PROSPER

MANNING & NAPIER'S GUIDE TO FINANCIAL PLANNING

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There are a number of components that make up a comprehensive financial plan – from retirement planning and taxes, to social security benefits, estate planning and more.

One of the reasons I pursued a career in financial planning was because I saw the importance of helping people navigate the complexities and uncertainties that exist when preparing financially for their futures. Now, as the Director of Manning & Napier's Family Wealth Management team, we help clients address a diverse range of planning challenges to ensure their legacy lives on.

Our team includes experienced financial planners, attorneys, trust officers, and wealth management consultants who are available to help you and your family. We are here to help you achieve your financial goals and help simplify your life. You've worked hard throughout your life, and we're here to help you preserve your wealth and legacy.

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We hope you enjoy the second edition of Prosper just as much as the first and encourage you to share the latest edition with your friends and family.

— Dana Vosburgh, CFP®
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Andrew DelMedico, CFP®
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Retirement

Don't Leave Any Money on the Table

Making the Most of Your Social Security & Pension Benefits

Retirees sometimes make quick decisions about Social Security or pension benefits. However, these matters are an important and underappreciated part of retirement planning that can make a lasting impact on financial wellness in retirement.

A couple's Social Security benefits alone could total more than $1 million in total benefits over their lifetimes. Those are meaningful dollars, even for the very wealthy; or perhaps, especially for the very wealthy since Social Security income can displace withdrawals from an investment portfolio, which in turn can continue to grow.

Likewise, while defined benefit (pension) plan benefits from prior employers or orphaned plans can be somewhat modest, they can provide a meaningful boost to your portfolio's longevity. Therefore, it is important and worth the time to make informed decisions.

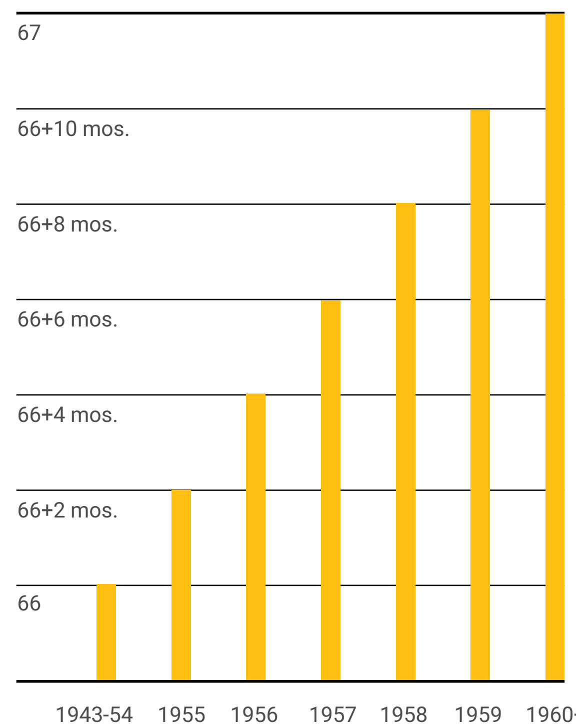
Social Security

The question of when to begin receiving Social Security benefits is always difficult to answer. Growing concerns over the future of Social Security have added an additional layer of complexity to the decision. While an uncertain life expectancy makes it impossible to provide a definitive answer to the question, there is a clear trade-off between taking Social Security benefits earlier versus taking them later.

Electing to receive Social Security benefits at an earlier age results in a lower annual benefit payment, however, benefits would be paid over a longer time frame or at least ensure the retiree some benefit from his/her years of contributions into the system. Conversely, starting benefit payments at a later date (e.g., age 70) would result in higher annual Social Security payments and greater longevity protection, but a shorter overall payment period. The illustration to the left shows full retirement age based on birth year.

A couple's Social Security benefits alone could total more than $1 million in total benefits over their lifetimes.

FULL RETIREMENT AGE BY YEAR OF BIRTH
(2 MONTH INCREMENTS)



While Social Security claiming loopholes have largely been closed, there's still one way that couples can use the Social Security rules to their advantage. Retired couples are increasingly electing to have one spouse take benefits at an earlier age (age 62) and one at a later age (age 70). This approach allows couples to initiate benefits early in the event of a shorter lifespan while leaving the higher benefit intact. This provides the opportunity to nearly maximize lifetime benefits in the event of an extended life expectancy by leaving the surviving spouse with the highest possible monthly benefit.

This approach takes some of the risk out of the decision as it holds up well under a wide range of life expectancies. The illustrations on the next page show the accumulation of benefits of a hypothetical couple over time under four Social Security claiming approaches.

ANNUAL SOCIAL SECURITY INCOME FOR A COUPLE WITH COMBINED FULL RETIREMENT AGE BENEFITS OF $3,500/MONTH

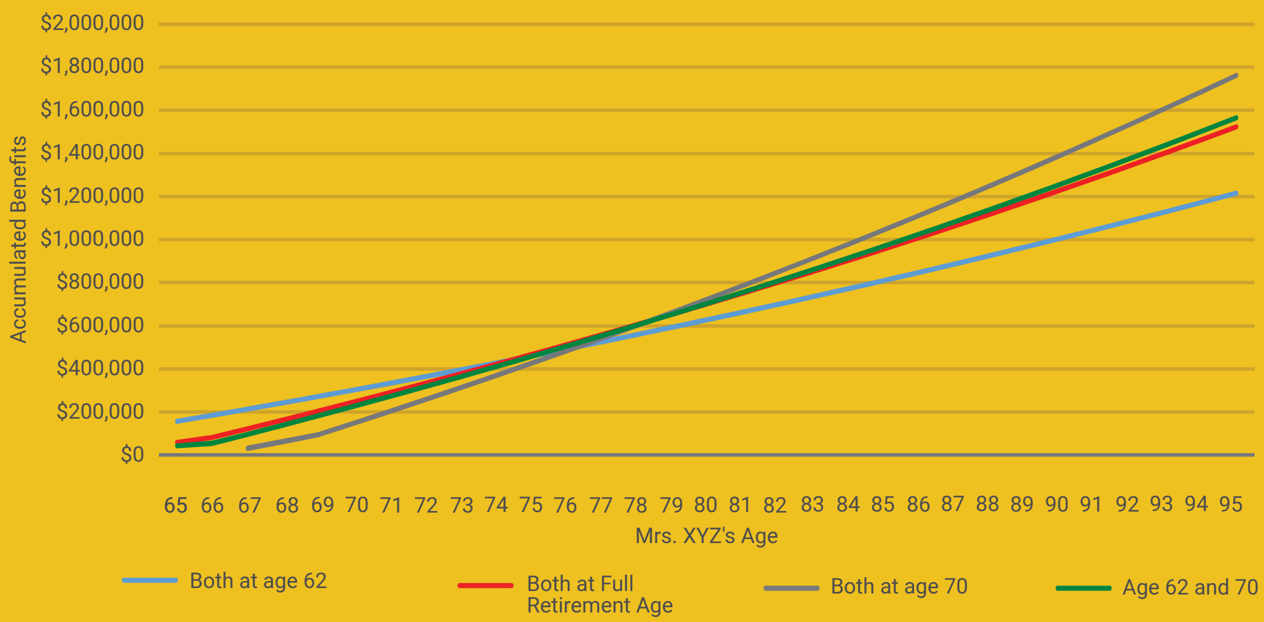
	Full Retirement Age of 66		Full Retirement Age of 67	
Starting Age	Combined Annual Benefits	% of Full Retirement Age Benefit	Combined Annual Benefits	% of Full Retirement Age Benefit
62	$31,500	75%	$29,400	70%
63	$33,600	80%	$31,500	75%
64	$36,400	86.7%	$33,600	80%
65	$39,200	93.3%	$36,400	86.7%
66	$42,000	100%	$39,200	93.3%
67	$45,360	108%	$42,000	100%
68	$48,720	116%	$45,360	108%
69	$52,080	124%	$48,720	116%
70	$55,440	132%	$52,080	124%

ASSUMPTIONS FOR CALCULATING SOCIAL SECURITY BENEFITS

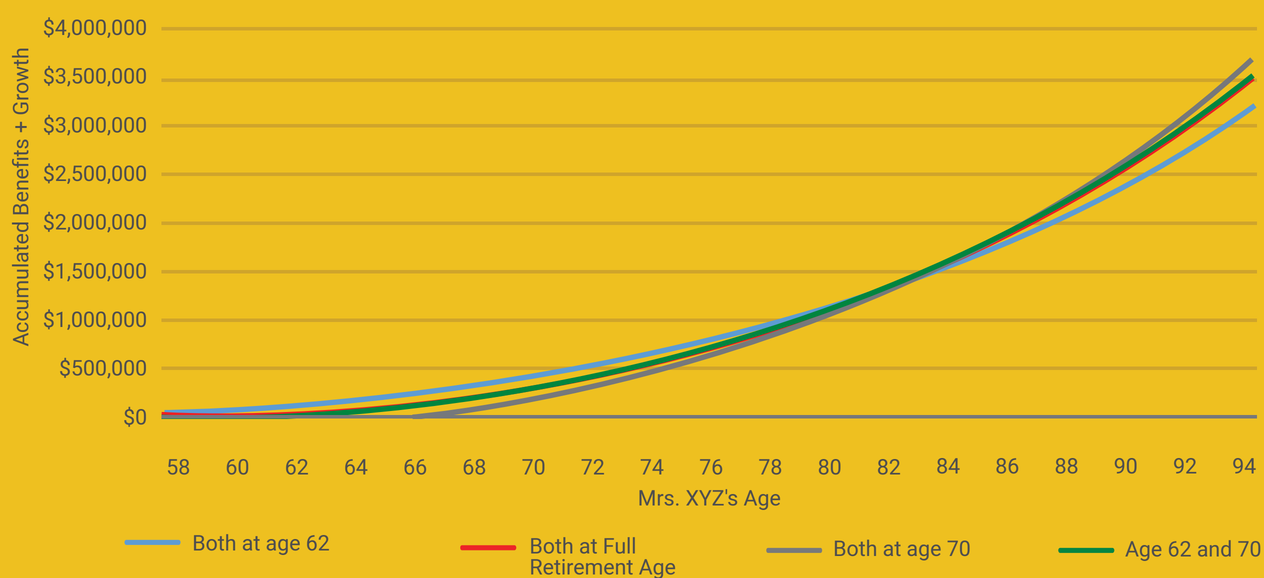
Name	Age	Actuarial Life Expectancy	Full Retirement Age	Monthly Full Retirement Age Benefit (Pre-Tax)	Monthly Full Retirement Age Benefit (After-Tax)*
Mr. XYZ	61	81	$66^{1/2}$	$2,100	$1,779
Mrs. XYZ	58	84	67	$1,400	$1,186

*Assuming a federal effective income tax rate of 18% applied to 85% of Social Security income.

ACCUMULATED LIFETIME BENEFITS



ACCUMULATED LIFETIME BENEFITS & GROWTH



Assuming a federal effective income tax rate of 18% applied to 85% of Social Security income.
For illustrative purposes only. Analysis: Manning & Napier.

Who should consider taking Social Security early?

Those with health issues and/or expectations of a shorter-than-average life expectancy.

Those who have a primary goal of protecting themselves from changes to the system (e.g., increased retirement age, means testing, benefit reductions).

Who should wait to take Social Security?

Those who plan on continuing to work.

Those who are in average-to-good health, particularly women, who live about 3 years longer than men (on average).

Those who want longevity protection. Social Security is an inflation-adjusted benefit that you cannot outlive. Benefits at full retirement age and/or age 70 are meaningfully higher than at age 62. That additional income can meaningfully help retirees who live an extended life expectancy.

Lifetime Benefits + Growth*

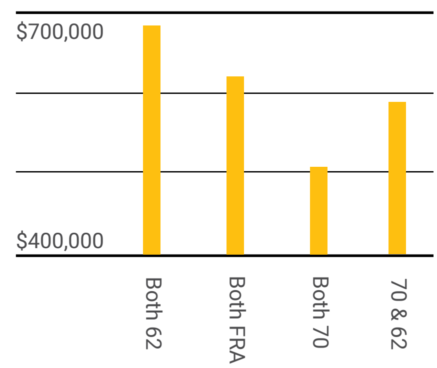
While the value of projecting the accumulation of lifetime benefits on the previous page is self-evident, the importance of comparing various Social Security strategies and the potential growth of those dollars is less obvious. However, this approach may be applicable to most situations due to the displacement effect. Namely, for those with retirement savings, the decision to draw Social Security to fund a portion of retirement spending often means **a dollar-for-dollar decrease in the withdrawals** taken from savings. Dollars that, in turn, can remain invested and continue to grow.

Without knowing how long you are going to live, it is impossible to predict which approach indicated in the charts to the right will maximize your total lifetime benefit. Fortunately, the 62/70 approach can help provide married spouses with benefits early on, while maximizing the largest benefit over the joint life expectancy of the couple.

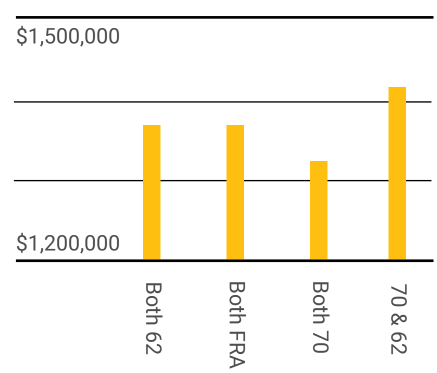
For others, determining the right strategy is more qualitative. Instead of thinking in terms of dollars and cents, an easier way to approach the Social Security decision is to think about it in terms of the goals each approach helps you to achieve, and/or the risks each approach helps you to protect against. The bar to the left provides reasons to consider an early or late approach.

Analysis: Manning & Napier. For illustrative purposes only.
*Assuming annual pre-tax returns of 7%. Annual after-tax returns are 5.32% based on an assumed federal and state combined effective income/capital gains tax rate of 24%.
**Age 75 and Age 85 illustrations show the combined benefits should both spouses live to those ages, based on the younger spouse's age. For example, the Age 75 illustration shows the combined benefits of the couple under various approaches at Mrs. XYZ's age 75 and Mr. XYZ's age 78.
*** The Life expectancy example assumes each spouse lives to his or her actuarial life expectancy and the higher benefit lives on when the first spouse passes away.

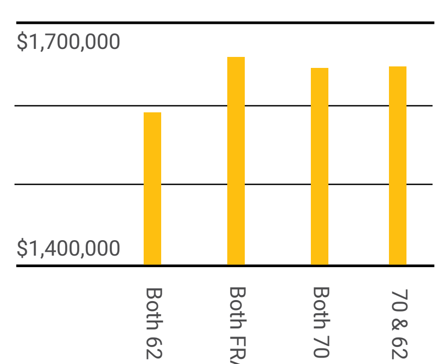
TOTAL AT AGE 75**
($100,000 INCREMENTS)



TOTAL AT LIFE EXPECTANCY (84/81)***
($100,000 INCREMENTS)



TOTAL AT AGE 85**
($100,000 INCREMENTS)



Pension Income

Retirees and future-retirees with pension plans typically have some decisions to make about how they receive their pension benefits. These decisions can impact retirement cash flow projections and the capital risk/opportunity cost trade-off. Specifically, participants can often elect to take a lump sum cash value or receive their pension in periodic (e.g., monthly) payments over their lifetime. Furthermore, retirees who elect to receive lifetime payments often have several options as to how their pension payments are structured.

Choosing a Lifetime Pension (Annuity) Option

Typical pension plan annuity options include single life (receiving payments solely over the lifetime of the participant) and joint and survivor (spreading the payments over the joint life expectancy of the participant and a spouse/partner). Joint and survivor options often vary and some plans include multiple joint and survivor options. For example, plans may offer a joint and 100% survivor benefit (where the survivor receives 100% of the benefit after the participant dies), a joint and 50% survivor benefit, etc.

Some plans even include period-certain options that allow for a payout to beneficiaries if the participant dies prior to reaching a certain threshold.

It is important to choose the pension option that best fits your situation. Even those confident in the lump sum option should identify which lifetime pension option best fits their situation for proper comparison.

While the qualitative aspect of the decision-making process are highlighted at the top of the next page (e.g., liquidity/freedom vs. safety/stability), it is important to also quantify the trade-off. In order to weigh the relative risk of a lump sum payment (outliving the lump sum) against the potential reward (excess investment returns), retirees should understand the rate of return that a lump sum would need to achieve to make them just as well off as the pension option. Consider this example:

Client Age:	Life Expectancy:	Benefit:
67	83	$500,000 lump sum -OR- $3,700/month

Given these numbers, a $500,000 lump sum investment portfolio would need to achieve annual returns of 5.2% in order to fund monthly withdrawals of $3,700 through age 83 and at least match the pension benefit. A 25% stock/75% bond portfolio has historically been able to achieve annual returns of 5.2% or greater in 80% of rolling 15-year times periods since 1926. If returns are lower and/or the portfolio faces a period of volatility, the portfolio would likely deplete sooner. If returns are in excess of the 5.2% personal benchmark, the portfolio could experience growth.

As illustrated on the next page, while a 25% bond/75% stock portfolio, a proxy for how the lump sum portfolio might be managed, has often provided returns in excess of the 5.2% required return over long-term time periods, there are other factors to consider before making a final call:

Consider your personal situation. What rate of return do you need to achieve in your overall portfolio to fund your retirement?

Consider the market and economic environment. High stock market valuations and low/rising interest rates could lead to below-average investment returns over the short-to-intermediate-term, hurting a lump sum portfolio's ability to achieve the necessary return. Of course, pension plans are also impacted by changes in the market, therefore...

Consider the health of the pension plan. What is the funding status of the plan? An underfunded plan may be a reason to consider cutting ties by taking a lump sum.

Social Security and pension plan decisions can be complicated and they should not be taken lightly. They also should not be made in a vacuum—the market and economic environment, as well as the retiree's health and longevity, personal financial standing, and relative risk tolerance should permeate Social Security and pension decisions.

PENSION VS. LUMP SUM

	Benefits	Drawbacks
Pension/Annuity Payments	Steady, predictable income	Payments typically are a fixed amount that do not increase with inflation, etc.
	Cannot outlive income	Dependent on the ability of the plan/annuity to continue paying benefits
	Not affected by market volatility	No liquidity beyond periodic payments
	No asset allocation decisions	
Lump Sum	Full liquidity	May outlive/spend-down the proceeds
	Invest relative to your goals/tolerance	Subject to market volatility/low return environments
	Tax-free rollover to an IRA	
	Potential for tax-deferred growth /investment upside	

RATE OF RETURN REQUIRED TO JUSTIFY TAKING A LUMP SUM (5.2% ANNUAL RETURN THROUGH AGE 83 BREAKS EVEN)

	Historical Probability of Achieving Returns		
Portfolio Return Target	**25% Stock/ 75% Bond Portfolio**	**50% Stock/ 50% Bond Portfolio**	**Portfolio Balance at Life Expectancy**
3%	100%	100%	Depletes at age 80
4%	100%	100%	Depletes at age 81
5.2%	80%	95%	Depletes at life expectancy (83)
6%	46%	81%	$61,924
7%	34%	60%	$151,176
8%	28%	52%	$258,861

*Based on rolling returns from 1926-2018. Source: Ibbottson. See page 67 for important disclosures.


EQUAL JUSTICE UNDER LAW

Breaking Down the Tax Cuts and Jobs Act

Key Aspects of Tax Reform and How it May Impact You

On December 22, 2017, President Trump signed a sweeping tax reform bill into law, with broad implications for American taxpayers and businesses. There were a number of changes enacted by the law, and also a few items considered by Congress which were ultimately not included. It is important to understand that a majority of the law is temporary in nature, with most changes expiring on January 1, 2026, then reverting back to previous law.

Because of the unique factors impacting each person's taxes, we recommend individuals speak with their tax advisor to understand how the law will impact their specific situation. Here is a breakdown of the key aspects of the tax reform and how it potentially may impact you.

Individual Income Tax Brackets
The Tax Cuts and Jobs Act maintains a structure of seven tax brackets. The brackets themselves were adjusted, and the highest bracket was reduced from 39.6% to 37%. The table on page 13 highlights the new brackets that are in effect for tax years 2018 to 2025 (with the income brackets adjusted for inflation each year going forward).

Corporate Tax Rates
Unlike the temporary (8-year) nature of individual tax reform, the changes to the corporate tax rates were made permanent. The corporate tax rate was changed from a top rate of 35% to a flat rate of 21%. Also, the corporate alternative minimum tax was eliminated.

The Standard Deduction and Personal Exemptions
Personal exemptions have been eliminated. The standard deduction has roughly doubled. For a single person filing a tax return, the standard deduction in 2019 is $12,200. For a married couple filing a joint tax return, the standard deduction is now $24,400

Many Itemized Deductions Changed
Many itemized deductions have been changed or eliminated by the new tax law. While not exhaustive, the list on the next page highlights some prominent changes that may impact taxpayers who typically itemize their deductions.

There is now a $10,000 cap on the deduction for state and local taxes (including property taxes and income taxes).

For 2018, Medical expenses in excess of 7.5% of adjusted gross income (AGI) can be deducted. For 2019 – 2025, medical expenses in excess of 10% of AGI can be deducted.

The amount of mortgage interest that can be deducted has changed. For houses purchased prior to December 15, 2017, mortgage interest up to $1,000,000 can be deducted. For houses purchased after December 15, 2017, mortgage interest up to $750,000 can be deducted.

You can no longer deduct losses related to theft or casualty loss, unless the event is deemed a federal disaster by the president.

The class of deductions known as "miscellaneous itemized deductions" no longer exists. Common items on this list included investment management fees, tax preparation fees, home office expenses, work uniforms, and other unreimbursed employee expenses.

Other Key Changes

A Portion of Obamacare
The tax law eliminated the individual mandate from the health care law. Specifically, starting in 2019, you will not pay a tax penalty if you don't have health insurance.

The Taxation of Alimony
Alimony payments have historically been tax-deductible to the person making them, and count as taxable income to the person receiving them. However, alimony income is now tax-free to the recipient and is no longer tax-deductible to the payer.

The Estate Tax Exemption
The estate tax exemption has doubled, to a level of $11,400,000 per person ($22,800,000 for a married couple) in 2019. Amounts in excess of the exemption are taxed at a rate of 40%. This amount is indexed for inflation annually and is schedule to revert back to the 2017 figure of $5,490,000 (indexed for inflation) in 2026.

The Alternative Minimum Tax (AMT)
The AMT still exists but it will affect far fewer people. This is due to significant increases in the AGI thresholds and phase-outs for those that may be impacted by AMT.

The Child Tax Credit
The credit itself was doubled from $1,000 to $2,000 per qualifying child and the AGI phase-out thresholds were increased meaningfully (starting at $200,000 for single filers and $400,000 for married couples filing joint returns). In comparison, the phase-out for married couples previously started at $110,000.

The Taxation of Pass-Through Entities
The tax law created a new 20% deduction for many pass-through entities (e.g., S-corps., LLCs, partnerships, etc.) and applies to qualified business income that is not generated by a specified trade or service business.

Charitable Giving
Charitable giving has not changed, but it will no longer be an itemized deduction for many. Given that far fewer people can itemize now, many gifts to charity may no longer receive a tax-deduction in the end. One actual change to the treatment of charitable gifts is that cash gifts to public charities can now be deducted up to 60% of AGI (previously, the limit was 50% of AGI).

Things Left Unchanged

Capital Gains Taxes
While the individual income tax rates changed, the preferential tax rate on long-term capital gains is generally unchanged. The table to the right highlights the current capital gains rates and brackets. Short-term capital gains continue to be taxed as ordinary income (as shown right).

The Step-Up in Cost Basis at Death
At one time, a proposal fully repealed the estate tax and concurrently eliminated the ability to step up the cost basis of assets to fair market value at death. However, this change did not occur.

Different Cost Basis for Capital Gains
At one point during the tax overhaul discussions, it was proposed that all transactions would have to use the First-In-First-Out cost basis method when capital gains are realized. However, this proposal did not appear in the final version of the bill.

In order to better understand the broad impact of the tax legislation, here are a few sample scenarios.

Mary
Mary makes $75,000, is single, has no children, and has historically taken the standard deduction. Generally speaking, Mary can pay $2,000 - $3,000 less in federal income taxes under the new tax law.

Steve and Jamie
Steve and Jamie are married, make $200,000, own a house, and live in a high tax state. They have historically itemized deductions, largely due to their mortgage interest, state income taxes, and property taxes. Generally speaking, Steve and Jamie may pay $3,000 - $5,000 less in federal income taxes under the new law.

Joe and Michelle
Joe and Michelle are married, make $600,000, own a house, and live in a high tax state. Their children are no longer dependents and their mortgage is paid off. They have historically itemized deductions due to the state taxes that they pay. Generally speaking, Joe and Michelle may pay $10,000 - $15,000 less in federal income taxes under the new law.

INCOME TAX RATE SCHEDULES

Over	Below	Amount	Plus (%)	Of the Amount Over
Single Taxpayers				
$0	$9,700	--------- 10% of taxable income -----------		
$9,700	$39,475	$970.00	12%	$9,700
$39,475	$84,200	$4,543.00	22%	$39,475
$84,200	$160,725	$14,382.50	24%	$84,200
$160,725	$204,100	$32,748.50	32%	$160,725
$204,100	$510,300	$46,628.50	35%	$204,100
$510,300	-	$153,798.50	37%	$510,300
Married Filing Jointly				
$0	$19,400	-------- 10% of taxable income -----------		
$19,400	$78,950	$1,940.00	12%	$19,400
$78,950	$168,400	$9,086.00	22%	$78,950
$168,400	$321,450	$28,765.00	24%	$168,400
$321,450	$408,200	$65,497.00	32%	$321,450
$408,200	$612,350	$93,257.00	35%	$408,200
$612,350	-	$164,709.50	37%	$612,350

The income tax brackets for married filing separately are half of the amounts for married filing jointly.
The brackets for heads of households generally fall between the brackets for single and joint filers.

Over	Below	Amount	Plus (%)	Of the Amount Over
Trusts & Estates				
$0	$2,600	-------- 10% of taxable income -----------		
$2,600	$9,300	$260.00	24%	$2,600
$9,300	$12,750	$1,868.00	35%	$9,300
$12,750	-	$3,075.50	37%	$12,750

Kiddie tax: unearned income is taxed at trust and estate rates (over the $2,200 threshold).

For illustrative purposes only.

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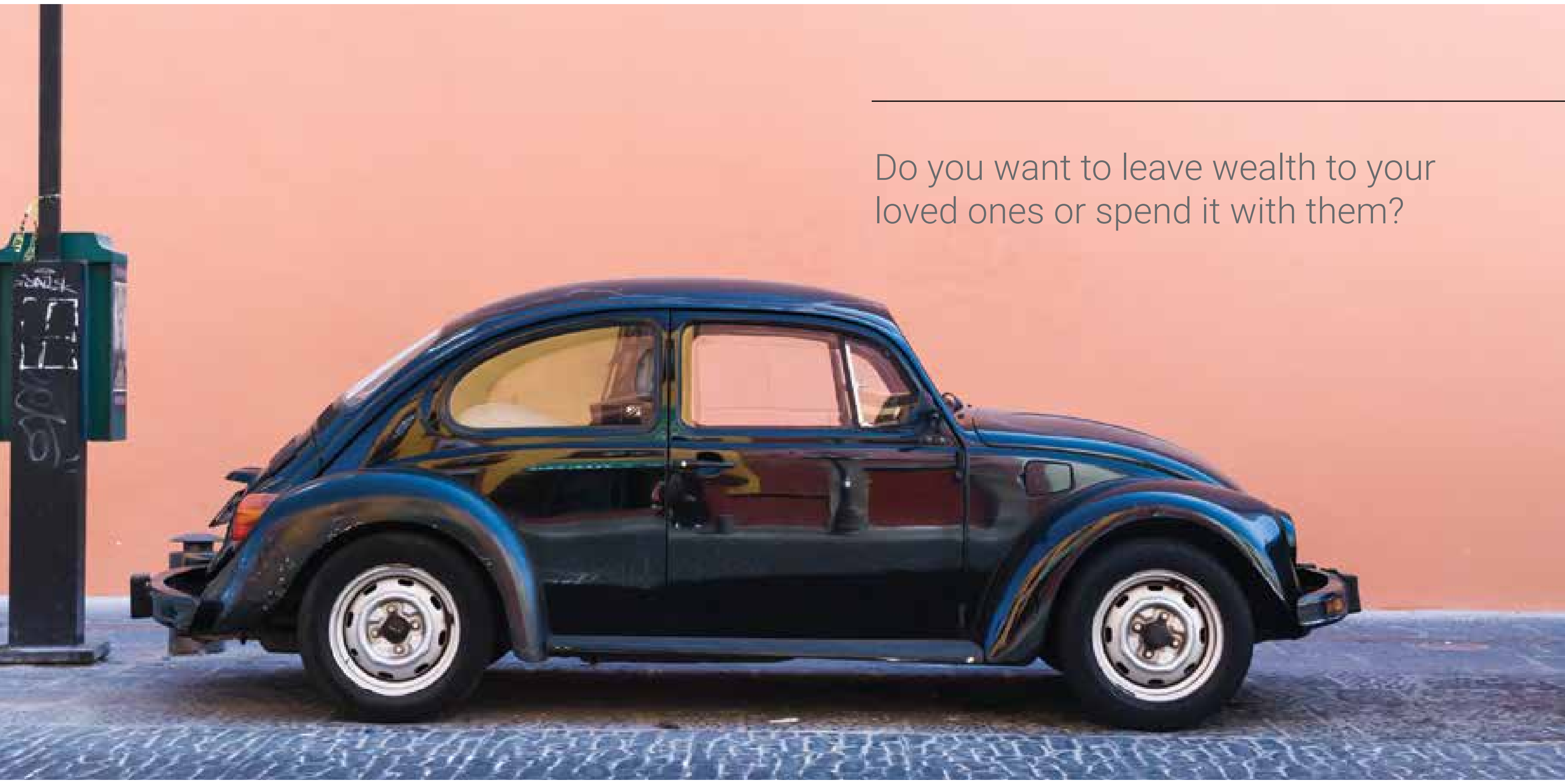
Lifetime Legacy vs. Leaving a Legacy



Do you want to leave wealth to your loved ones or spend it with them?

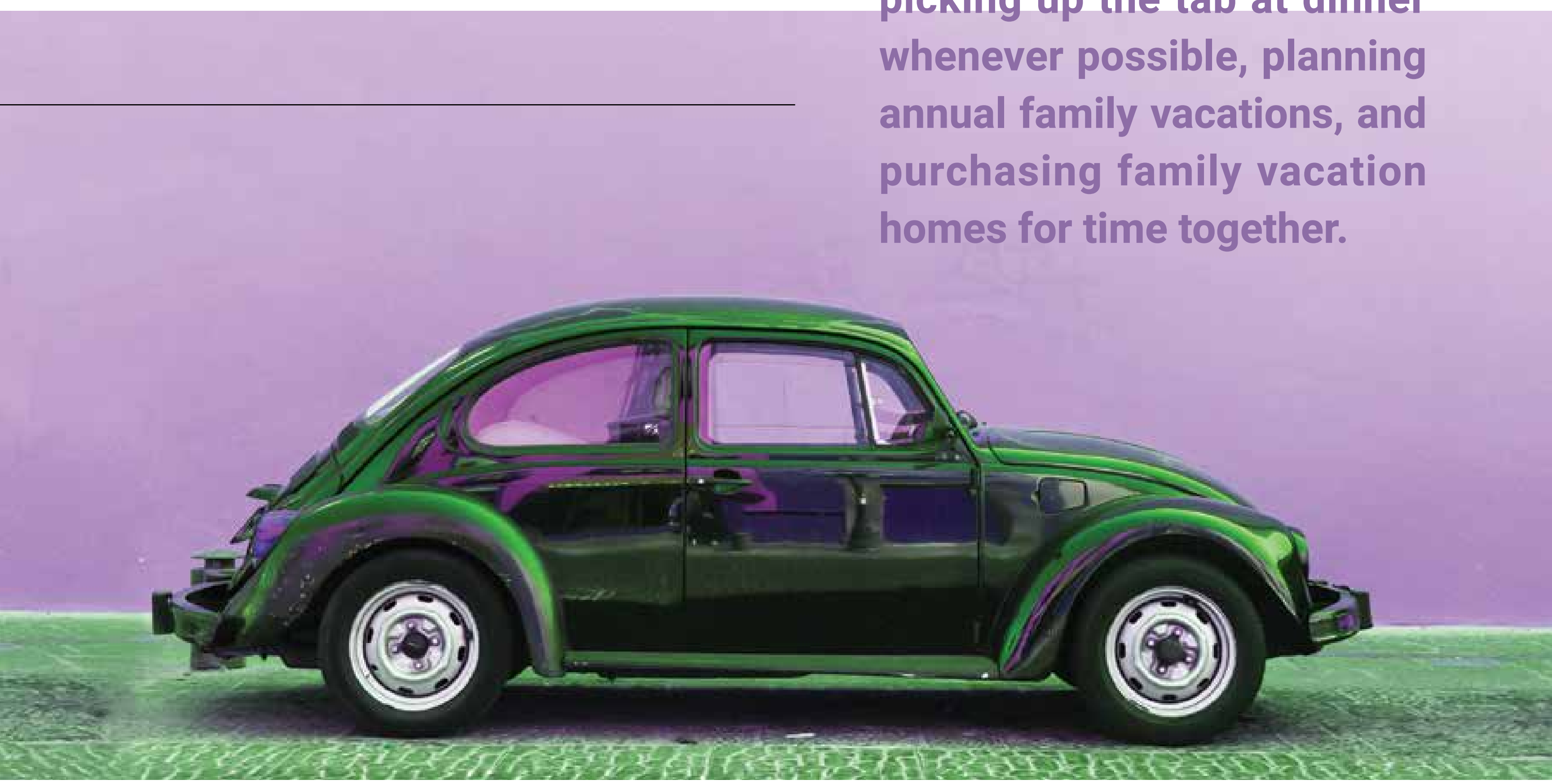
Traditionally, most retirees' approach to retirement has been to live frugally to leave a financial legacy to their families, friends, and charities after they pass away. This approach helps to protect retirees against the fear and/or risk of outliving their wealth. However, many would argue it reduces the utility of wealth, is an inefficient use of capital, and means foregoing an opportunity to expand your real legacy. There is little point of having excess wealth if you aren't going to use it. This is especially true if there is someone or something near-and-dear to your heart that could benefit from your generosity.

More and more of today's retirees are taking a lifetime legacy approach—placing emphasis on sharing their wealth while they are still alive. By funding family vacations, fulfilling charitable goals, and helping children/grandchildren/great-grandchildren with college tuition, wedding expenses, or first home purchases, retirees get to see their money make a difference.

Enjoy More Time with Your Loved Ones

Diligent retirement saving provides retirees with discretionary wealth. That wealth is usually tucked away within an estate in the form of cash, stocks, bonds, and mutual funds until the retiree passes away. However, if you were to ask someone who has lost a loved one whether they would prefer to have one more day with that person or to inherit a few extra dollars, the answer, almost universally, would be in favor of the extra day.

Many retirees are choosing to put their excess wealth towards picking up the tab at dinner whenever possible, planning annual family vacations, and purchasing family vacation homes for time together.



As a result, many retirees are choosing to put their excess wealth towards picking up the tab at dinner whenever possible, planning annual family vacations, buying plane tickets to see out of town family more often, and purchasing family vacation homes for time together. Given greater geographic separation of families and increasingly busy day-to-day schedules, we're seeing annual family vacations, typically funded by the family matriarch/patriarch, becoming a cherished new tradition.

Help When They Need It Most

The current joint life expectancy of a 65 year old couple is approximately 88 years old. By that age, the couple's children are likely in their sixties, and they have grandchildren in their thirties. As the table on page 18 shows, heirs, by that age, may have already surpassed some of the most challenging financial milestones. In fact, the couple's children may very well be retired themselves.

Some may be wary of providing too much financial assistance to children at a young age for fear of a sense of entitlement or decreased motivation. Those concerns should be weighed along with the potential benefits of providing timely financial support to your loved ones. Helping children during their thirties, forties, and fifties can help lighten the stressful financial goals of raising kids, funding their children's college expenses, and saving for their own retirement.

Providing financial assistance to younger heirs may allow them to make better long-term decisions rather than

Typical Cost of Financial Milestones

College Expenses
Age: 17 –25+
In-State Public 4-Year: $25,290
Private 4-Year: $50,900

Marriage
Median Age (Male): 29.5
Median Age (Female): 27.4
Average Wedding Cost: $33,391

Starting a Family
Average Age at First Birth (Mother): 26.6
Basic Per-Child Expenses (Age 0-18): $260,366
Average Annual Daycare Center Cost: $11,000+

College Debt
Age: 20 – 40+
Average Current Balance: $32,700
Average Monthly Loan Payment: $393
Payoff Period: 10 – 20+ years

First Home Purchase
Median Age: 32
Median Purchase Price: $190,000
Received Gift to Help with Down Payment: 25%
Delayed Purchase Due to College Debt: 55%

Saving For Retirement
Savings of $67/week beginning at age 25 would grow to $1 million at age 70 under 7% returns.

Delaying contributions for 5 years ($17,500 in missed contributions) is costly, reducing the portfolio balance by $300,000 at age 70 under a 7% return scenario and by $650,000 under a 9% return scenario.

Sources: The Fed, BabyCenter, US Department of Health and Human Services, Nerd Wallet, National Association of Realtors, US Census Bureau, The Knot, CNBC.

needing to make short-term decisions out of financial necessity. Studies have shown that college graduates who are free of student loans have nearly twice the retirement savings balance at age thirty compared to peers who have "average" student loan balances.

The impact of additional retirement savings at an early age is significant. Helping children and grandchildren save for college (e.g., using college 529 plans), pay down post-college debt, afford their first home, and start a family can help lay a solid financial foundation that can pay dividends down the road. Clients happily express the sometimes unexpected personal joy they get from watching the growth and success of heirs that is partially the result of their financial assistance.

Give to Charity So You Can See the Product of Your Generosity
While many clients are charitably inclined, larger gifts are often testamentary, (i.e., bequests under a will). The primary driver of this trend appears to be feeling financially secure enough to give a meaningful irrevocable lifetime gift.

While the impact of charitable gifts can be tangible and personally rewarding, charitable gifts, as with any gift, should always be within your means. Retirees who have a good understanding of their financial position can make larger lifetime gifts with confidence and conviction, allowing them to see the product of their generosity. Of course, it takes planning to determine your ability to fund your inflation-adjusted spending throughout retirement, plus make gifts to friends, family, and charities.

Plan First, Then Execute
A growing subset of today's retirees are adopting a lifetime legacy philosophy and eschewing the conservative mindset adopted by prior generations. However, much of the recent push to this approach is among clients who make a concerted effort to understand the impact potential gifts can have on their overall long-term wealth picture. In general, retirees embracing a lifetime legacy philosophy seem to have 3 things in common:

1. A desire to enjoy their wealth and/or benefit friends, younger generations, and charities today.
2. A willingness to accept a slightly lower margin of safety to achieve #1 above.
3. An understanding of their financial picture that arms them with the confidence to spend/gift up to their means.

We primarily use cash flow modeling to illustrate the financial impact of annual spending and one time/ongoing gifts. It helps give clients the confidence to execute on their vision. We work with our clients to help determine their progress towards meeting their goals, both financial and otherwise.

Occasionally it means having difficult, but necessary conversations with clients who are not on track to meet their goals. Oftentimes, it means exciting conversations with clients about the financial flexibility to fund goals beyond providing for their own retirement spending needs. That financial flexibility may allow clients to fulfill goals in a way they never imagined, and enjoy the impact their wealth can have on heirs and charities during their lifetime.

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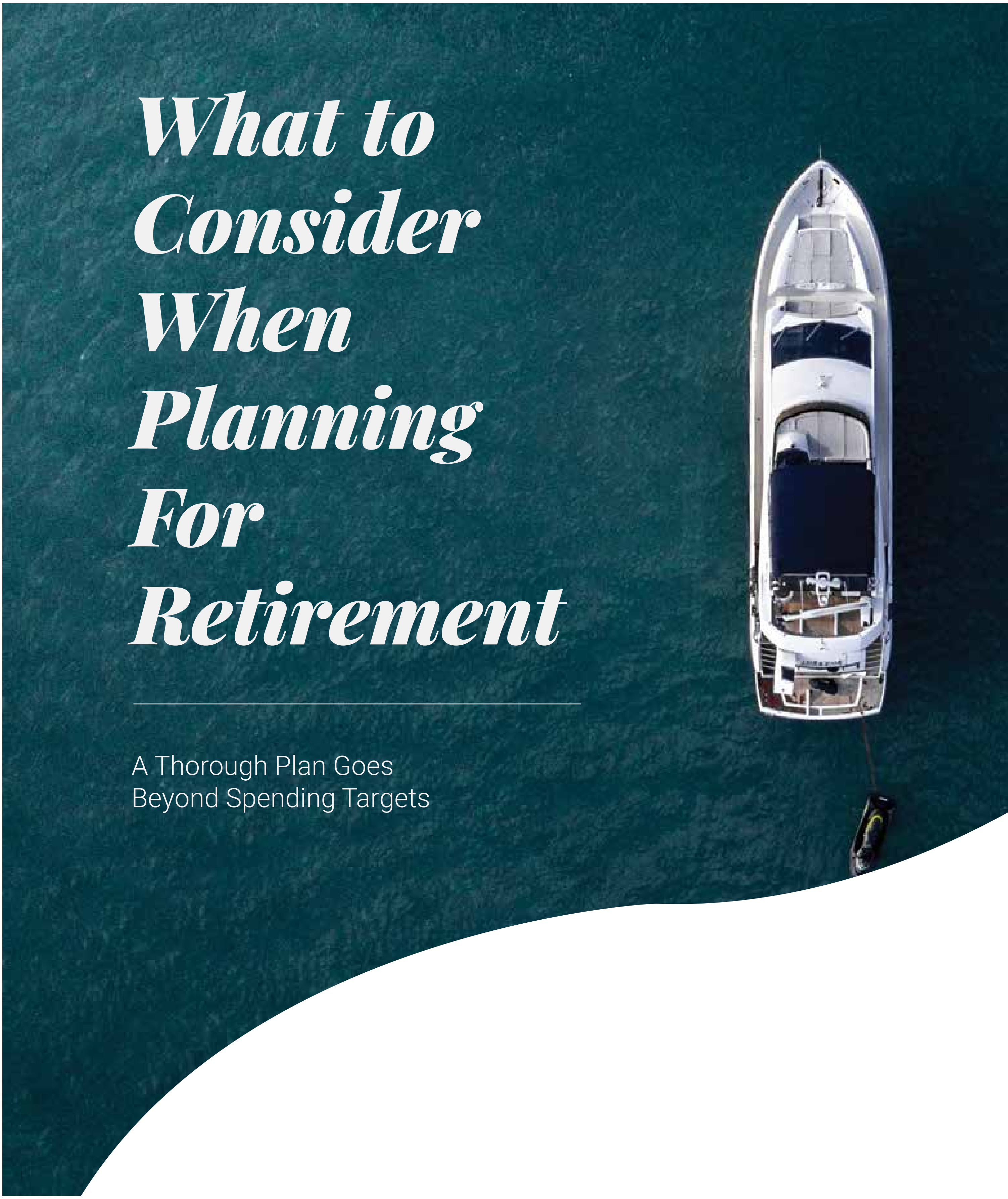
Wealth Management Consultant



What to Consider When Planning For Retirement

A Thorough Plan Goes Beyond Spending Targets

Preparing for Inflation

The last decade has been a period of low inflation, roughly 1.6%; however, the historical average, going back to 1926, has been almost double at 2.9%. While inflation only increases the cost of goods and services slightly from year-to-year, it represents a challenge for retirement income planning. Its impact is magnified over an extended period of time.

For example, if an item costs $100 today, after one year of 3% inflation it would cost $103. However, after 15 years of annual 3% inflation that $100 item would cost nearly $151. The impact of inflation is often referred to as a decline in purchasing power, as one dollar will not buy as much in 15 years as it does today. A retirement income plan that does not take into account the potential decline of purchasing power could meet your retirement needs early in retirement, but fail to meet your needs 10 to 15 years into retirement.

Preparing for Medical Expenses

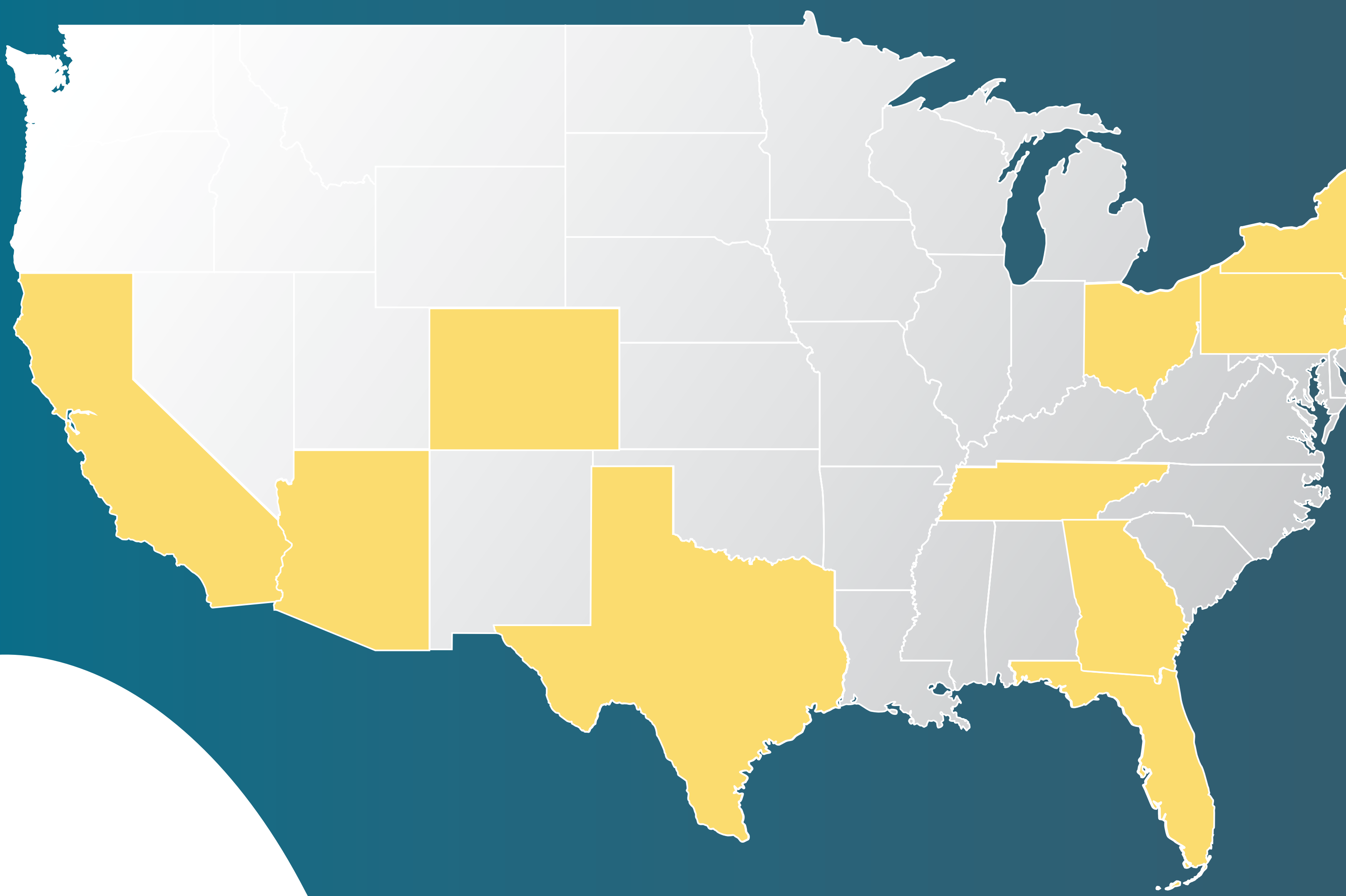
Although inflation has been generally low over the last decade, there have been pockets of higher inflation in specific areas. Medical care, specifically long-term care, has been one of those pockets. According to Genworth's "2017 Cost of Care Survey," long-term care services increased an average of 4.5% from 2016 to 2017, nearly three times the inflation rate. The national annual cost for a private room in a nursing facility is approximately $100,000 per year, with two and a half years as the average length of a nursing home stay.

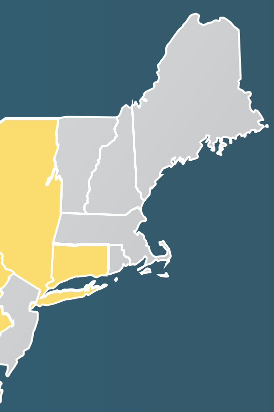
The Department of Health and Human Services estimates that 70% of people 65 and older will need some form of long-term care as they age. Considering how to pay for long-term care costs will remain an important aspect of creating a financial plan and monitoring it throughout retirement.

The good news for future long-term care planning is that, although costs for hospital-related services have outpaced inflation in recent years, they have slowed considerably in the past few decades. Planning for a cost increase of 4.5% presents a challenge, but seems much more achievable compared with the annual cost inflation increases of approximately 13% in 1980, 11% in 1990, 6% in 2000, and 7% in 2010.

Sources: American Psychological Association, FinancialAdvisor, Investment News, Official Data Foundation.

Where to Consider When Planning for Retirement





LIVING STATISTICS OF SELECT STATES

State	Value of a Dollar	Median Home Value	Maximum State Income Tax Rate	Imposes State/ Inheritance Tax
Arizona	$1.04	$205,000	4.45%	No
California	$0.88	$477,500	13.3%	No
Colorado	$0.97	$314,200	4.63%	No
Connecticut	$0.95	$274,600	6.99%	Yes
Florida	$1.01	$197,700	0.00%	No
Georgia	$1.08	$166,800	6.00%	No
New York	$0.87	$302,400	8.82%	Yes
Ohio	$1.12	$140,100	4.99%	No
Pennsylvania	$1.02	$174,100	3.07%	Yes
Tennessee	$1.11	$157,700	6.00%	No
Texas	$1.03	$161,500	0.00%	No

Sources: Bank Rate, Current Results, USA Today, and Time.com.

ARIZONA
Days of Sunshine - 193
Average Age - 37.5

CALIFORNIA
Days of Sunshine - 146
Average Age - 36.4

COLORADO
Days of Sunshine - 136
Average Age - 36.7

CONNECTICUT
Days of Sunshine - 82
Average Age - 40.9

FLORIDA
Days of Sunshine - 101
Average Age - 42.1

GEORGIA
Days of Sunshine - 112
Average Age - 36.5

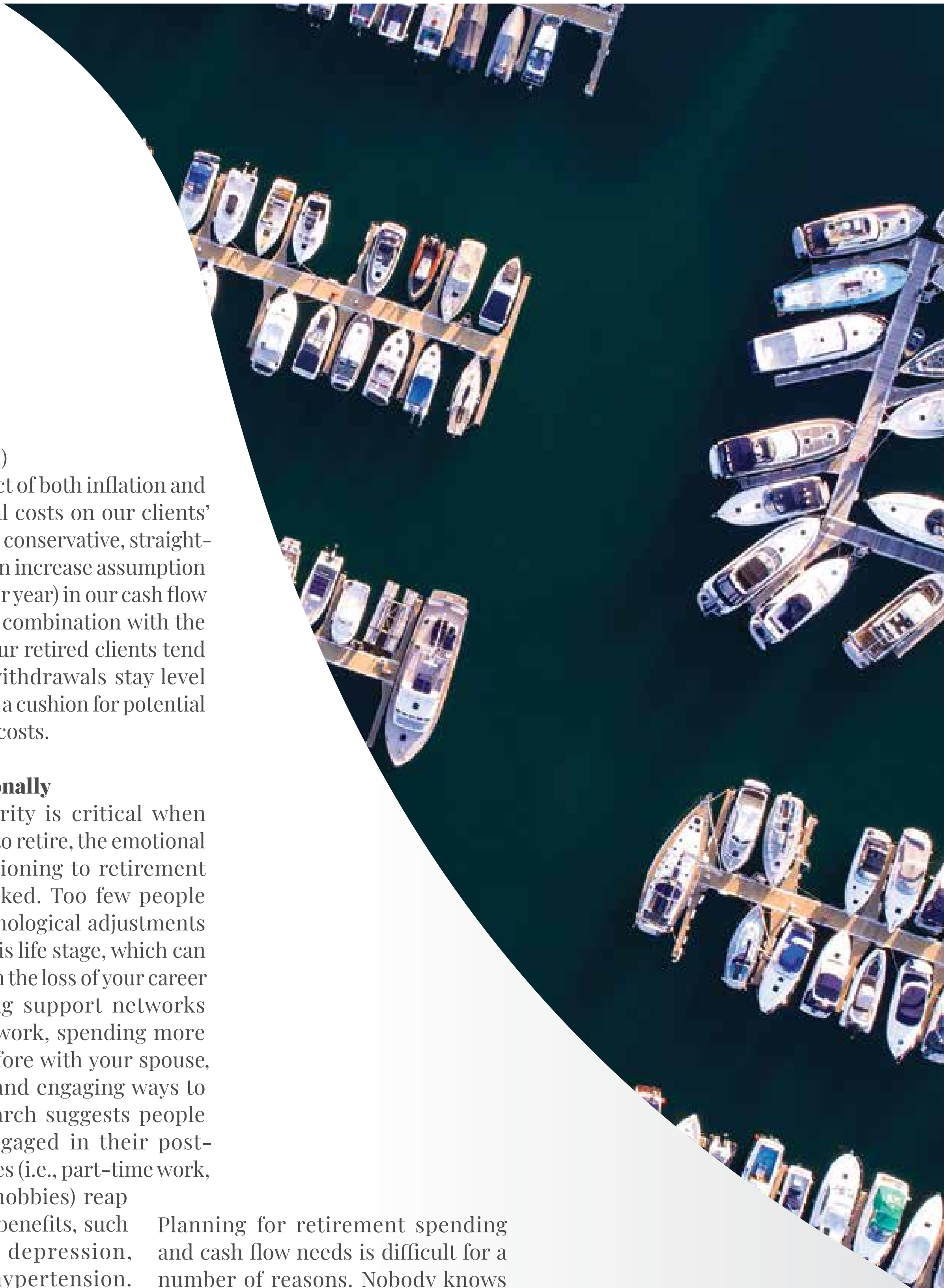
NEW YORK
Days of Sunshine - 63
Average Age - 38.4

OHIO
Days of Sunshine - 72
Average Age - 39.3

PENNSYLVANIA
Days of Sunshine - 87
Average Age - 40.6

TENNESSEE
Days of Sunshine - 102
Average Age - 38.6

TEXAS
Days of Sunshine - 135
Average Age - 34.5



(Con't from page 21)
To combat the effect of both inflation and increasing medical costs on our clients' portfolios, we use a conservative, straight-line annual inflation increase assumption (i.e., typically 3% per year) in our cash flow modeling. This, in combination with the fact that most of our retired clients tend to see portfolio withdrawals stay level over time, builds in a cushion for potential future health care costs.

Preparing Emotionally

While fiscal security is critical when considering when to retire, the emotional aspects of transitioning to retirement are often overlooked. Too few people consider the psychological adjustments that accompany this life stage, which can include coping with the loss of your career identity, replacing support networks you had through work, spending more time than ever before with your spouse, and finding new and engaging ways to stay active. Research suggests people who are truly engaged in their post-retirement activities (i.e., part-time work, volunteering, or hobbies) reap the psychological benefits, such as staving off depression, dementia, and hypertension. People need to take time for social or psychological portfolio planning before retirement to figure out what makes them happy.

Planning for retirement spending and cash flow needs is difficult for a number of reasons. Nobody knows what the future holds, and there are many factors out of a retiree's control. Nevertheless, it's 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.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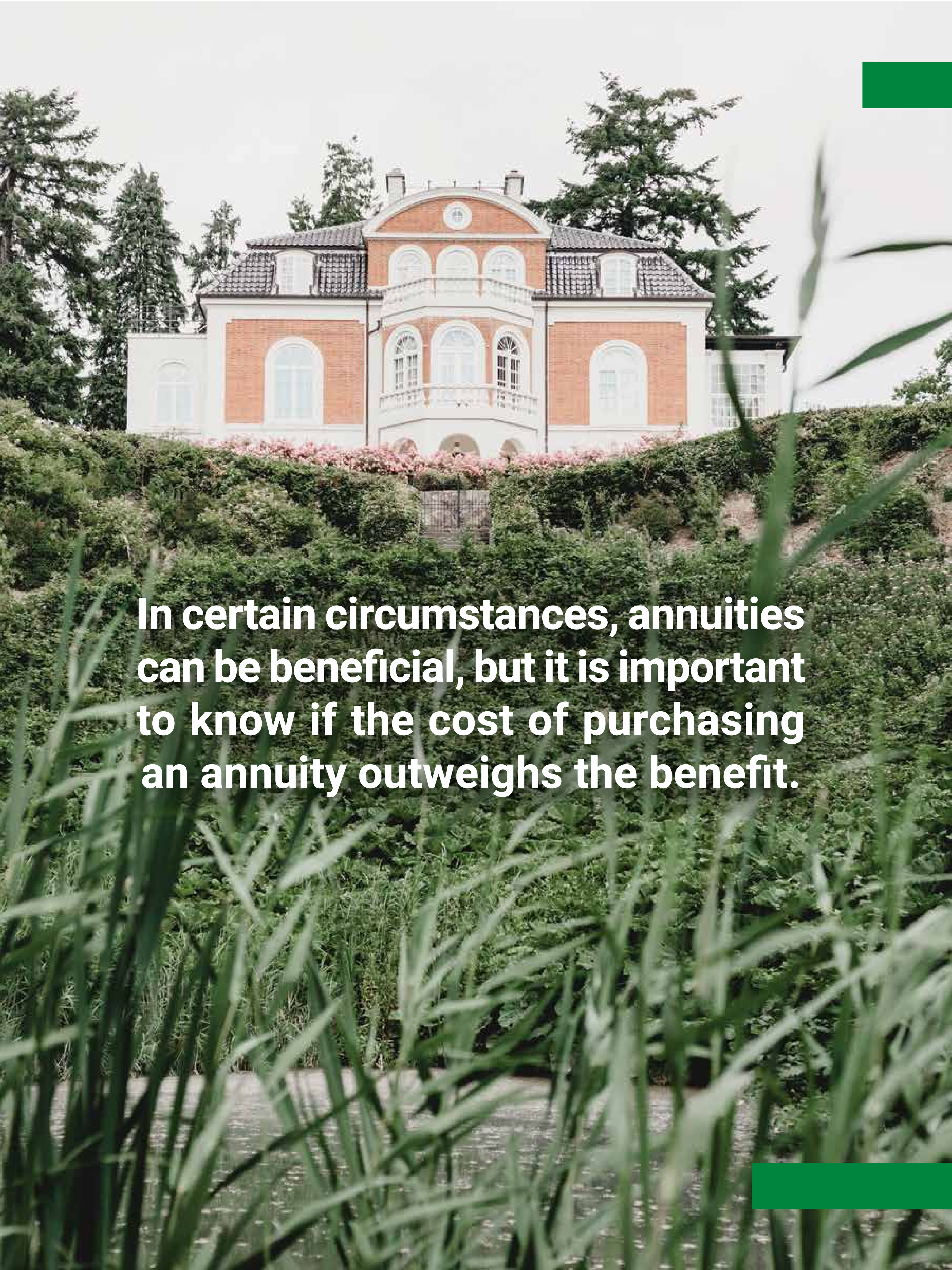
Independent Perspective | Real-World Solutions
MAKING THE MOST OF
Your Retirement
Retirement means something different to everyone. Whether it's traveling, spending more time with grandchildren, or starting a new business venture, our Family Wealth Management team can help you create a unique retirement plan.
To learn more, visit us at go.manning-napier.com/FWM
Estate & Tax Planning | Investment Management | Trust Services



In certain circumstances, annuities can be beneficial, but it is important to know if the cost of purchasing an annuity outweighs the benefit.

Ethan McKenney, CFP®
Client Consultant

Annuities 101

Your Guide to a Misunderstood Investment

Annuities are often viewed as one of the most polarizing investment vehicles existing today. This is largely because most investors don't understand how annuities work, and either discount or overestimate their features. When an annuity is broken apart, it is really just a combination of investments and insurance. To understand if an annuity is appropriate for you, it is important to understand how they work.

An annuity differs from an investment in a stock, bond, or mutual fund in one key way – it is a contract with an insurance company. While each annuity and each contract is different, many underlying aspects are the same.

Although they differ, annuities commonly:

Have a multi-year lock-up period, where funds may only be accessed if a penalty is paid.

Grow tax-deferred, meaning earnings on the underlying investment are not taxed until a future time.

Provide a number of guarantees, which can include a guaranteed return of principal, minimum annual return guarantees, future income guarantees, and guaranteed death benefits.

Can be annuitized, meaning that they can be converted to a future income stream that will last over a specified period of time (i.e., normally the account owner's lifetime).

Are treated as retirement accounts, because of their tax-deferred nature, in that distributions prior to age 59½ will result in a 10% early withdrawal penalty.

Have fees that far exceed those offered by investment managers, because they combine investments and insurance. As an example, variable annuities can often have a 1% annual insurance expenses, as well as underlying investment expenses of around 1%. Annuities can also have riders. As a result, it is common to see total annual fees for annuities in the range of 2% - 4%.

For IRA annuities: have ordinary income taxes on distributions since they are, in fact, IRAs.

For non-qualified annuities: have ordinary income taxes on the portion of a distribution that is a gain, with distributions taxed on a pro-rata basis.

Have partially taxable death benefits for non-qualified annuities, unlike non-qualified investment portfolios which receive a step-up in cost basis at death (i.e., the gain is partially taxable as ordinary income to the beneficiary).

When are annuities the most beneficial?

Based on the broad description of annuities we just outlined, there are a few scenarios when purchasing an annuity may be appropriate. These include:

When you have exhausted all other tax deferral options. For individuals, particularly high income earners, who have already saved the maximum amount into all allowable investment vehicles, an annuity is another way to defer taxes.

When "guaranteed" returns are more important than "average" returns. While this varies widely by product, over full market cycles, investments in annuities often lag in comparison to similar non-annuity investments primarily because of their embedded fees.

When you expect to live well beyond your actuarial life expectancy. Annuities will often provide guaranteed income for life. Using the law of averages, this is not a good value for investors who die earlier in retirement, but may make sense for those that expect to live well beyond their actuarial life expectancy.

When are annuities the most inappropriate?

When held in an IRA. One of the most powerful benefits of an annuity is that it provides tax-deferred growth. However, an IRA in itself already provides tax-deferred growth. This means that when an IRA is held in an annuity, the account owner is paying higher fees without reaping many (if any) benefits. Thus, an IRA annuity is typically inefficient.

When you may need the money in the near term. An annuity is a contract between an investor and an insurance company. This often involves having the money locked up for a period of time (typically 5-8 years), during which some or all of the money cannot be accessed without paying a substantial penalty.

When fees matter. For most people, fees paid for a service need to be warranted. In some instances, annuities may have more modest fee structures and/or may provide benefits that are valuable to the consumer. However, this is not always the case. As previously stated, it is common for annuities to have annual fees of roughly 2% - 4%, which can erode or have the effect of minimizing their benefits.

When the exact benefits of the product are not fully understood. Annuities are often sold either when the fear of a pending bear market is high or after steep equity market declines. Purchasing an annuity based on the fear of the unknown is generally not appropriate. Rather, annuities should be purchased based on their merits and the need for their underlying benefits.

In certain circumstances, annuities can be beneficial, but it is important to know if the cost of purchasing an annuity outweighs the benefit. The high fees, of which a meaningful portion is often paid as a commission to the broker that sold the contract, often drive the decision on whether or not to purchase an annuity. We recommend investors research annuities in general, as well as multiple products, before making a purchasing decision.

After all, purchasing an annuity is like purchasing any other item, such as a car or a house. You should understand the value that the product provides, understand its fee structure, and learn about all optional riders. If you determine an annuity is right for you after your research, make sure you purchase an annuity that will best suit your need.

Decoding the Medicare Premium Surcharge

The Nuances of the Medicare Landscape

Tom Lesko, JD
Senior Wealth Management Consultant

Medicare Part B Tiers Taking Effect in 2019

Income Tier for Single Filer	Income Tier for Joint Filer	Part B Monthly Surcharge	Total Part B Monthly Premium
Up to $85,000	Up to $170,000	$0	$135.50
$85,000 - $107,000	$170,000 - $214,000	$54.10	$189.60
$107,000 - $133,500	$214,000 - $267,000	$135.40	$270.80
$133,500 - $160,000	$267,000 - $320,000	$216.70	$352.20
Over $160,000	Over $320,000	$297.90	$433.40
Over $500,000*	Over $750,000*	$325.00 (Est.)	$460.50

*New in 2019.

*New in 2019.

As people approach age 65 and consider retirement, health care planning becomes a higher priority. Entering retirement means an employer-provided health insurance plan is likely no longer available. It's important to understand the many nuances associated with the Medicare landscape, including Parts A, B, D, Medicare Advantage plans, supplemental plans, how the different plans can or can't interact, etc.

One area that commonly leads to confusion is the cost of Medicare. This is often due to the progressive nature of the Medicare Parts B and D surcharges, the lag in the income amount used to apply a specific premium amount (two years), and the various premiums for plans under Part D, Medicare Advantage and supplemental plans ("Medigap" policies).

Medicare Part B surcharges, in particular, have been going through several adjustments in recent years. The table to the left outlines the different Part B tiers as well as a new highest income tier taking effect in 2019:

The base Medicare Part B payment is $135.50 per month in 2019. If you are a single filer and had modified adjusted gross income (MAGI) above $85,000, you pay the base amount and a surcharge of $54.10 for a total monthly premium of $189.60. If your income is over $160,000, the total premium is $433.40 for the month.

The surcharges are applied in a 'cliff' manner, meaning that you pay the premium of the tier where your MAGI falls, not an adjusted premium amount based on a combination of the lower tiers. The income tier is based on your income from two years ago. 2019 premiums will be impacted by your 2017 modified adjusted gross income.

The multiple tiers are designed to increase the total percentage of Part B costs covered by premiums, with the new tier in 2019 intended to cover up to 85% of Part B costs. Since the idea is to cover a targeted percentage of Part B and the costs of administering the services provided by Part B, continue to increase, it's easy to see why premiums continue to trudge higher. From 1966 – 2017, Part B has experienced an annualized increase in premiums of 7.7%.

If you're already receiving Medicare, options are somewhat limited, but there are some advanced planning ideas that can help as you near retirement. Here are a few strategies to consider.

Monitor income generated by investments. Income from municipal bonds or municipal bond funds is not included in MAGI, unlike Treasuries or other taxable income investments. Realized capital gains are also included in income, so it may be possible to be more strategic when selling a highly appreciated security. For example, you could spread the sale across multiple tax years or take advantage of a time when income from other sources may be lower.

The years directly after retirement can often be a very low income period. This is because earned income is likely gone, Social Security may not be coming in yet, and required minimum distributions (RMDs) from retirement accounts don't start until age 70 ½. This can be a good time to set the groundwork for a more tax efficient investment portfolio.

Keep in mind, taking a strict tax-efficient investment approach can have an impact on longer-term investment performance and potentially offset the money saved on Medicare premiums. It's important to be strategic with your approach.

Consider Roth IRA conversions. Roth IRAs do not face required minimum distributions and any withdrawals are tax-free. This can be helpful for someone with a large IRA, from years of saving into a qualified retirement plan, to keep income down throughout retirement. However, a conversion is included in MAGI, so it's ideal to start the process before retirement or age 63 (two years prior to 65).

A series of conversions can go a long way toward building a Roth IRA balance and keep the tax impact of a conversion manageable. If a large conversion is done while receiving Medicare, MAGI and the corresponding Medicare tier will spike for only one year and come back down in subsequent years.

Monitor qualified charitable distributions. For those over 70 ½ and taking required minimum distributions, a qualified charitable distribution (QCD) from an IRA can help to reduce Medicare premiums. A QCD is a direct transfer of IRA assets, up to $100,000 for the year, to a qualifying charity. The distributions count toward the IRA owner's RMD for the year, but it's not included in MAGI. It's an ideal strategy for someone with charitable interests who may not need their full RMD to meet living expenses.

Consider health-savings accounts (HSA). This is another strategy requiring a fair amount of pre-planning. Nonetheless, it can be a powerful way to save money for future health care costs and receive a triple tax benefit (i.e., tax-free contributions, tax-deferred growth, and tax-free distributions for medical expenses). Distributions from HSAs are therefore not included in MAGI, so if extra is put aside in an HSA, in lieu of an IRA contribution (assuming both can't be maxed out), it can make a difference for Medicare premiums down the line and be available to fund out-of-pocket health care costs.

As you begin to explore Medicare, a certified Medicare broker in your area can assist in narrowing down options and finding the best fit for your needs and budget. Our annual Medicare Reference Guide includes helpful basics about Medicare. Finally, it's important to consult with your tax advisor before implementing strategies to lower your MAGI.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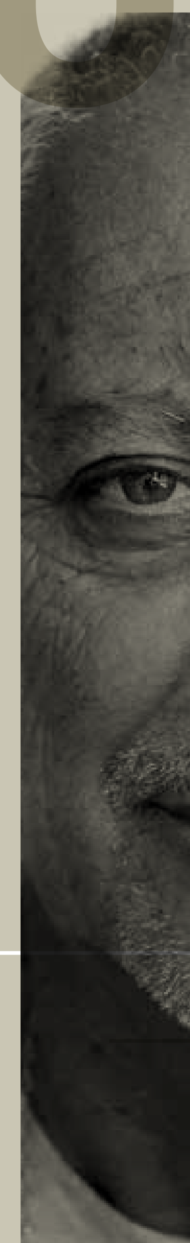
Three Ways to Determine How Much Life Insurance You Need



Life insurance is a financial tool that can help individuals accomplish a variety of financial goals. Most commonly, life insurance provides for dependent family members in case of premature death. Life insurance can also be used to fund certain goals, such as a child or grandchild's future college expenses. As an estate planning tool, life insurance can help pay federal and state estate taxes, as well as estate settlement costs. The ultimate gift can be given using life insurance by transferring wealth between generations and making charitable bequests.

In order to properly utilize this powerful tool to help an individual reach his/her financial goals, it is important to understand the methods for determining how much insurance is appropriate in a given situation. Because each person's situation is unique, each case must be approached with the individual's goals and objectives as the driving force behind assessing the insurance need. There are three popular ways to calculate an individual's insurance need.

1. Rule-of-Thumb Approach
This method of calculating an individual's insurance need is the most basic. It focuses on how much insurance coverage a family needs to replace a breadwinner's earnings while maintaining their standard of living. The general idea is that insuring for an amount equaling six-to-eight times an individual's annual salary will provide adequate coverage in most situations. A couple of variations to this approach can be used that may provide a more accurate calculation:

> Multiply the gross income of the breadwinner by five, then add in mortgage, other debts, final expenses, and any special funding needs (i.e., college expenses).

> Spend an amount on annual insurance premiums equal to 6% of the breadwinner's gross income plus another 1% for each dependent.

While this approach can provide a basic estimate of the insurance need, it does not take into account individual circumstances, such as the insured person's age, the age of the dependents, or whether the home is a one or two income household.

2. Income Replacement Approach

This approach uses the human value life concept to measure an individual's insurance need. The method states that the economic value of a life is the present value of the future earnings potential of that person.

The amount of insurance needed will equal how much the insured person will earn until retirement. This amount is based on a number of factors including current after-tax income, income growth rates, an after-tax discount rate (or expected future investment returns), and the remaining number of years the insured person is expected to work.

There are several potential adjustments to an individual's income to consider to calculate an accurate insurance need:

The current income value used should be adjusted downwards as self-maintenance expenses are not included in the portion of salary spent supporting the family. This means that any money spent on the insured will not be needed to support the family because the insured is deceased.

The cost for insurance premiums is not used to support the family once the insured is deceased. Those premiums will no longer be paid and should be excluded from the annual income amount.

The future income provided by social security survivor benefits should also be taken into account when calculating how much income is needed to maintain the family's current standard of living.

An income replacement approach will provide an insurance estimate based on the income of the insured that is spent on the family, taking into account income growth rates, discount rates, the working lifetime of the insured, and the insured's number of dependents.

3. Needs Approach

The needs approach is another simple formula that is used to calculate an individual's life insurance need based on several calculations.

> Sum all of the individual's short-term needs, which likely fall into three categories: final expenses (funeral, attorney, probate), outstanding debts (credit card, auto loan, college loans), and emergency expenses (medical, auto/home repairs).
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> ---
>
> Calculate all of the individual's long-term debts and obligations, such as mortgage and college tuition expenses, using the future value of money equation.
>
> ---
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> Calculate family maintenance expenses (i.e., living expenses), which include necessities such as food, clothing, utility bills, and transportation, using the future value of money equation.
>
> ---
>
> Calculate what resources an individual has to meet their needs. Resources include all available savings, stocks, bonds, mutual funds, and existing life insurance policies.

The remaining amount when resources are subtracted from income needs is the amount of life insurance an individual should consider. This number may be altered by eliminating any unnecessary expenses.

Short-term Needs
+
Long-term Needs
+
Maintenance Expenses
−
Resources

Insurance Needed

In general, this analysis should be done at least every three years, or when there is a major life event, like purchasing a home, the birth of a child, etc.

Life insurance may not be for every individual, but it can play an important role in the financial planning process when used appropriately. Each individual will have their own set of goals and priorities. By accurately calculating these needs and deciding which policy best suits them, one can help make sure those needs are met.

A financial planner or insurance expert can help guide someone considering a life insurance policy through the process of deciding how much insurance and what type of policy they will want, basing those calculations on family needs. Due to the complex tax treatment of insurance policies and their use in estate planning, it is important to consult qualified tax and legal professionals to ensure the policies selected are consistent with overall financial goals.

Veronica Van Nest, JD
Senior Wealth Management Consultant

When is Fair Really Fair?

The Treatment of Children in Estate Planning

When individuals are deciding how best to structure their estate plans, the question often comes up as to how to treat their children fairly. Unfortunately in estate planning, depending on the types of assets involved, treating all children fairly may not always mean treating them equally.

Family Business
Take the example of an individual who owns a family business, has some taxable investments, and a few retirement accounts. The family has three children, and only one of whom is involved in the family business. What approach is fair here?

Should the child who is involved in the business receive only that business as part of their share, while the siblings receive the remainder of the estate? What if the business is not doing well financially? Or the flipside, what if the business is the largest asset in the estate—far in excess of the other estate assets—what will the children not involved in the business receive? What if the child who is involved in the business no longer wants to be involved after Mom and Dad pass away?

What is the best way to treat each child fairly? With family business assets, there are several approaches.

One approach, if the business is the largest asset in the estate and the child wants to stay in the business after their parents' death, it might make sense for the child to receive the business as part of his or her share of the estate. He or she can then "buy out" the siblings' shares over time for any amount over and above what the siblings may receive from other assets in the estate. The child receiving the business then has the ability to receive the future profits of the business, but also has to continue to manage the business over time and suffer the losses on his own, while continuing to make payments to his or her siblings.

Sometimes with this approach, individuals will purchase life insurance and name the other children not involved in the business as the beneficiaries. This allows them to receive a chunk of money at the parent's death while also somewhat diminishing the amount the child continuing the business might have to pay to his or her siblings.

There are several factors for consideration when determining how to best transfer particular assets to your children.

Another approach, if the business were a small part of the estate, could be to pass the business to the child and make up the difference from other assets of the estate. This allows the child operating the business to receive some liquid funds from the estate (like his or her siblings) in addition to the business itself, to possibly offset the cost of continuing to operate the business. With either approach, the business' value comes

into question. Some wills include a provision requiring a number of appraisals be done of the business with an average being taken of those valuations in determining the final value. Other families may instead have an agreement in place between the parent/business owner and the business (or the child working in the business) that values the business based on a certain methodology chosen when the owner is alive. No one valuation method must be used, and no method is wrong as long as there is some methodology used for the valuation.

The best plan to ensure your estate does not devolve into infighting is to first decide who is to receive what specific items.

Family Vacation Home
The family vacation home is another asset which may lead to fair, but unequal treatment among the children. Often, we see individuals pass the family vacation home to all of their children, or at least allow all of the children a right to purchase the vacation home based on property appraisals.

The questions that generally arise here are: Who will pay the upkeep, property taxes, utilities, etc., for the property? Who decides what upkeep is necessary, and who is allowed to stay at the property at any given time? What about the child who lives thousands of miles away and would never use the vacation home? Sometimes, that child may receive something else from the estate in lieu of the property.

To assist with the expenses related to the property, an individual may provide for a sum of money to be held in trust to pay the expenses, tax, and upkeep of the property. The struggle with this approach is how to know there is enough money in the trust, and what happens when the money in the trust is exhausted. Who pays the bills then? When you have

children of different financial means, which is commonly the case, this is often a very difficult question to answer, and it can ultimately lead to the need to sell the property, a result that no one wants.

There is no right or wrong rule for how to handle the vacation home. Each situation is unique. Members of the family know who will use the property, who can pay to keep the property if any trust funds run out, and which children get no interest in the property. If that situation exists, the most fair and equitable method may be to allow each child the right to purchase the property or, if no one can do that, to authorize the sale of the property.

In a different scenario, there may be a family property that two out of three children want to sell (or cannot afford to keep), and one child that wants to keep in the family. Generally, this may only be resolved with some court action, unless the children can ultimately come to an agreement. For these reasons, it is very important to have a discussion with your children about how the property will be managed after your deaths to ensure that everyone is on board and has the financial means, if necessary. In some cases, the only alternative may be to sell the property if the children cannot work out how to keep the vacation home.

Personal Property

Not everyone wants Mom's china and crystal or Dad's coin collection. When any personal property item has a substantial value associated with it, the value must be considered in dividing personal property among your children.

Most often, individuals either provide for the property to pass "in equal shares" or allow the children to choose items they may want and make up any dollar difference with other estate assets. This is generally fair, although it may be unequal. If two children want the same item, then the question becomes how to resolve the fairness issue.

"Fairness" can be resolved by an executor, but what if the executor is one of the children who wants the item? Now what happens? Every estate attorney has stories of families who've feuded over personal property. We've seen one involving five children who could not agree on the distribution of the property, leading to an estate sale and ensuing arguments about the true value of items. Ultimately, family relationships were broken.

The best plan to ensure your estate does not devolve into infighting is to first decide who is to receive what specific items. Giving items to your children early, or making a list to be used in conjunction with your will, can help ensure everyone understands the intended recipient. Having tough conversations with your children about which child may receive specific items may avoid a dispute altogether.

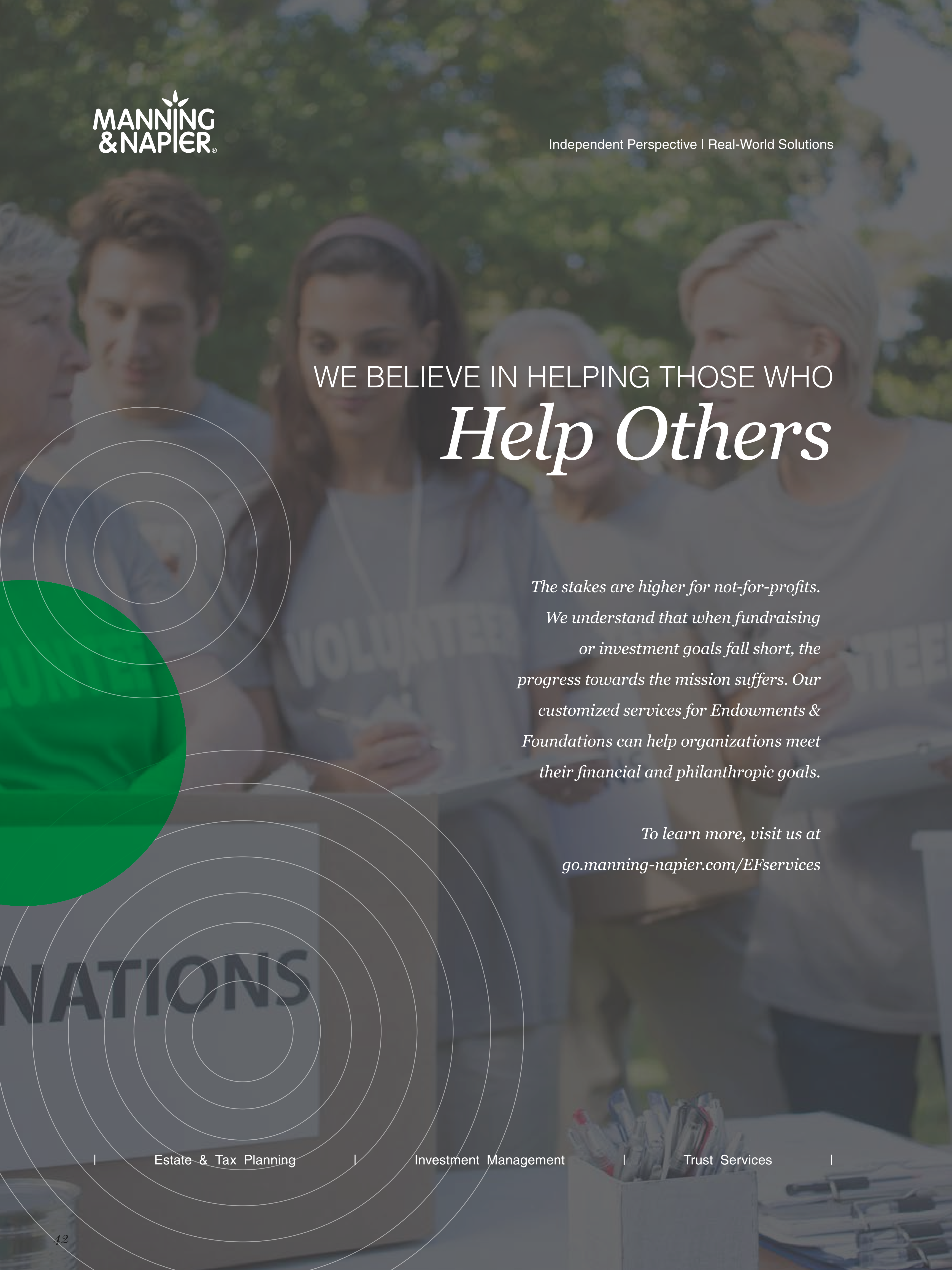
Fair Is Not Always Equal

In addition to considering the different approaches for how certain items in your estate may be distributed, there are other factors to consider.

Depending on the particular asset, there may also be income tax consequences. For example, if one child receives the family business and the other receives the retirement accounts, the transfer of the business to the child would generally not incur income tax if transferred at the parent's death, since the business would receive a step up in basis to the date of death value. Taxes would then be incurred on any future sale of the business if the sale price exceeded that date of death value.

Alternatively, the child who receives the retirement accounts will pay income tax every time he or she withdraws funds from the retirement accounts. What is initially fair in dollar amount may not result in equality because of the income tax burden.

There are several factors for consideration when determining how to best transfer particular assets to your children, including potentially weighing the income tax consequence. For that reason, it is important to give significant thought to the transfer of these particular assets and the impact on not only the individual receiving them, but also the overall family dynamic that will result.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Dana Vosburgh, CFP®
Director, Family Wealth Management

Charitable Giving Strategies Under the New Tax Law

The Tax Cuts and Jobs Act made sweeping changes to our tax laws when the bill was signed in December 2017. One of the many significant changes was to the amount of the standard deduction. The standard deduction is an amount that the IRS allows all tax filers to deduct from their income each tax year, and it was nearly doubled from the prior law to $12,000 for single filers and $24,000 for joint filers.

As an alternative to the standard deduction, tax filers also have an option to itemize deductions. Itemizing deductions is a process of compiling various IRS approved deductions, reducing income for the year. When the cumulative value of those deductions exceeds the standard deduction, it naturally makes sense to itemize.

The much higher standard deduction will likely appeal to far more taxpayers than before, although the charitable deduction is still available for taxpayers who still choose to itemize deductions. As a result of this tax law change, there are three key planning strategies to consider for those with charitable goals.

"Lumping" Charitable Donations

Prior to the passing of the Tax Cuts and Jobs Act, approximately 37 million tax filers itemized their deductions. Many of those itemized filers made charitable donations on an annual basis, deducting those amounts from their income. In addition to helping an important cause, those small donations also provide a tax benefit to the donor.

Under the new tax law, approximately 21 million filers who previously itemized will instead use the standard deduction, surrendering the tax benefit of their annual donations. While many will likely continue to donate to their favorite charities with or without a tax benefit, there is no doubt that the new law will impact the incentive to give, although it's difficult to predict the magnitude.

One strategy that may appeal to donors is to "lump" several years' worth of small annual donations into one tax year. For example, suppose a single filer has $10,000 in itemized deductions before charitable donations. These itemized deductions would have meaningfully exceeded the standard deduction amount in the prior tax law, but not under the new law.

If that person typically donates $1,000 to various charities during the year, the total itemized deductions will be $11,000, still below the new standard deduction level. Although this person benefits from the new tax law with a $12,000 standard deduction, the tax benefit of the charitable donations is lost.

On the other hand, grouping three years' worth of $1,000 donations can push the total itemized deduction to $13,000 for a year, clearing the hurdle of the new standard deduction and providing a tax benefit in the year the lumped donations are made. The taxpayer can continue to use the standard deduction in the two non-donating years.

This approach is a strategy that can provide an ongoing tax benefit while also encouraging donations to important causes, although it will likely take some getting used to for many individuals and charitable institutions.

Donor Advised Funds

If more people start donating larger sums to charities, we can expect a rise in the use of donor advised funds or charitable trusts. Donor advised funds, in particular, can be appealing for both the control they provide over the donation timing and the ease of administration.

A donor advised fund is a pooled charitable vehicle that is operated and controlled by sponsoring organizations such as a community foundation or financial services organization. They allow donors to establish and fund an account by making irrevocable, tax-deductible contributions of cash, appreciated securities, or other personal property to the charitable sponsor.

In the example used for the "lumping" strategy, a donor advised fund could work very well. A hypothetical $3,000 donation can be made to a donor advised fund, a tax deduction can be received, and the actual donations to the charities can continue to be made on an annual basis. This allows the charity to continue receiving the $1,000 amount per year as opposed to the one-time lump sum.

Also, if the taxpayer has any highly appreciated securities, those securities can be gifted to the donor advised fund in-kind. In-kind donations allow the donor to avoid capital gains tax, and they enable the fund to invest the assets over time without capital gains taxes when the security is eventually sold.

Sources: Forbes and Tax Policy Center.

Qualified Charitable Distribution:
Taking advantage of the qualified charitable distribution (QCD) may be more valuable than ever under the new tax law. A QCD allows an IRA owner age 70 ½ and older to give up to $100,000 from his/her IRA directly to a charity of the owner's choice. The benefits of a QCD can be significant because it counts towards satisfies charitable giving, counts towards satisfying the RMD for that year, and has tax advantages for the IRA owner and charity.

For example, the charity does not pay income tax on the distribution it receives, and although the IRA owner does not receive an income tax deduction for the contribution, the amount of their RMD donated to charity comes out tax-free. This may put the IRA owner into a lower income tax bracket and may allow the IRA owner to avoid certain penalties that come with a higher adjusted gross income, such as higher Medicare premiums, the 3.8% tax on net investment income (if they own taxable accounts), and perhaps minimize or avoid the alternative minimum tax.

QCD Considerations

The IRA owner must be age 70 ½ or older (i.e., subject to RMDs).

There is a $100,000 limit per taxpayer per year.

The charity must be a 501(c)(3) charitable organization (note that donor advised funds and private non-operating foundations do not qualify as a 501(c)(3) charitable organization per IRS rules).

To make a qualifying distribution, you must direct the IRA custodian/trustee to send the distribution directly to the charity (or you can request a check made payable to the charity).

The QCD can be very appealing for individuals who may not rely on their full RMD amount to meet annual spending needs, and who are interested in making charitable donations. It's important to consult with your tax advisor to determine if any of the strategies outlined above are appropriate for your specific charitable goals.

The Hidd
of Estate

To Plan or
Not to Plan

I will often hear a client say they do not want to pay an estate planning attorney to prepare their estate planning documents: "Attorneys are too expensive," or "I can have my friend do it for me," even if the friend is not an estate attorney. Too often, this results in both financial and emotional issues when the client passes without a will or a power of attorney, or when the will they have fails to distribute their estate as intended.

Costs of Estate Planning or Not Estate Planning
Everyone should at least have a will, a revocable trust, a power of attorney, a health care proxy, and a living will. If an individual does not have a will or a revocable trust, there can be additional costs associated with the probate of the estate, and the individual may not be able to provide for how the estate will be distributed. State statutes in which the individual lived will determine the distribution.

Without a will, the courts will decide who is named as the executor of your estate. If you have minor children, the court will determine who will act as their guardian. While an individual you name as your executor or guardian may choose not to be paid, it is common to pay those individuals when the court is involved.

There are costs to having relatively simple wills and/or revocable trusts prepared (see page 48). It is important to remember, however, that a properly funded revocable trust may also allow you to avoid or at least minimize probate costs. Therefore, the costs have some added benefits.

If you do not have these documents in place, relying instead on the court to choose your executor, guardian, and the distribution of your estate, you are probably looking at significant attorney fees. These fees are commonly

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den Costs Planning

Estate Planning

billed on an hourly basis, and they can be substantial, especially if there is any disagreement among the heirs as to how to proceed with the estate administration.

Likewise, the power of attorney, health care proxy, and living will are extremely important if you ever become incapacitated and are unable to manage your own affairs. If you do not have these documents in place, as the chart on the following page shows, the cost can be very high as court involvement will be required. Known as a guardianship proceeding, the court will have someone appointed to assist you with your finances or make health care decisions for you.

The Costs Are Not Always Financial

Clients have a number of reasons why they put off having estate planning documents completed. Couples may not be able to agree on matters such as appointing guardians for their minor children or whether trusts should be established for a child who may or may not be responsible with money—an answer that often depends on which parent you ask. There may also be a struggle over who to appoint as an executor or trustee, if there is no one they think can take on those responsibilities. These are just some of the reasons I have heard as to why clients may choose not to have estate planning documents prepared. Once clients understand how their estate would be administered if they do not have wills, and the impact on their family in that process, they usually decide to contact an attorney.

For example, in New York, if you pass away and leave a spouse and children, your spouse will not receive your entire estate. This is contrary to what most people believe. Instead, your spouse will receive $50,000 plus one half of the residuary estate after expenses, along with some small cash items, personal property, and at least one automobile. Your children will receive the rest.

Take the case of a young spouse with very young children when her husband dies without a will. Not only will there be additional court costs, since she will need to be appointed as the administrator of the estate and guardian of the property for her minor children, but there may be additional attorney fees as the court can appoint an attorney to represent the children in the proceedings. The children may have to speak with that lawyer directly which, depending on their ages, may be troubling to them emotionally after losing a parent.

In addition, the spouse will have access to much less funds to support herself and the children than she would have if there were a will that left everything to her. The children's accounts will need to be set up as joint accounts with her and the court, and she will need to receive court approval on any withdrawals from those accounts until the children reach age 18.

The children will have complete access to any funds in those accounts when they are 18, which may not be ideal, depending on the amount and the child's financial literacy. A good majority of the emotional distress and financial upheaval that the spouse and children

Document/Court Proceeding	Average Cost
Will including trust for minors (basic)	$1,200 - $1,500
Revocable trust	$1,500 - $2,500 (Note: There may be no probate fees/expenses if all assets are titled in the name of the trust before you die.)
Probate or administration proceeding in New York State	Up to $1,250 for court filing fees (depending on size of estate) + hourly attorneys' fees
Executor's commissions in New York State	Based on percentage of the estate: $34,000 on an estate of $1 million
Guardian's commissions	Usually set by the court, but can be similar to executor's commissions if the court so chooses

may endure because of this process could be avoided with a simple will, leaving all assets to the spouse, and a trust for the children until a certain age.

In the alternative, what happens if both parents die in an accident, leave minor children, and do not have a will? Who will be appointed as the guardian for the children and have custody? What if there is conflict between sides of the family as to who will be appointed? While the courts ultimately have the final say in who will be appointed as the guardian of any minor children, as well as the guardian of the property—they can be different people—having a will in place outlining those decisions typically holds weight with the court even if there is conflict.

Without a will, the court has the ultimate decision on the appointment of guardianship since it is open to interpretation, and the children will be put through even more emotional turmoil, potentially being placed in a different living environment, until the final decision is made by the courts. Again, this scenario could be avoided by having a will prepared that includes those appointments.

Finding an Attorney and Moving Forward

Once the decision is made to move forward with preparing estate planning documents, we are often asked for advice on finding an attorney. For most people, you will want an attorney who specializes in estate planning, and who can walk you through the documents, the probate process, and any other potential issues for you to consider.

In addition, once you have signed documents in place, you should consider reviewing and amending them as life circumstances change. Common examples include: as your children get older and you choose to appoint them as executors or trustees of the will; once grandchildren are born and you want to provide for them; as tax laws change; and if there is a divorce or death in the family.

Making an appointment with an attorney is the hardest step of the process. Once the appointment is made and the documents are signed, you can take comfort in knowing that you have made the financial and emotional life of your spouse and children a little easier.

Document/Court Proceeding	Average Cost
Power of attorney	Up to $200
Health care proxy	Up to $200
Guardianship proceeding	$10,000 or more depending on the amount of court appearances, conflict among parties, etc.

Source: SpecialNeedsNewYork.com

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Doing Well While Doing Good

A Primer on Socially Responsible Investing

Socially responsible investing (SRI) strives for not only a financial return, but a social benefit as well. Investor interest in SRI strategies has boomed over the last several years. Although there's no specific definition of what constitutes an SRI strategy, it is estimated that total US-domiciled SRI assets have grown to $12 trillion in 2018, a 38% increase over 2016.

In our view, SRI interested investors should have a clear understanding of the ethical concerns they want to address, as well as the range of different investment options available. The key is to match your ethical motivations with an appropriate investment strategy. To help with this, we've defined three broad approaches to SRI and provided examples of each.

Negative Screening

What is it? – The exclusion of certain securities or companies based on business practices or industries that fail to meet an investor's ideals.

Examples – Avoiding companies that derive a significant amount of revenue from "sin" industries such as weapons, alcohol, adult entertainment, etc. Avoiding entire industries such as coal mining or defense contractors that an investor does not wish to be associated with.

Investment Considerations – Screens can generally be applied across many different investment strategies and processes. It's important to note the impact negative screening might have on the number of options in an investable universe.

Integrated ESG Factors

What is it? – The inclusion of specific environmental, social, and governance (ESG) factors when considering potential investments. This process is designed to explicitly prefer certain securities that have favorable ESG characteristics. The hope is that investors can avoid unforeseen risks that less favorable companies might be exposed to.

Examples – Many data providers create ESG scores on individual companies and issues. Common factor inputs include environmental (climate change impact, history of fines and regulatory compliance, policies), social (human rights policies, workplace and product safety, workplace diversity, animal testing), and governance (board compensation and independence, board diversity, corporate transparency).

Investment Considerations – ESG scoring factors can be applied to many different investment strategies. Unlike negative screening, however, the investment manager integrates ESG considerations directly into their investment process, choosing what factors to apply and how. As a result, investors may have less involvement in what securities are specifically included and why.

Impact Investing

What is it? – Targeted investments aimed at directly tackling social or environmental problems. The biggest distinction is that investors are more directly involved in achieving a specific goal with their investment.

Examples – An equity or debt investment might be directed toward a business targeting underserved individuals or communities in the areas of housing, energy, microfinance, food security or education.

Investment Considerations – Impact investing is most akin to private equity or direct loans. Significant due diligence might be required to effectively vet, monitor, and value investments. Liquidity constraints may make it difficult to move assets on short notice.

The key is to match your ethical motivations with an appropriate investment strategy.

Getting the lay of the land in SRI investing is a good start, but the next step is to formalize your motivations. This is much more of a personal process and harder to generalize. Some investors have a moral mission they want to accomplish (i.e., disagreeing with certain businesses or industries and wanting to avoid them). Other investors might think of SRI in terms of risk (i.e., governance issues at certain companies might portend bad news in the future). Still others might think of it as a way to identify attractive investments (i.e., believing that ethical companies and products will outperform over time).

The reality is that all of these reasons hold merit, but are far from the only factors to consider. Strong fundamentals like cash flow, profitability, stable sales and healthy balance sheets are also important, as are price factors like valuations and yields.

Of course it is best to consider more than SRI in a vacuum by itself. We believe it is best to consider SRI as part of a broader investing strategy. Only then can investors have an opportunity to do well financially and ethically.

Source: AP News.


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Financing a College Education

Investments

The cost of an undergraduate education has skyrocketed over the past several decades, and in the last ten years alone, the increase in college cost has exceeded the increase in the cost of most goods by an average of 3.2% per year. This number can vary based on whether a student attends an in-state public school, an out-of-state public school, or a private school. Helpful information about the expected costs of education by state and type of institution can be found on the College Board website.

The cost of a college education has gone up 4.6x since 1986.

With education costs growing, it's important for families to have an efficient way to save. Currently, all fifty states and the District of Columbia offer at least one type of 529 plan, or qualified tuition program, which provide tax-advantaged savings options for future education costs. There are two types of 529 plans: education savings plans and prepaid tuition plans.

In order to help you make an informed decision regarding college education funding, general information and the advantages and disadvantages of each funding vehicles are outlined below.

Educational Savings Plans

These are state sponsored investment accounts, which provide for saving for the beneficiary's future qualified higher education expenses. Withdrawals from educational savings plan accounts can generally be used at any college or university and also can be used toward private elementary and secondary school tuition up to $10,000 per year. Each state has its own set menu of investment options.

Advantages
Accelerated gifting allows individuals to contribute 5 years of gifts ($75,000 per beneficiary) in a single tax year
Can be used for all higher education expenses (tuition, room & board, books, etc.)
Can invest in non-residing state's plan
Contributions qualify for the annual gift tax exclusion (i.e., $15,000 in 2019)
Contributions are income tax-deductible in some states
Generally have a low impact on financial aid eligibility
High limits (most state limits exceed $300,000 per beneficiary)
If the beneficiary receives a scholarship, dies, or is disabled, the 10% penalty on withdrawals may be waived
No limit on the number of accounts that can exist per beneficiary
States may allow up to $10,000 per year in primary and secondary school tuition costs
Tax-deferred growth and tax-free qualifying distributions
The account owner retains control and may change the beneficiary to a different qualified family member tax-free
The assets are excluded from the donor's gross estate
There are generally no beneficiary age restrictions

Disadvantages
The investment options may be limited and may be changed only once or twice every twelve months
The account is exposed to market volatility
Rollovers or changing the beneficiary may be subject to state and/or generation skipping transfer taxes (can only occur once every 12 months)
Depending on the account owner's state of residence, the assets may or may not be protected from creditors
Non-qualified withdrawals are allowed, but earnings are taxed as ordinary income and incur a 10% penalty. Contributions may incur retroactive state income taxes
May include sales loads (as high as 5% or 6%). Investment fees may be as high as 2%

Prepaid Tuition Plans

Prepaid tuition plans are sponsored by the state or by the higher education institutions themselves. The donor buys credits at today's tuition rates to essentially "lock in" the amount paid for a particular college or group of colleges. The credits are used to pay future tuition costs, even if the price of tuition increases significantly.

Advantages
Contributions qualify for the annual gift tax exclusion (i.e., $15,000 in 2018)
Accelerated gifting allows individuals to contribute 5 years of gifts ($75,000 per beneficiary) into a single tax year
Contributions are income tax-deductible in some states
High limits (most states' contribution limits exceed $300,000 per beneficiary)
Tax-deferred growth and tax-free qualifying distributions
The account owner retains control and may change the beneficiary to a different qualified family member tax-free
The assets are excluded from the donor's gross estate

Disadvantages
If the beneficiary attends a non-participating college with higher costs, the plan may not cover the full cost of tuition
Few states continue to offer plans, and many state programs have residency requirements
Many plans limit distributions to tuition and mandatory fees
Upside investment potential is limited to the growth in the cost of the covered college's tuition
There may be a required waiting period prior to withdrawals
Plans may not allow a non-qualified withdrawal of earning
If allowed, earnings will be taxable as ordinary income and incur a 10% penalty
Non-qualified withdrawals of contributions may incur retroactive state income taxes

ABLE Accounts

A third type of 529 plan was added in 2014 through the Achieving a Better Life Experience (ABLE) Act. The act expanded the use of 529 plans to create 529 ABLE accounts for individuals with disabilities. The ABLE accounts can be used for education costs but also for other expenses relating to living with a disability. ABLE accounts are similar to 529 education savings plans in that they are investment accounts sponsored by a state with a set menu of investment options and with tax-free withdrawals of earnings when used for qualifying expenses. Like special needs trusts, ABLE accounts are meant to supplement, not replace, any government benefits and private insurance.

The ABLE Act made the offering of an ABLE account mandatory for each state, although some states are still in the process of creating their ABLE programs. In the meantime, several states offer their programs nationwide. More information on ABLE accounts and tools to compare various state programs can be found at their website.

Advantages
Individuals diagnosed as blind or disabled before age 26 are eligible for lifetime participation
Tax-deferred growth and tax-free qualifying distributions
Contributions are income tax-deductible in some states
With the exception of NY's ABLE plan, contribution limits exceed $300,000 per beneficiary
The first $100,000 is disregarded for Supplemental Security Income purposes (all assets are disregarded for Medicaid)
Donors can contribute up to $15,000 in 2018, and working beneficiaries may contribute up to an additional $12,060 from earned income in 2018
Can be used for any expenses relating to living with a disability
A qualifying sibling could be named as the new beneficiary
529 Education Savings Plans can be rolled over, up to the annual contribution limit ($15,000 in 2018)
Upon the beneficiary's death, outstanding expenses can be paid penalty-free and before the Medicaid clawback (if applicable)
Can invest in non-residing state's plan
Typically low cost (investment fees under 0.60% and no sales loads)

Disadvantages
Only one ABLE account can be opened per beneficiary
Total 2018 contributions from donors limited to $15,000
No accelerated gifting, like with 529 Plans
Accounts are owned and maintained by the beneficiary, donors do not retain control and cannot change the beneficiary
The account is exposed to market volatility
The investment option can typically only be changed twice every twelve months
There may be a Medicaid clawback at the beneficiary's death
Changes to the beneficiaries are limited to qualifying siblings
Non-qualified withdrawals are allowed, but earnings are taxed as ordinary income and incur a 10% penalty
Most states charge a flat annual maintenance fee (i.e., $30 - $60 per year) separate from any asset-based investment fees

Sources: College Board and Saving For College, LLC.

PROTECTING DATA

Meaghan Williams
Mid-Market Associate

Protecting Your Data in the Digital Age

Several organizations have made headlines for being hacked by cyber attackers. One of the more notable security breaches was Equifax, one of the three large American credit agencies, in March of 2017. Yahoo, eBay, Heartland Payment Systems, Uber and JP Morgan Chase are just a few of the companies that have also been impacted by these attacks in recent years.

Every single day we use websites and web-based services that have access to our Social Security number, date of birth, credit card and banking information, and much more. While our security systems continue to take steps to protect against these threats, the attackers also continue to get more sophisticated. It is important to be aware of these threats and take the necessary precautions to protect your personal information.

Cyber attacks can come in many forms. One method is called phishing. Phishing is when a scammer uses fraudulent emails or texts to get you to share personal information, which they can then use to steal your identity. The Federal Trade Commission outlines several ways to protect yourself from this type of attack:

Be cautious when opening attachments or clicking links in emails.
These links or attachments could look like they are coming from a trusted source; oftentimes it comes from a friend or family member's email address that has been hacked. These links could contain software that is intended to damage your computer and/or weaken your computer's security system.

Pick up the phone if you are unsure.
Do not respond to any emails that request personal or financial information. Phishers prey on fear and will often have a sense of urgency in their emails. If you think a friend, family member, or company really does need your personal information, give them a call first to make sure it was actually them that sent the email.

Back up your files.
Back up your files regularly in a separate location, so that important files are protected in the event of a virus or a ransomware attack.

These tactics are not the only ways for hackers to obtain your personal information. It is important that while you are browsing the internet you always make sure you are using a secure site. A secure site will have a lock icon next to the web address in the address bar of your internet browser. If it does not indicate that it is secure, be extra careful when entering or sharing any personal information.

Of course, it is also imperative that you make sure that all passwords are unique and difficult for someone to figure out. When you can, make sure you include letters, numbers and special characters. Avoid using simple words or numbers as hackers can figure those out quickly. A password manager application can help to keep things straight when managing numerous passwords and security questions.

What to do if you think your information has been compromised

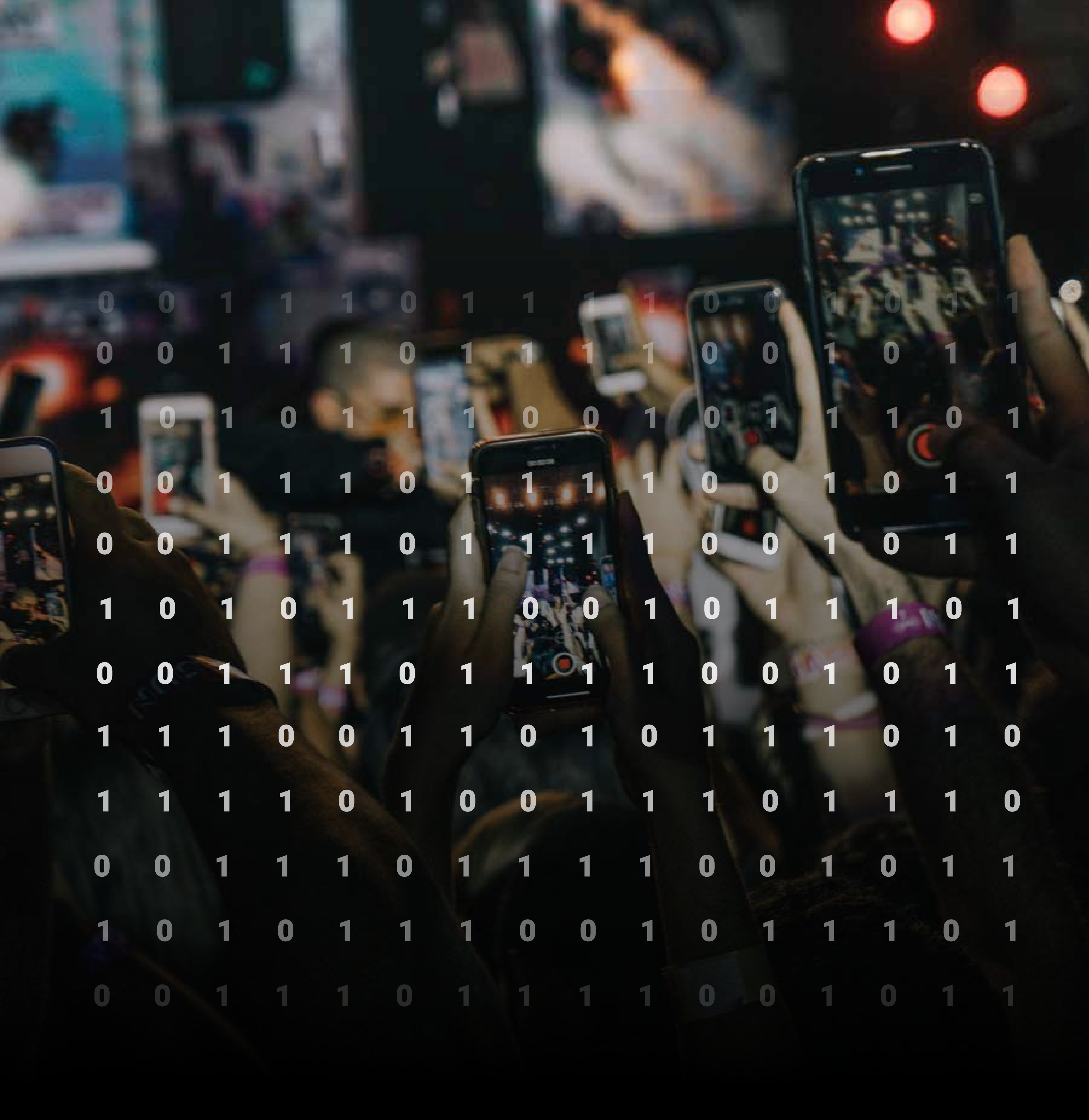
The Federal Trade Commission recommends several steps that you can do on your own, if you suspect that your information may have been stolen:

Check your credit reports and monitor existing accounts.
The website www.annualcreditreport.com entitles you to a free annual review of your Equifax, Experian and TransUnion credit reports. You can also sign up for many different paid credit monitoring services that will alert you if they see activity in your name that you may not know about.

Request a fraud alert on your credit file.
Contact one of the three credit reporting agencies and place a fraud alert on your credit file. This makes it harder for hackers to steal your identity since it requires additional identity verification in order to open an account in your name. This lasts for 90 days, but can be renewed.

Change your passwords.
If you suspect that someone has gained access to your personal information via a website or app login, make sure to change the passwords on other accounts.

For more information about cyber security, reporting fraud, and resources to help if you if you feel that your personal information has been stolen, visit www.consumer.ftc.gov. You can better protect yourself against stolen personal information and fraud by following these tips, and maintaining diligence when sharing your personal information with people or websites.



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Dana Vosburgh, CFP®
Director, Family Wealth Management

How Investors Should Handle Market Selloffs

Riding the Rollercoaster of Volatility

When times are good, investors tend to think the good times will go on forever; and when times are bad, it can feel like the pain will never end.

Heading into the end of last year, investors were enjoying one of the longest bull markets on record. US stocks reached levels up over 400% from their 2009 low, scraping new all-time highs seemingly every day.

As the market gained steam, some investors may have been tempted to think 'this time is different,' and that the market was poised for ever higher gains. At the end of last year, those fanciful hopes came crashing down in one of the stock market's worst fourth quarters in recent memory.

The enthusiasm that preceded the market selloff quickly turned despondent. By mid-December, the stock market was falling seemingly every day, culminating in a brutal selloff on December 24th in what was the worst Christmas Eve trading day ever. Amid all the volatility, fundamental analysis was overlooked. Investors traded on emotion as selling beget more selling.

As we now know, neither the optimistic views of early 2018, nor the pessimistic views during the fourth quarter were appropriate based on the underlying economy. They do, however, highlight how financial markets can quickly become sentiment-driven as proper analysis takes a backseat.

Market Downturns Do Happen

No matter how hard policymakers try to stabilize the financial system, market panics still happen. They are inherent in our economic system and are rooted in basic human nature. The longer times are good, the more likely people are to forget about what caused the bad times, building more risk in the system. This cycle has played out time and again.

Before the Global Financial Crisis, for example, few thought real estate prices would ever go down. Real estate enthusiasm became so great that even the burst of dot com bubble failed to slow the exorbitant rise in home prices. When the housing market finally rolled over, the risks built into the system blew up with tremendous force, bringing the entire global economy to its knees. Only with a massive spending package—the Troubled Asset Relief Program (TARP)—were home prices able to be stabilized.

"Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits." –Hyman Minsky

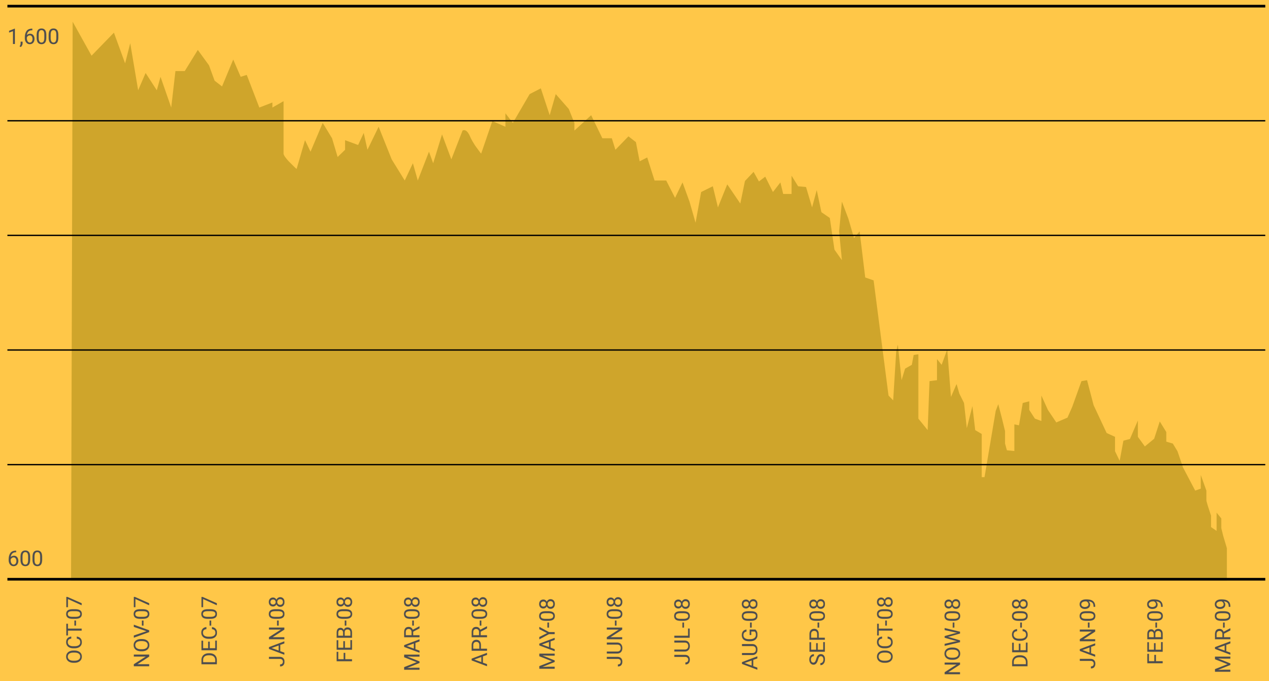
Over modern financial history, the US stock market has experienced a number of these moments when instability struck and financial markets paid a price. In an analysis of the past 80 years, we found 11 major stock market drawdowns, defined as selloffs of 15% or more, a rate of at least one per decade.

ELEVEN DRAWDOWNS OVER THE PAST 80 YEARS

Event	Sell off Length (Months)	Percent Decline	Time to Recover (Months)
Pre-WW2 (11/30/1938 - 04/30/1942)	41	40%	73
Post-WW2 (05/31/1946 - 06/30/1949)	36	24%	48
Recession of 1958 (07/31/1956 - 12/31/1957)	17	17%	25
Cold War Crisis (12/31/1961 - 06/30/1962)	5	22%	20
Baby Bear (01/31/1966 - 10/31/1966)	9	17%	19
Political Turmoil (12/31/1968 - 06/30/1970)	17	29%	39
OPEC Embargo (01/31/1973 - 12/31/1974)	23	43%	90
Volcker Recession (11/30/1980 - 07/31/1982)	20	19%	24
Black Monday (08/31/1987 - 12/31/1987)	4	27%	23
Dot Com Bubble Burst (08/31/2000 - 02/28/2003)	29	44%	81
Global Financial Crisis (10/31/2007 - 03/31/2009)	17	51%	65

Source: Robert J. Shiller. The eleven drawdown time periods shown above are defined as having distinct drawdowns (15% or more) based on monthly S&P 500 Price returns since 12/01/1937. See page 67 for important disclosures.

MARKETS DO NOT FALL IN STRAIGHT LINES
(DAILY INCREMENTS)



PEAK-TO-TROUGH: S&P 500 INDEX

Source: Bloomberg. See page 67 for important disclosures.

These selloffs were no small matter (see table to the left). Across the 11 market pullbacks, the median drawdown was a loss of 27% and lasted 1.5 years. Investors should also note that the more recent market selloffs have worsened in both size and duration.

Drawdowns of this scale can put pressure on personal finances. In a worst case scenario, major market selloffs can push desperate investors into forced selling at rock-bottom prices.

We also suspect that the typical market selloff might be worse than many remember. It is easy to see the market cycles in hindsight, but in real time, it is extraordinarily difficult to predict the exact moment when markets hit highs and lows.

Referring back to the Global Financial Crisis example (see chart to the left), the market selloff actually included several periods of temporary strength on its way from peak to trough. False rallies in the spring and summer of 2008 may have led some investors to buy into the market too early. Those investors caught a so-called 'falling knife' and paid dearly in their attempt to time the recovery. The history of stock market panics are littered with these examples, and it highlights the difficulty in timing exact market tops and bottoms.

In the end, it would take the S&P 500 four years to eventually recoup its losses. By comparison, the recovery from the dot com bust was actually even worse, having lasted three months longer. Over the 11 market selloffs we studied, the median time in drawdown (from peak to trough, and then back to original peak) was an extensive three years.

A sustained three year bear market can seriously challenge an investor's financial objectives. Forced selling, required or otherwise, at below fair value prices can cause permanent capital loss and significantly damage long-term financial progress.

What You Can Do
The best time to prepare your finances for future volatility is when times are good. It is easier to make significant adjustments when liquidity is flowing and prices are fair, of which, disciplined asset allocation plays a leading role. That's why it's critical for investors to have appropriate risk controls and avoid chasing returns at the wrong time.

"But how do we know when irrational exuberance has unduly escalated asset values?" – Alan Greenspan

To remain disciplined and mitigate unnecessary risk, investors should periodically evaluate their own financial situations. This includes establishing a plan for an investment portfolio, if one doesn't yet exist, or revising the plan as time passes or as life events unfold.

When constructing a financial plan, it's vital to have clearly defined goals and objectives. The plan should outline appropriate investment strategies for meeting the objectives for different pools of investments (e.g., taxable investments or retirement investments). It should also include specific information on asset allocation and risk tolerance. These details define appropriate risk thresholds, which form the basis of risk management. A solid understanding of why these limits exist can help investors avoid chasing market returns in the heat of a bull run.

The Best Time to Buy
Within predefined limits, investors should look to add risk when others are most fearful. These moments are often defined by panicked selling. Frantic selling during the Global Financial Crisis led to collapsing home prices, something few ever saw as possible. With many homeowners underwater, the selloff was a once-in-a-generation opportunity for prospective buyers.

These lessons illustrate how chasing returns in a bull market can lead to painful losses. Instead of trying to time market downturns, investors should focus on what they can control such as adjusting expenses and regular financial monitoring. In managing these variables, investors can ensure that they aren't completely dependent on the whims of the market.

Consult with an attorney or a tax or financial advisor regarding your specific legal, tax, estate planning, or financial situation. Examples provided within are 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 services.

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For the Stock/Bond portfolio examples shown for this analysis, stocks are represented by the S&P 500 Total Return Index and bonds are represented by the Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index. The S&P 500 Total Return Index is an unmanaged, capitalization-weighted measure comprised of 500 leading U.S. companies to gauge U.S. large cap equities. The Index returns do not reflect any fees or expenses. The index accounts for the reinvestment of regular cash dividends, but not for the withholding of taxes. Index returns provided by Bloomberg. S&P Dow Jones Indices LLC, a division of S&P Global Inc., is the publisher of various index based data products and services, certain of which have been licensed for use to Manning & Napier. All such content Copyright © 2019 by S&P Dow Jones Indices LLC and/or its affiliates. All rights reserved. Data provided is not a representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein. The U.S. Intermediate Government Bond data is reflective of the Ibbotson Associates SBBI U.S. Intermediate-Term Government Bond Index, which is an unmanaged index representing the U.S. intermediate-term government bond market. The index is constructed as a one bond portfolio consisting of the shortest-term non-callable government bond with no less than 5 years to maturity. The Index returns do not reflect any fees or expenses. Index returns provided by Morningstar.

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The S&P 500 Price Return Index is an unmanaged, capitalization-weighted measure comprised of 500 leading U.S. companies to gauge U.S. large cap equities. The Index returns do not reflect any fees, expenses, or adjust for cash dividends. S&P Dow Jones Indices LLC, a division of S&P Global Inc., is the publisher of various index based data products and services, certain of which have been licensed for use to Manning & Napier. All such content Copyright © 2019 by S&P Dow Jones Indices LLC and/or its affiliates. All rights reserved. Data provided is not a representation or warranty, express or implied, as to the ability of any index to accurately represent the asset class or market sector that it purports to represent and none of these parties shall have any liability for any errors, omissions, or interruptions of any index or the data included therein.

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