitfalls of the estate plans (or lack thereof). My theory for the reason behind this is two-fold. For one, the story of conflict, tragedy, and loss from a bad estate plan creates a much more interesting drama than a neat and tidy estate. Secondly, famous estate planning blunders create an opportunity to discuss sometimes mundane estate planning topics in an interesting way. Here are seven celebrity estate planning mistakes and what you can learn from them.

DYING WITHOUT A WILL/ESTATE PLAN

Who Did It?

Prince, Michael Jackson, Abraham Lincoln, Martin Luther King, Jr., Jimi Hendrix, Howard Hughes, Kurt Cobain, Bob Marley, and many others.

Why It Matters

A will is a legal document conveying your wishes in regards to the distribution of property, the care of dependents, and names the individuals you have chosen to execute your wishes. Without a will and/or other estate planning documents, your family and the courts have no way of knowing and/or proving what your wishes were. As a result, the fate of your fortune could be decided in a courtroom, based on the application of state law. This process is called intestate succession.

What Can Happen

When the musician Prince died in April 2016 with an estate valued at between $200 and $300 million, many were shocked to find out that he had no will. Over the next year, more than 45 people (including a prison inmate) came out of the woodwork claiming to be heirs. Ultimately, a Minnesota judge named Prince's six siblings and half-siblings as heirs, though we will never know what Prince's true intentions were. Furthermore, the estate may face combined federal and state estate taxes in the range of $100 to $150 million. While it is virtually impossible for an estate that large to escape estate taxes, estate tax planning could have helped reduce the tax liability by millions.

NOT TELLING ANYONE WHERE TO FIND YOUR WILL

Who Did It?

Florence Griffith Joyner

Why It Matters

A will does no one any good if your executor(s) and heirs cannot find it. A lost or forgotten will is treated the same as if you never had a will at all. In fact, making the mistake of not telling someone where to find your estate planning documents can be worse than not having an estate plan at all since you went through the expense and time to create a plan. To protect against this issue, you should:

1. Store copies in a safe place at home
2. Keep copies in a safety deposit box
3. Ask your attorney to retain electric and physical copies on their systems and in their corporate vault
4. Tell executors and other trusted people who to contact and where to find copies if/when something happens to you

What Can Happen

No one could find a copy of Olympic sprinter Florence Griffith Joyner's will following her death in 1998. As a result, her mother and surviving husband clashed over her wishes. Eventually a judge appointed a third party to administer the estate. However, as a result of the error, relationships were severed, the administration of the estate was delayed for 4 years, significant fees/expenses were likely incurred, and it's unclear whether the final distribution of the estate was even in line with her wishes.

NOT REVIEWING YOUR WILL/ ESTATE DOCUMENTS

Who Did It?

Heath Ledger, Philip Seymour Hoffman, Barry White, Gary Coleman

Why It Matters

Since estate planning documents control everything from the distribution of property to the care of minor children, it is important to review your estate after any significant event. For example, you should review your plan upon the arrival of children and grandchildren, in the event of separation and divorce, moving to a new state, making a significant purchase (especially real estate), etc. and update it if necessary. Estate planning documents often include broad language that accounts for such events, so in many cases it may not be necessary to draft new documents, but you should, at a minimum, review them to be sure. Furthermore, remember to review and update beneficiary designations for retirement plans and insurance policies. Beneficiary designations supersede any direction provided by a will or other estate planning document. Given that a significant portion of many individual's estate is held in retirement accounts or in the form of life insurance, it is vital to ensure proper beneficiary designations.

What Can Happen

Heath Ledger had his estate planning documents drafted prior to the birth of his daughter in 2003. When he died in 2008, his will named his siblings and parents as beneficiaries, but made no provision for children and, of course, made no direct reference to his yet-to-be-born daughter, Matilda Rose. As a result, a very public inter-family battle between Ledger's father and his brothers, who were afraid his father would keep the money, ensued. Fortunately, this story has a positive outcome; his daughter was granted his entire estate. However, the bad blood and negative publicity could have been avoided with a routine update.

TOO MUCH TOO SOON?

Who Did It?

Whitney Houston, James Gandolfini

Why It Matters

As your estate grows, it is important to consider how beneficiaries will receive estate proceeds. If the potential proceeds are not substantial and/or if your benefactors are responsible and mature, it may be reasonable to leave money outright. However, the larger the estate, the greater the potential need to use a trust or trusts for the ultimate benefit of the beneficiaries. With a trust, you name the beneficiaries, set the terms and circumstances under which a beneficiary can access trust assets, and name a trustee or trustees to act as the gatekeeper. Holding assets in trust can safeguard against your beneficiaries (specifically young or immature beneficiaries) making poor decisions and, for example, rapidly spending down the inheritance. Assets inherited in trust can also provide asset protection, for example, shielding assets from creditors and/or divorce. Furthermore, to the extent any of your heirs may be subject to estate taxes in their own right, inheriting assets in trust may allow the trust assets to fall outside of their estate for tax purposes. Finally, trust terms can also dictate what happens to the money if something happens to the beneficiary, thus allowing you, to the extent you desire, to exert greater control over your legacy.

What Can Happen

Whitney Houston's will gave 10% of the estate (roughly $2 million) to her daughter Bobbi Kristina at age 21, one-sixth at age 25 (approximately $3 million), and the remaining $15 million at age 30. While the gradual distribution of the estate is thoughtful and likely prudent when the will was drafted in 1993, the growth of Houston's career and the subsequent growth in the value of the estate over the following 20 years made the dollar figures significant. While only 10% of the estate, there are few 21 year olds I would trust with $2 million. Tragically, Bobbi Kristina died in 2015 at the age of 22.

Given that a significant portion of many individual's estate is held in retirement accounts or in the form of life insurance, it is vital to ensure proper beneficiary designations.

TRYING TO DO IT YOURSELF

Who Did It?

Warren Burger

Why It Matters

Given the cost of working with an attorney and the intimidation factor of going to a law office and discussing your eventual demise, some people try to take a shortcut and write their own estate plans. Given all of the resources the internet provides and "do it yourself" services such as LegalZoom.com, it is more tempting than ever to try to draft your own documents. However, the short-term savings of doing it yourself can pale in comparison to the long-term impact.

Continued >

What Can Happen

When Supreme Court Chief Justice Warren Burger died in 1995, the only estate planning document he had was a brief 176 word will that he typed up himself. While he dedicated his life to the law, he put no special care into preparing an organized and thorough estate plan for his own estate. As a result, his family paid $450,000 in estate taxes that could have been otherwise avoided. Furthermore, since the document failed to address common estate planning issues, executors had to bear the expense and delays of going to court to seek approval even to complete administrative tasks.

NOT PROPERLY CONVEYING YOUR END OF LIFE CARE

Who Did It?

Ted Williams, Casey Kasem

Why It Matters

In addition to updating your wills and trusts for estate tax and estate distribution purposes, it's important to review wills, powers of attorney, health care proxies, and living wills to ensure your affairs can be efficiently handled from a medical and financial perspective. Since relationships change and evolve over time, be sure that the people the documents list to make decisions on your behalf are still the people you want making those decisions. Likewise, always name both a primary and successor agent. Finally, when updating documents, destroy old versions and make it clear that this version is your last and final.

What Can Happen

When Ted Williams died in 2002, his will requested that he be cremated. However, a conflicting document stated that he wanted his body to be cryogenically frozen when he died. A public legal battle amongst family members ensued, eventually ending when one side could no longer keep up with mounting legal bills, even after dipping into retirement savings.

NOT UNDERSTANDING YOUR ESTATE TAX LIABILITY

Who Did It?

Joe Robbie, Pablo Picasso, Michael Jackson

Why It Matters

The number of people subject to estate taxes has declined over the last several years as federal and state estate tax policies have loosened, but it is important to understand your potential tax liability and plan accordingly. Furthermore, even if estate taxes are not an issue, it is smart to have liquid assets available for a surviving spouse or your estate administrators in the event of your demise. Cash on hand decreases the risk of having to sell assets or potentially invade assets that you might otherwise decide to disclaim in order to "pay the bills." Some wealthy people, particularly large business owners or large holders of real estate, are in situations where they have amassed a significant amount of wealth over their lifetime, but have few liquid assets (relatively speaking) to pay estate taxes. While estate taxes can sometimes be paid over a number of years when the asset at hand is a closely held business, it is important to have an understanding of the liquidity necessary and have a plan to provide it (e.g., life insurance).

What Can Happen

When Joe Robbie, owner of the Miami Dolphins, died in 1990, his estate faced an estate tax bill of roughly $45 million dollars. Without sufficient assets to pay the estate taxes, his family was forced to sell the team and the namesake stadium (Joe Robbie Stadium) in July 1994 to foot the bill. Selling the team and the stadium was akin to selling off Joe Robbie's life's work and, in retrospect, the $109 million sale price was a pittance. Forbes recently valued the Miami Dolphins team and stadium (now called Sun Life Stadium) at $1.85 billion.

FOUR SIGNS IT'S TIME TO UPDATE YOUR ESTATE PLAN

Andrew DelMedico, CFP®
Financial Planning Coordinator/Senior Wealth Management Consultant

Everyone has an excuse for putting off a visit to their estate planning attorney. An appointment with your attorney may force you to make difficult decisions, can be expensive, and may evoke fears of death. However, having an effective, up-to-date estate plan is vital to achieving your multi-generational wealth transfer goals. It also plays a key role in minimizing federal and state estate taxes, decreasing the need for public court proceedings (e.g., probate), and avoiding/reducing potentially inflammatory family situations. While a visit to your attorney comes at a cost, dated or out of touch estate plans can be much more costly. The following four signs indicate that it may be time to schedule a visit with your estate planning attorney.

Tax laws have changed.
Federal and state estate tax laws have changed substantially in the last several years. For example, the amount an individual can exclude from federal estate taxes has ranged from $2 million to $5.49 million over the last 10 years, with a short stretch in 2010 where federal estate taxes were repealed. Likewise, the federal estate tax rates have ranged from 0% to 50% over the last 15 years. Furthermore, recent legislation made the amount that can be excluded from estate taxes portable between spouses—effectively simplifying estate tax planning for a large portion of the population. Many states have either repealed the estate tax or made significant changes. In New York, 2014 legislation put a schedule into motion to increase the state estate tax exclusion amount from $1 million to more than $5 million by 2019.

Your goals have changed.
As you progress through life, your estate planning goals are bound to change. Initial goals may focus on providing for your spouse and/or kids in the event something were to happen to you. As your wealth grows, minimizing estate taxes may become more of a concern. Where you grow older, asset protection/health care planning could be an important consideration. Finally, over your lifetime your desire to be charitable and your favored charitable causes may change. It's important to ensure that your estate plan is structured to meet your current goals.

Your life has changed.
There's a good chance that meaningful life events have taken place since you last reviewed your estate plan. For example, children or grandchildren have been born, you/your spouse/a family member have had a significant medical event, you or one of your beneficiaries have gotten married or divorced, important people have entered or left your life, you have retired, moved to another state, you have purchased/sold real estate or a business, etc. Life changes can have a profound impact on how you choose to structure your estate plan. You should, at a minimum, review your plan after any significant event.

It's important to ensure that your estate plan is structured to meet your current goals.

Your circle of trust has changed.
Among the important decisions you have to make when drafting an estate plan is the decision of whom to appoint to make important financial and/or medical decisions on your behalf in the event you become incapacitated or pass away. You must name executor(s) of your will, choose trustees for trusts, appoint potential guardians for minor children, and name agents for health care proxies, powers of attorney, and living wills. While your spouse may be the obvious first choice to serve in those roles, it is important to also name successors in the event your spouse predeceases you and/or is unable for any reason to act in that capacity. The people you feel confident naming to serve in a fiduciary capacity are likely to change over time. Given the important role each of these individuals serves, it is important to review them and update them as necessary. Estate planning is just one of the many areas of financial planning that Manning & Napier's Family Wealth Management team can review for clients.

LET YOUR LEGACY LIVE ON WITH A TRUSTEED IRA

Megan Henry
President, Exeter Trust Company

Many individuals have the enviable burden of owning a significantly large Individual Retirement Account (IRA). They want to have those assets available for the well-being and financial security of their loved ones even after they have passed away. It sounds simple, but anyone living with an IRA knows that IRA rules are anything but – tax deferral status can be compromised if rules aren't followed, and required minimum distributions (RMDs) require that you remember to take money out each year (after reaching the age of 70 ½) or suffer massive tax penalties. Standard beneficiary designations fall short of helping your heirs protect their interests from taxes, creditors, or sometimes even themselves.

Making sure that your IRA assets are properly addressed in your estate tax planning documents is critical. Even if your estate planning attorney is well-versed in how to incorporate your tax-deferred assets in your wealth distribution plan, having IRA and non-IRA assets held in the same family trust can cause unfortunate tax implications. If you want funds available for the lifetime of a loved one (spouse, children, grandchildren, etc.), but also want to control where any remaining funds are allocated after your beneficiary passes, a trust needs to be incorporated into your plan. Using a standard beneficiary designation of naming individuals as "primary" or "contingent" leaves all the decision-making to your heirs, not you.

Making sure that your IRA assets are properly addressed in your estate tax planning documents is critical.

What options do individuals with an IRA have so they can provide for their loved ones and create the legacy they desire?

A Trusteed IRA allows for more control over the disposition of your IRA in a straightforward way by addressing the IRA with its very own trust. It simplifies what can be a complicated process. A Trusteed IRA is a special trust that provides security during an IRA owner's lifetime and beyond, and puts individuals in full control of designating inheritance of IRA assets to heirs and how these assets flow beyond the next generation, all while protecting tax-advantages inherent in a traditional IRA.

By choosing Manning & Napier's Trusteed IRA, we act as the trustee to assure continuity of management of your IRA assets. We also ensure annual RMD requirements are met, even without specific direction from the IRA owner each year to help avoid costly IRS penalties for missed RMDs.

Unlike a traditional IRA, we will work with you to create a proprietary beneficiary designation planning document, outlining how to properly designate your IRA assets amongst your intended heirs. Through this process, you can customize the outcome for each heir, including how, when, and to what extent they can access the funds while managing income tax outcomes. This planning document gives you full control and ability to customize your distribution plan to ensure your legacy lives on. We can also review your proprietary beneficiary designation planning document alongside your current estate tax plan and will work directly with your attorney to review its suitability.

DO I NEED A CORPORATE TRUSTEE?

Tom Lesko, JD
Senior Wealth Management Consultant

Do you need a corporate trustee? It is a question we're frequently asked. While it requires a simple yes or no answer, answering the question requires us to better understand our clients' estate planning goals and what their current estate looks like. For instance, we will often ask questions like: How large is your estate? What kind of assets do you own? Are you in a second marriage? Who are the people or entities you intend to provide for after you die? Do you have concerns about those who would inherit assets from you? Would they be responsible with their inheritance? More importantly we need to know, do you need a trust and if so, who do you know would have the ability to manage and administer the trust after you die? We address all of these questions with our clients when considering estate planning goals.

If a trust is going to be part of your estate plan, choosing a trustee to succeed you is an important decision. You have three trustee options to choose from: an individual trustee, a corporate trustee, or both. There are pros and cons to each option, but careful consideration of the questions above should help you with the decision.

First, it's important to understand a trustee is a fiduciary charged with managing and administering a trust for the benefit of those you intend to leave your estate to. As a fiduciary, a trustee owes the beneficiaries of your estate the following duties:

1. The duty to administer
2. The duty of prudence
3. The duty of loyalty
4. The duty of impartiality
5. The duty to inform
6. The duty of prudent investment
7. The duty to diversify
8. The duty to review original investments at the inception of trusteeship

All of these duties are created by the trust and the laws of the state where the trust is domiciled. They serve as a guide for a trustee to follow while ensuring the interests of the beneficiaries are being met. Each duty imposes a liability upon the trustee to ensure the trustee is devoting the necessary energy and time to the needs and often competing interests of the beneficiaries. Therefore, selecting a trustee requires careful consideration because it may be one of the most important decisions you make in your estate plan.

It is also important to understand the responsibilities that a trustee needs to assume at trustee inception. A trustee has to account for and prudently manage all assets in a trust, including personal property and real estate. They need to understand the intent and wishes of the trust's creator and administer trust assets according to the provisions in the trust. A trustee has to work closely with each of the trust's beneficiaries to set expectations and to establish a working relationship that may last a long time. In addition, a trustee has to provide an accounting at least annually to each beneficiary. It should allocate between income and principal in the trust in order to make distributions to beneficiaries, pay taxes, fees or any other expenses to effectively administer the trust. Finally, the trustee has to file annual federal and state tax returns and complete other tax filings or forms depending on the assets held in the trust. Generally, corporate trustees have the resources and experience to complete these responsibilities and adhere to the duties owed to a trust's beneficiaries.

Other considerations in your planning are the complexity and duration of your estate plan. Corporate trustees provide continuity in the management and administration of a multi-generational trust. For example, appointing an individual trustee to serve in a multi-generational trust arrangement may be problematic if that individual is older. They will not be able to serve as trustee for a long period of time due to the eventualities of death or even possibly incapacity because of their age. Proper arrangements would need to be made in the trust to appoint a successor trustee if the individual trustee is unable to serve.

As you consider your estate plan, it is important to think about the duration of your plan and whether a corporate trustee would be an appropriate fiduciary to help you achieve your estate planning goals. Sometimes the best option is to appoint an individual and a corporate trustee to serve as co-trustees. The individual may have the knowledge of the family and dynamics involved while the corporate trustee can play a key role in the ongoing administration requirements. Manning & Napier's Family Wealth Management Team can assist with your estate planning goals and help identify if your estate plan and planning goals require the services of a corporate trustee.


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You have worked hard to provide for yourself and your family. Let us help provide for you both. Our Trusteed Individual Retirement Account (IRA) is designed to go beyond retirement savings to offer a simple, smart solution to your estate planning needs.
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| Estate & Tax Planning | Investment Management | Trust Services |
Manning & Napier provides investment advisory services to Exeter Trust Company (ETC), Trustee of the Manning & Napier Trusteed IRA. ETC and Manning & Napier are affiliated companies.

DECODING BENEFICIARY DESIGNATIONS

Margaret Jeffries, CFP®
Mid-Market Associate

Maintaining beneficiary designations for your assets is a vital part of the estate planning process. It ensures that your assets will be distributed as you intend upon your death. However, naming beneficiaries isn't always a straightforward process.

First, it's important to understand how beneficiary designations operate within an estate plan. Namely, they serve as "will substitutes" and supersede the directives outlined in a will. Any assets directed to a beneficiary by way of a will substitute will be transferred outside of the probate process (a legal process for determining whether a will is valid and the general administering of a deceased person's will).

> Naming beneficiaries isn't always a straightforward process.

This can allow assets to be distributed more quickly, as probate can take time, and can avoid any costs associated with the probate process. Furthermore, a benefit of naming beneficiaries outside of a will is that the designations will not be reviewable by the court prior to the assets being paid to the beneficiaries. This may also be a disadvantage, however, if you forget to update your beneficiaries, such as leaving an ex-spouse as a beneficiary or leaving certain family members off the designation.

Many people are familiar with beneficiary designations related to retirement plans, IRAs, or life insurance policies. But there are similar will substitute techniques available for direct personal taxable assets, such as investment accounts. These include placing assets in trust, adding Transfer on Death (TOD) or Payable on Death (POD) designations, and owning assets jointly with another individual.

Continued >

JOINT TENANCY WITH RIGHTS OF SURVIVORSHIP (JTWROS)	TRANSFER ON DEATH (TOD) PAYABLE ON DEATH (POD)	TRUSTS
Beneficiary Designation or Form of Ownership?		
Form of Ownership	Beneficiary Designation	Both
Assets it Applies To		
Specific assets owned jointly	Specific Investment Account (TOD) or Bank Account (POD) - individually or jointly owned	Specific assets placed in the name of the Trust
Documents Required		
None	TOD or POD Form - Custodian or Bank to provide	Trust Document - Attorney to draft
Effective Date		
Upon assets being titled jointly	Upon death	Upon placing assets in Trust; may be revocable
Subject to Gift Tax?		
Yes, if non-spouse under certain circumstances	No	Depends on type of Trust
Subject to Estate Tax?		
Yes, if non-spouse	Yes	Depends on type of Trust
Who has Authority Over the Assets?		
During Life: Either Owner After Last Owner's Death: Last Owner's Executor	During Life: Owner(s) After Death: Beneficiary	Trustee(s) - can be the owner

Joint Ownership (JTWROS)

This is an ownership method whereby two or more individuals will own equal shares of an asset. If one owner dies, his or her ownership stake will transfer to the surviving owner(s). It's important to note that ownership is equal regardless of the amount each owner paid for the asset. As a result, if someone other than a spouse is added as joint owner, then a portion of the assets can be subject to gift taxes. Non-spouse joint owners also can be subject to possible estate taxes upon either owner's death.

Transfer on Death (TOD) and Payable On Death (POD)

These are very similar to beneficiary designations for retirement accounts and IRAs. The beneficiaries do not own any portion of the assets prior to your death, meaning there are no gift tax implications and you can change or remove the beneficiaries at any time. Upon the owner's death, the assets will be transferred to the beneficiaries outright. Any assets left to a non-spouse can be subject to possible estate taxes.

Trusts

A trust document allows the grantor, the creator of the trust, to name themselves or others as trustees to maintain the trust assets and to name the beneficiaries that will receive the trust assets when certain criteria are met. In general, a trust can be revocable, allowing the grantor to make changes to or fully terminate the trust prior to their death, or irrevocable, which generally cannot be modified or terminated by the grantor once established. Specific language within the trust document will determine the type of trust established, and there are different gift and estate tax implications for each. As a result, the trust document should be drafted by an attorney and you should consult with a CPA or financial planning professional before placing any assets in trust.

No matter which estate planning technique is used, whether it's creating a will or incorporating will substitutes, it's important to understand how they fit within an overall estate plan and be diligent about periodically reviewing beneficiary designations and revising them if legislation or personal circumstances change.

FIVE WAYS TO DO GOOD WITH YOUR DOLLARS

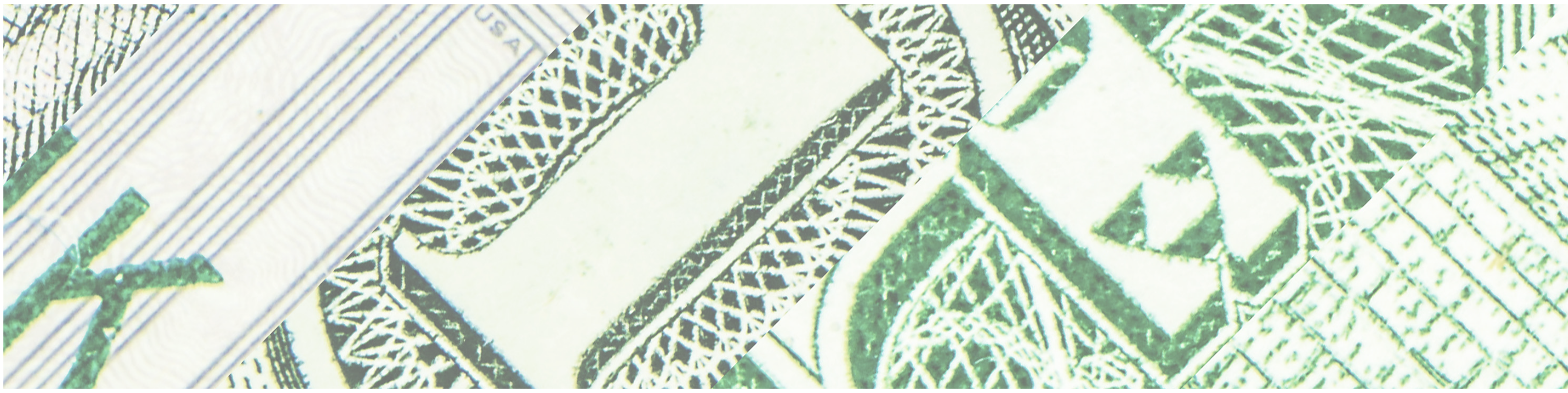
James Ebenhoch
Endowment/Foundation Consultant

There are many ways donors can pass on a substantial amount of their assets to charity. If used effectively, charitable giving can be an important part of an individual's financial plan to benefit the donor, their beneficiaries, and the charity.

As with any area of financial planning, it's important to establish a goal and determine what the donor wants to accomplish. Is their ultimate goal to gain an income stream from the charitable gift? Pass along wealth to their heirs? For instance, donors may choose between a charitable giving vehicle which provides them with an income stream each year from the income interest, or another option, which allows them to transfer wealth to their heirs from the remainder interest.

There are five commonly used giving methods, all with pros and cons relating to income generation, taxable savings, donor control, and the benefit to the charity. Understanding these giving methods can help donors decide which is best suited to help them achieve their own financial goals.

A donor working closely with a financial advisor can determine which one of these charitable giving options provides personal & financial benefits, and how to make the greatest impact upon the charitable organizations they care about most.



1. SPLIT INTEREST TRUSTS

Vehicles producing a stream of income can benefit both the donor or the donor's beneficiaries and a charitable organization. There are two main types:

Charitable Remainder Trust

An irrevocable trust in which a donor transfers assets to a trustee, and over a period of time the donor or designated beneficiaries receive an annual payment. This payment can be either a fixed amount determined at the trust's inception (annuity trust), or a variable amount determined as a percentage of the trust's ongoing market value (unitrust). Once the specified period of time has passed, the remainder of the principal goes to one or more charities.

Charitable Lead Trust

This is essentially the reverse of a charitable remainder trust. Rather than paying the donor or designated beneficiaries an annual annuity, that annuity payment is paid to a designated charity. The remaining principle at the end of the trust's term is passed to the donor's non-charitable beneficiaries.

Advantages

- Donor, beneficiary, or the charity receives an income stream for a number of years
- Donor has flexibility to change which charity the trust ultimately benefits
- Can provide donor with an income tax deduction (CRT)
- Removes assets from donor's estate, allowing for potential estate and gift tax savings
- There may be opportunities to avoid capital gains taxes on appreciated securities used to fund the gift, depending on the structure of the trust

Disadvantages

- Loss of control over assets
- May not qualify for an income tax deduction under certain structures
- Length of these trusts cannot exceed 20 years or the donor's life expectancy
- Fees associated with establishment of a trust and administrative fees

2. POOLED INCOME FUND

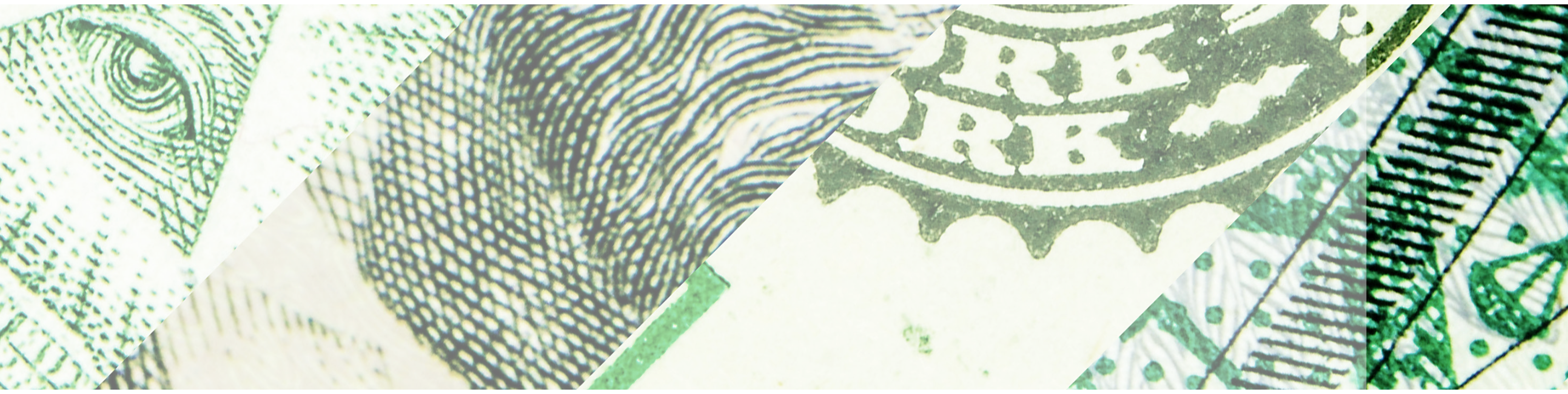
An irrevocable trust that is run by a charitable organization. Based on the value of the assets transferred to the fund, the donor receives a shared interest of the fund and receives income proportional to their interest. Upon the death of the donor or designated beneficiaries, the charity receives the donor's portion of the principal.

Advantages

- Donor can avoid capital gains tax on appreciated assets that are donated to the fund
- Removes assets from donor's taxable estate
- Gives the donor a current income tax deduction
- Provides donor with a stream of income each year
- No establishment or administrative fees
- Income received may increase based on favorable market fluctuations
- Donor is able to make multiple gifts

Disadvantages

- Donor is not able to change the charity
- Loss of control of assets
- Heirs do not have access to assets
- Income received may decrease based on unfavorable market fluctuations



3. PRIVATE FOUNDATIONS

A non-governmental, non-profit organization which is generally created by donations from an individual, family, or corporation; programs are managed by its own trustees or directors.

Advantages

- Donor can avoid capital gains tax on appreciated assets that are donated to the fund
- Removes assets from donor's taxable estate
- Gives donor a current income tax deduction
- Gives donor complete control over which charities receive funds and the amount they receive
- Helps create a family legacy for future generations

Disadvantages

- Does not provide donor with annual income payments
- Strict operating rules
- Generally high establishment cost and administrative fees relative to other charitable options
- Must distribute 5% of fair market value of assets annually
- Does not allow for donor anonymity

4. DONOR ADVISED FUND

A separately identified fund or account maintained and operated by a public charity. The donor plays an advisory role in the distribution of the funds they have donated (i.e., suggesting which charities receive funds and the amount each charity receives).

Advantages

- Donor can avoid capital gains tax on appreciated assets that are donated to the fund
- Removes assets from donor's taxable estate
- Gives donor a current income tax deduction
- Gives donor a say in which charities benefit from the fund
- Allows donor to make multiple gifts
- Allows for donor anonymity
- No setup costs

Disadvantages

- Does not provide donor with annual income payments
- May be ongoing administrative and management fees
- Slightly less control compared to a private foundation in terms of investments and distributing assets

5. BEQUEST INTENTIONS

Donors make a provision in their will that a gift will be paid to a non-profit upon their death or the death of their survivors. Donors can give the charity of their choice a specific bequest—a specific dollar amount or item of property—or a residual bequest—a percentage of the balance remaining in their estate after taxes and expenses are paid. Donors can also use their bequest for a particular program or activity at the organization, or allow that organization to use it at their discretion.

Advantages

- No immediate outlay of assets
- Donor has complete control over which charities receive funds and the amount they receive
- Donor would receive a step-up in basis at death; removes assets from donor's taxable estate and therefore reduces a donor's potential estate tax burden
- Allows for donor anonymity
- Allows for donor to benefit multiple charities
- No fees and maintenance

Disadvantages

- Does not provide donor with annual income payments
- No income tax deduction
- Assets do not transfer ownership until the donor passes away
- Unlike a foundation or a donor advised fund, there is no flexibility to make multiple gifts over a period of years; a bequest provides for a one-time gift

WHAT YOU CAN DO WITH EXCESS 529 PLAN FUNDS

Andrew DelMedico, CFP®
Financial Planning Coordinator/Senior Wealth Management Consultant

529 Plans are widely touted as the most effective way to save for college education expenses. Contributions to a 529 plan may be state income tax deductible, grow federal and state tax-free, and can be withdrawn federal and state tax-free if used for qualifying higher education expenses (e.g., tuition, room & board, books, supplies, computers, software, equipment). However, as the use of 529 plans has proliferated, more people are facing a situation where a portion of the balance may not be needed for college.

The variables involved in planning for college expenses make it tricky to save just the right amount to cover future costs. For example, factors such as future tuition inflation levels, scholarships, your child's decision to attend a public vs. a private institution, to attend an in-state vs. out-of-state institution (or attend college at all), and inevitable variability in future investment returns all make planning for college expenses a difficult task. Luckily, while some minor child savings vehicles require that the assets are turned over to the child at a particular age, 529 plans allow the account owner to maintain control. Furthermore, 529 plans provide several avenues to divert/divest excess or unused plan balances. Potential options are listed below.

1. Change the beneficiary of the 529 account to a qualifying family member to cover their future education costs. Account owners are able to name an eligible family member as beneficiary without triggering a taxable distribution. Qualifying family members include siblings, parents, cousins, nieces, nephews, aunts, uncles, grandparents, and spouses of the beneficiary.

2. Leave the money in the current 529 account and allow it to continue to grow tax-free. This strategy may be useful for beneficiaries who choose to go to college (or back to college) later in life. Some people also pursue this approach with the intention of naming a yet-to-be-born grandchild as the beneficiary in the future. We typically encourage the practice of spending taxable (after-tax) dollars first to allow retirement accounts to grow on a tax-advantaged basis for as long as possible. The same concept holds true for college funds. Allowing the balance to grow tax-free within the 529 account for a generation could result in significant growth between now and the time your grandchild attends college.

3. Pay for trade or vocational school or a career-training program if your child/children elect to go that route instead. While 529 plans have been dubbed as college savings plans, a variety of post-secondary training and education programs qualify.

4. Take a non-qualified distribution from the account. If the potential solutions above are not appealing options, you have the ability to liquidate all or a portion of the built-up dollars within a 529 account. Initial contributions are returned to you tax and penalty free. In the event of a non-qualified distribution, any gains accrued within the account are subject to income taxes, plus a 10% penalty. While the income tax liability and penalty charged on the gains is undesirable, consider that under this situation you have potentially received years of tax-deferred growth. Furthermore, it is important to note that, in the case of a scholarship, the 10% penalty is waived.

As you can see, there are several benefits to using a 529 plan and multiple ways to continue using 529 assets even if the intended student doesn't require all of the account.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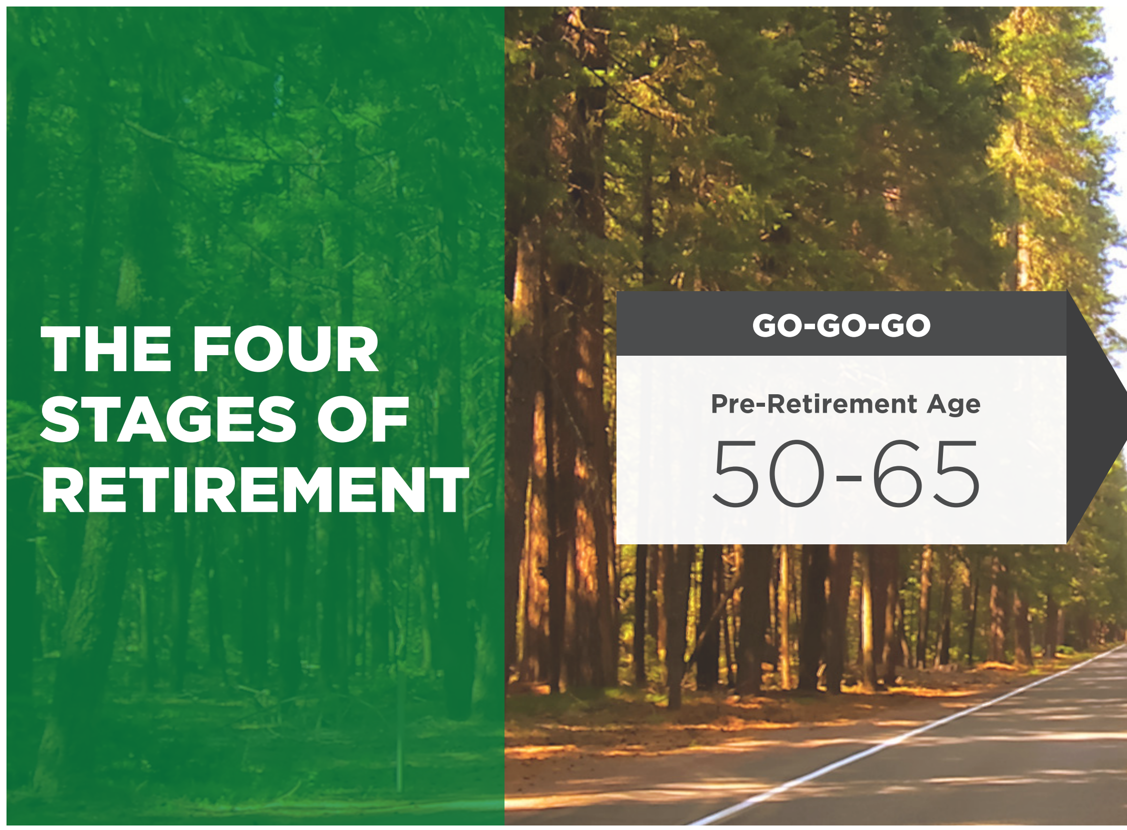
PREPARING YOUR PORTFOLIO FOR RETIREMENT

George Marron, JD, CFP®
Senior Wealth Management Consultant

George Marron, JD, CFP®
Senior Wealth Management Consultant

We often talk about retirement as having four stages: Pre-Retirement (the 'go-go-go' years of 50-65), Early Retirement (the 'go-go' years from retirement age to 75), Middle Retirement (the 'slow-go' years of 75-85), and Late Retirement (85-100; some call these the 'no-go years' but we prefer 'slower go'). As you proceed through these stages, your life and personal goals and objectives will change. So too, you should reassess and update your financial plan—portfolio management, asset allocation, health and life insurance, and estate plan—to meet your needs.

Early Retirement is a substantial transition period—socially, emotionally, psychologically, and financially. For many people, the transition from "net saver" to "net spender" is formidable. Your social life changes quickly. On top of that, there is an endless supply of world news, financial news, "expert advice," talking heads, and other static on the television, radio, and internet. The transition from Pre-Retirement to Early Retirement is a time to focus on your financial plan, especially your spending plan, asset allocation, and portfolio management. These decisions should be driven by a focus on your personal needs relative to your investment assets, time horizon, magnitude of withdrawals, and your risk capacity.



Spending Plan

Your spending need is perhaps the most significant factor in your financial plan. Your spending need will determine the minimum return necessary for your investment portfolio to last over your lifetime. Once the minimum return is determined, you can build a portfolio to target that minimum return while managing risk.

Sometimes, the minimum return requires growth (i.e., a higher equity allocation and higher risk factor). Risk should be viewed from the perspective of both risk tolerance and risk capacity. Risk tolerance is the risk of loss you are willing to accept. Risk capacity is the capital loss that you can handle without substantially changing your lifestyle. Sometimes there is a significant difference between a client's risk tolerance and risk capacity. This should be explored so that your investment portfolio is managed to the appropriate risk level. You may even determine to expand your risk tolerance because you actually have a higher risk capacity than you perceive.

If the minimum return requires more risk than you are willing to accept, then the spending plan needs to be reduced in order to develop a proper portfolio. The alternative is to work longer and delay retirement. At other times, non-investment income such as social security, pension, rental income, or consulting income may lower your minimum return and the dependency on early withdrawals from your investment accounts.

This may enable you to have a less growth-oriented account or perhaps an even more growth-oriented account because you can take on more risk and your goal is to spend a little more on grandchildren or increase your estate. Either way, it is important to understand your sources of income, your fixed spending needs, and your variable spending needs—including health insurance and expenses—at this stage.

Additionally, it is critical to understand the nature of your accounts and to give consideration to the income tax ramification of withdrawals. This will allow you to maximize the value of tax deferral in your accounts and

See page 54 for sources and disclosures.

take advantage of potential retirement account rollovers, Roth conversions, or both. Developing an accurate, well-thought out spending plan is a crucial step to inform your asset allocation and portfolio management decisions.

Asset Allocation

Establishing the appropriate asset allocation for a portfolio is widely considered to be the most important factor in determining whether investment goals will be achieved. In fact, studies have shown that more than 90% of the variability in a portfolio's return can be attributed to the asset allocation decision.[1] Historically, a fairly popular asset allocation rule of thumb was to subtract your age from 100 and to use the difference as your equity allocation.[2] For example, if you are 60 years old, you would subtract 60 from 100, resulting in an equity allocation of 40%.

More recently, perhaps due to the low interest rate environment, a new version of this formula has become popular: hold 120 minus age in stocks.

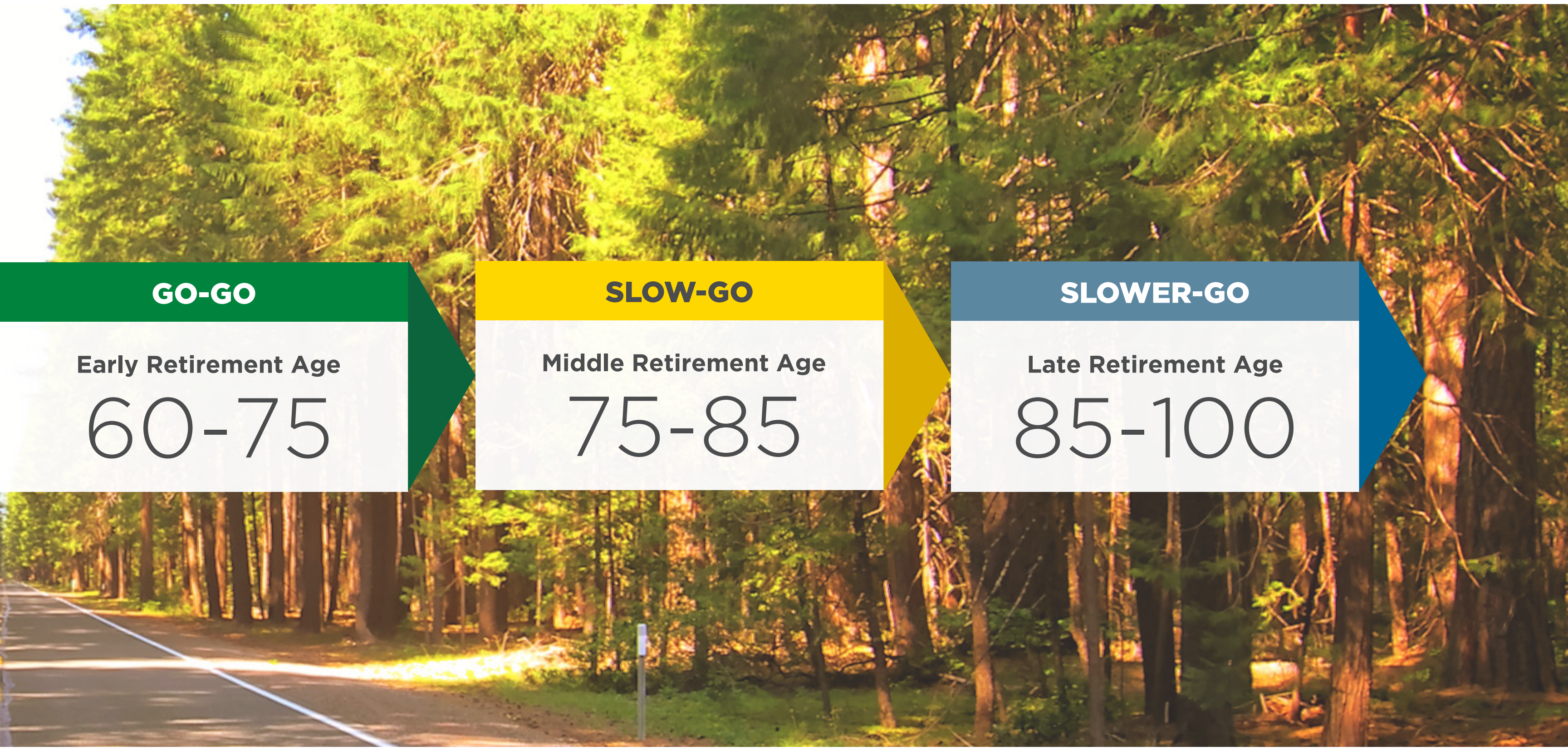
Are either of these 'rules of thumb' wrong? Not necessarily, but they are not great either. They both identify a need for equity at younger ages and a need to reduce equity exposure, and presumably capital risk, as we age. That's the good news. The bad news is that neither tie back to your spending need, income sources, personal goals, or risk capacity. They are completely impersonal. Secondly, these rules of thumb are static and diversification agnostic. They do not allow for any meaningful equity range to take advantage of buying opportunities or to sell when valuations are high. In other words, these rules do not account for changing market conditions and leave all of the asset management/ rebalancing decisions to the individual investor.

Interestingly, individual investors' returns tend to lag behind the published mutual fund returns that they invest in. This is because individuals have a hard time staying disciplined to the process, and tend to make changes to their investments at inopportune times.

Lastly, these allocation rules say nothing of diversification. Asset allocation is more than selecting a generic percentage of equities and a generic percentage of fixed income. Within each of these categories are many sectors which will have a significant impact on both risk management and return for the investment portfolio.

What does this mean for the transition from Pre-Retirement to Early Retirement? Given this is a period where we often hear, "I have earned it, and I can't afford to lose it," you should give full consideration to active asset allocation. It is critical to have an active asset allocation plan for making adjustments to your portfolio to meet your spending needs as the market environment changes.

Generally, we will develop an asset allocation that enables the entire portfolio to adjust meaningfully to changing market conditions. Depending on risk tolerance and capacity, portfolio values, non-investment income, and the values of taxable versus retirement portfolios, we may recommend one or two investment objectives designed to provide an adequate equity range for making adjustments while meeting your withdrawal needs.



Alternatively, depending on those same factors, we may recommend viewing your accounts as long-term, mid-term, and short-term buckets and adjusting the asset allocation within each bucket of accounts according to those time horizons. The critical issue is to develop a personal asset allocation which reflects your goals, objectives, time horizon, and risk profile.

Portfolio Management

Over the last few years, there has been a substantial debate about the 'right' type of investment portfolio management—active vs. passive investment management, indexing, and quite often, management fees. Frankly, this larger debate tends to be stuck in a vacuum. It is somewhat misguided and removed from the realities that face retirees—especially when you need to use your savings. The debate focuses on active management fees relative to lower cost indices and performance relative to benchmark returns. This debate misses the point of portfolio management—namely, to manage risk while meeting client goals. The debate moves the value proposition solely to investment performance relative to cost without any thought as to the value of retirement/investment planning, risk management, tax planning, insurance, and estate guidance.

Most retirees are not physicians, dentists, accountants, or lawyers—yet they probably could treat their own illnesses, maybe pull teeth, do their taxes, and write their wills. The value of their efforts might vary from the results when a professional does the work. Similarly, the true value of portfolio management will differ greatly. Your portfolio management decision should be one focused on time horizon, risk management, withdrawal needs, and your personal comfort with making investment decisions in the context of all of the other retirement and life transition issues that surround you.

Manning & Napier offers a variety of active portfolio management styles which are informed by the changing macroeconomic environment. They may also incorporate bottom-up proprietary security selection, factor based security selection, and managed ETF portfolios. All of these involve varying degrees of active management. We believe that active portfolio management is best suited to help retirees to meet their goals in Early Retirement because it utilizes a disciplined, process-driven approach which adjusts in changing market environments.

While there are plenty of retirement planning 'rules of thumb,' the truth is that most of us only get one shot at retirement.

A truly passive portfolio cannot do that without input from the account owner, and it may be difficult for an Early Retiree to make prudent investment decisions at a time of significant personal transition, especially if there is a critical market event triggering decision making.

While there are plenty of retirement planning 'rules of thumb' and a healthy academic debate about portfolio management, the truth is that most of us only get one shot at retirement. There is real value in seeking out professional investment management advice to develop a comprehensive, personal financial plan which addresses your financial, retirement, insurance, tax, and estate planning needs through all phases of retirement.

Further, during the transition into Early Retirement, we believe it is essential to take an active management approach. This will ensure your investment decisions and planning process are disciplined and designed to guide you through the go-go-go retirement years enjoyably and with peace of mind.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GIFTING TO MINORS IS MORE THAN JUST CHILD'S PLAY

Veronica VanNest, JD
Senior Wealth Management Consultant

It's common for parents and grandparents to make significant financial gifts to their children and grandchildren, whether for estate tax planning reasons or just out of sheer generosity. Because minors can generally not own property in their own name, one of the more common ways that gifts are made to minors is to create Uniform Gifts to Minors Act ("UGMA")/Uniform Transfers to Minors Act ("UTMA") accounts. These accounts are so titled because of the statutes in each state governing their existence.

These accounts are created with a custodian who is generally the parent or grandparent of the minor child, but the account is opened with the social security number of the child. The child is taxed on the income earned on the account even though the minor child cannot have full access to the assets in the account until they reach the age of majority. That age of majority is either 18 or 21, depending on the state of residence. Until that time, the custodian of the account manages the account for the benefit of the minor child, and may make distributions for that minor child's benefit. Once the child reaches the age of majority, they may then withdraw the entire amount and open an account in their individual name with no oversight by the parent or grandparent who created the original account. Depending on the size of the account, this may be a concern to the individual creating the account.

> Depending on the parents' income tax rate, the tax liability could be substantial.

Because the child is actually the owner of the account, the account would be considered as an asset of the child which may affect his or her ability to receive financial aid, should he or she apply to college. In addition, there are income tax consequences to the child for owning such an account as well as potential income tax consequences to the parents of the child, regardless if that parent is or is not the custodian of that account. Nonetheless, such accounts have historically been used to shift wealth to younger generations because of the "kiddie tax."

The "kiddie tax" applies to unearned income a child receives. This tax only applies to income received by a child from income-producing property—it does not apply to any income earned by the child as salary or wages. Currently, the first $1,050 of unearned income to the child is tax free. The second $1,050 of unearned income is taxed at the child's income tax rate, and any unearned income over $2,100 is taxed at the parents' income tax rate. Depending on the parents' income tax rate, the tax liability could be substantial. However, because the first $2,100 of unearned income has some beneficial tax treatment, many parents and grandparents will use such accounts to gain some favorable income tax treatment instead of retaining the funds in their own names.

When establishing UGMA/UTMA account for a minor child, there are several considerations, not the least of which is the potential income tax liability of both the child and the parent. However, such accounts are generally a good vehicle to pass wealth onto the next generation if the individual establishing the account has no concerns with the child or grandchild receiving the entire account at the age of majority.

PLANNING STRATEGIES FOR HIGHLY APPRECIATED STOCK

Ethan McKenney, CFP®
Senior Wealth Management Consultant

After eight consecutive years of positive returns for the S&P 500 Index, the U.S. stock market is up almost 300% since it bottomed out in March 2009. While the market may continue to rise, the risk/reward tradeoff of continuing to hold many securities is becoming less favorable. With this in mind, now may be a good time for investors to consider liquidating some highly appreciated stocks. Here are common questions we hear when investors consider liquidating highly appreciated stocks.

If continuing to hold the stock for investment purposes no longer makes sense, what taxes are due if I sell the security?

Based on current tax law, if stock is held until death, the individual inheriting the stock will receive it with a stepped-up cost basis, eliminating the embedded gain. However, holding a stock until death just to receive preferential tax treatment may not always be feasible.

When a security is held for more than one year, it is taxed as a long-term capital gain when it is sold. Federal tax on long-term capital gains can be as low as 0% (for married couples filing joint tax returns with adjusted gross income below $75,900) and as high as 23.8% (for married couples filing joint tax returns with adjusted gross income above $470,700).

What do I need to consider if I decide to sell a security?

First, rather than liquidating all of the shares at once, it might make sense to partially liquidate the security over multiple tax years. Partially liquidating a security will reduce the tax burden by spreading the realized gains over multiple years, making it less likely the capital gains will be taxed at a higher marginal rate. If it makes sense to sell the security in full all in one tax year, other securities may be sold at a loss during that year to offset some of the gains.

What are other approaches that may result in meaningful tax savings?

Individuals making cash gifts to family and friends may be able to reduce their tax burden by gifting appreciated stock. When a security is gifted from one individual to another, the cost basis of the security is transferred (i.e., no gains are realized at the time of the gift).

If the inheritor of the gift chooses to sell the security once it is received, it is taxed at the inheritor's tax rate. Since most gifts are often made from a wealthier person in a higher tax bracket to somebody that often pays less in taxes, gifting highly appreciated stock may be an effective strategy.

STRATEGY 1

Let's say an individual has $13,000 of stock with $3,000 cost basis, an additional $3,000 in cash, and they want to gift $14,000 in total to their child. If their long-term capital gains tax rate is 20%, they would owe $2,000 in capital gains taxes by selling the stock, leaving them with $14,000 in total cash which they could gift.

In contrast, the individual could gift the $13,000 in stock and $1,000 in cash. If their child is in a low tax bracket, their child could sell the stock and possibly not pay any capital gains tax, leaving the child with $14,000 in cash, while the parent keeps $2,000 in cash as tax savings.

Lastly, for those who are charitably inclined, giving appreciated stock to charity is a way to avoid capital gains tax altogether and also provides for a charitable deduction.

STRATEGY 2

Let's assume again that an investor has $13,000 in stock with a $3,000 cost basis and that they have held the stock for more than one year.

If they are considering giving $13,000 to charity, they would be better off by gifting the stock instead of selling it and paying the taxes, as stock given to charity avoids taxation (thus avoiding the $2,000 in capital gains taxes discussed in Strategy 1).

If they itemize deductions, they can also take advantage of the charitable deduction. Specifically, they could deduct the $13,000 charitable gift from income (charitable gifts of this type can be deducted up to 30% of AGI).

Therefore, if they are in the 33% income tax bracket (different from capital gains tax brackets), they may be able to save an additional $4,290 in income taxes. So in total, their tax savings may equal roughly $6,290.

Prior to liquidating a security, investors should weigh the investment merits of continuing to hold the position for future appreciation versus the tax ramifications of liquidating the security today. Does this stock account for a significant portion of the investor's wealth, and will detrimental performance of the security impact the investor's ability to meet their spending needs? Is the security priced well and positioned in an industry that is expected to grow?

As these examples show, there are ways that investors can address other planning goals and divest themselves from highly appreciated securities without paying significant amounts of tax.

TAX TIPS FOR TODAY'S ENVIRONMENT

Dana Vosburgh, CFP®
Director, Family Wealth Management

Benjamin Franklin famously said that there is nothing certain in this world except death and taxes. Investors commonly perceive taxes as being too high, too complex, and requiring a lot of annual planning. This viewpoint helped to form the basis for one of President Trump's key campaign promises in 2016—pursuing comprehensive tax reform.

Tax reform is now at the forefront of the news, which leads to conversations with clients about the tax efficiency of investment accounts, when and how to sell highly appreciated securities, and tax strategies based on possible legislative changes, to name a few. Here are some general planning tips we've been discussing with our clients to help provide perspective when balancing the need for risk management and tax management.

GENERAL TAX TIPS (FROM AN INVESTMENT PERSPECTIVE)

Understand the right balance when planning

An investment manager's main objective is to manage toward a client's investment goals and manage risk over a specific time horizon. A tax accountant's main objective is generally to minimize taxes, file tax returns, and provide tax advice. These two objectives can at times conflict, as investments that generate income and/or appreciate in value will create more taxes.

Never let the tax tail wag the investment dog

It's prudent to be tax conscious, but being overly tax-sensitive can be counterproductive. For instance, avoiding certain investment decisions in order to avoid the corresponding tax liability (e.g., delaying the sale of highly appreciated stock) can expose a portfolio to risks that might ultimately exceed the amount of the tax and/or can result in meaningful opportunity cost.

INCOME TAX TIPS

Set a plan for how and when to access different pools of assets

In order to defer income tax, it's typically beneficial to take initial portfolio withdrawals from taxable assets in order to allow retirement plan accounts/IRAs the ability to grow tax-deferred for as long as possible.

Be sure to invest according to each pool's time horizon

Different pools of assets (e.g., taxable accounts vs. tax-deferred accounts) may face meaningfully different withdrawal demands. It's important for each pool to be invested appropriately given taxable accounts are likely to shoulder a majority of the withdrawals, especially early in retirement.

Monitor Required Minimum Distributions

A person with a large IRA and facing Required Minimum Distributions (RMDs) at age 70½ might pay higher income taxes as they get older compared to before RMDs began. This is because the IRA owner is forced to withdraw a larger percentage of the IRA each year and the full withdrawal is often reported as income (unless there were after-tax contributions). Coordinated tax planning with your accountant and investment manager(s) in early retirement can help mitigate this concern.

Pay attention to the tax-equivalent yield on municipal bonds

Despite the tax free income, municipal bonds aren't always the best choice for a taxable portfolio. It's important to consider yields of taxable bonds and understand a municipal bond's relative tax equivalent yield. Municipal bonds may be beneficial on a tax equivalent basis versus Treasuries, or for investors in higher income tax brackets; however, the benefit may be muted at lower tax rates.

Know when it's right to "take chips off the table"

Currently, there are three ways to avoid paying capital gains tax: 1) wait until the market takes the gains away, 2) give the appreciated asset to charity, or 3) die (assuming the step-up in basis still exists). Avoiding selling highly appreciated (or even slightly appreciated) securities can defer taxes, but any potential growth is only on paper. If you need to access that money, you will have to sell stocks and realize gains. Holding a security or index without regard for its ongoing value can increase an investor's risk exposure and put the entire investment at risk in order to avoid a smaller amount of tax.

Measure the tax versus the total investment; this can put the tax liability into context

There are potential tax implications of selling securities and transferring assets in order to make portfolio adjustments or to establish a new and more appropriate investment strategy. A general ballpark calculation of capital gains tax is to multiply the unrealized gain in the account/security by the long-term capital gains tax rate (federal and state combined). It's possible that this dollar figure looks large, but it's helpful to divide that estimated tax amount by the account/security value to understand the true impact of the transfer (and remove the perception of "a lot of money" out of the equation). If the percentage is relatively small, say 3%, keep in mind that it's not uncommon for the market to lose 3% in just a week.

Understand the timing of taxable transactions to reduce surprises

There may be years when you have high returns and low capital gains taxes or low returns and high capital gains taxes. This isn't an issue with tax-efficiency but rather the nature of active management and timing. It's entirely logical to have large realized gains 1-2 years following strong returns as many securities will have reached sell price targets. The strong returns don't continue indefinitely, so there is a meaningful chance for high realized gains in a tax year when returns are somewhat muted. Over time, the taxes average out.

Don't overdo tax-loss selling (i.e., selling a security at a loss to offset realized gains from other investments)

When you sell a security at a loss you can't take the loss if you buy the same or a nearly identical security back for within 30 days (known as the Wash Sale Rule). The IRS doesn't want investors to benefit from a loss (offsetting gains) and immediately buy the security back. While the savings created by the tax-loss sale may appear attractive, it may actually turn out to be less than the opportunity cost associated with the decision. For example, if the security is trading down resulting in undervaluation, then a tax-loss sale could cost an opportunity for additional investment in the security.

Plan carefully when using a replacement security

A common strategy to avoid a wash sale and stay in the market (to benefit from potential growth) is to buy a "replacement security" after a stock is sold for a loss. The replacement security must not be considered a substantially identical security to comply with the rule, so investors often purchase index funds.

If you sell a stock at a loss and purchase an equity index fund as a replacement, any appreciation in that index fund will be considered short-term (and face less favorable short-term capital gains tax rates if sold) before a full year. If the objective was to sell a security at a loss to offset a gain and reduce taxes, you've either generated a higher tax liability (short-term capital gains are taxed at higher income tax rates) or you've forced yourself to own a security you didn't necessarily want for at least an entire year to avoid the higher tax. Rather than holding the proceeds from the tax loss sale in cash and waiting 31 days, the index fund could experience meaningful price volatility and the value could go down (unlike holding cash). Either way, it may just be better to sell at a loss and wait the 31 days in cash.

Taxes generated by an investment portfolio can be viewed as one of the main trade-offs associated with investing money. It's impossible to know whether certain tax planning decisions will truly be beneficial and result in greater wealth ahead of time. We believe it is important to work with clients to make tax-conscious decisions as part of the overall planning process. Our main goal is to identify investment solutions that will help our clients meet their long-term investment objectives, while guiding them down a path that balances the conflicting goals of increasing wealth (net of taxes) and managing against risks that can jeopardize achieving their goals.

We know very few people enjoy paying taxes, but paying taxes doesn't have to be viewed as purely negative either. We believe it's important to understand a client's overall objective, acknowledge the trade-offs that exist, and set a strategy focused on achieving goals, while being flexible to adapt to changes.

Consult with an attorney or a tax or financial advisor regarding your specific legal, tax, estate planning, or financial situation. Examples are provided for illustrative purposes only. All investment strategies involve risks and there is no guarantee of a profit, or protection against a loss. Past performance does not guarantee future results. Please note, certain account minimums may apply to be eligible for Manning & Napier's family wealth management and Endowment and Foundation services.

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[1]As an example, "Determinants of Portfolio Performance II, An Update" published in the May-June 1991 issue of Financial Analysts Journal.

[2]See Two Asset Allocation Rules You Need To Follow At Any Age, Carolyn Marsh, Forbes, https://www.forbes.com/sites/greatspeculations/2015/04/23/two-rules-of-asset-allocation-to-follow-at-any-age/#799947d95ea8

[3]Source: Ibid.

[4]Mind the Gap: Global Investor Returns Show the Costs of Bad Timing Around the World, Morningstar Manager Research, May 30, 2017.


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