

# WealthMonitor

## RBC Wealth Management

Shaeffer Investment Group  
2800 Quarry Lake Drive  
Suite 260  
Baltimore, MD 21209  
410-318-5096  
877-805-3672  
shaefferinvestmentgroup@rbc.com  
www.shaefferinvestmentgroup.com

## What Happened to Your Money?



If you don't know what happened to your money during the past year, it's time to find out. December and January are the perfect months to look back at what you earned, saved, and spent, as W-2s, account

statements, and other year-end financial summaries roll in.

### How much have you saved?

If you resolved last year to save more or you set a specific financial goal (for example, saving 15% of your income for retirement), did you accomplish your objective? Start by taking a look at your account balances. How much did you save for college or retirement? Were you able to increase your emergency fund? If you were saving for a large purchase, did you save as much as you expected?

### How did your investments perform?

Review any investment statements you've received. How have your investments performed in comparison to general market conditions, against industry benchmarks, and in relationship to your expectations and needs? Do you need to make any adjustments based on your own circumstances, your tolerance for risk, or because of market conditions?

### Did you reduce debt?

Tracking your spending is just as important as tracking your savings, but it's hard to do when you're caught up in an endless cycle of paying down your debt and then borrowing more money. Fortunately, end-of-year mortgage statements, credit card statements, and vehicle financing statements will all spell out the amount of debt you still owe and how much you've really been able to pay off. You may even find that you're making more progress than you think. Keep these paper or online statements so you have an easy way to track your progress next year.

### Where did your employment taxes go?

If you're covered by Social Security, the W-2 you receive from your employer by the end of January will show how much you paid into the Social Security system via payroll (FICA) taxes collected. If you're self-employed, you report and pay these taxes (called self-employment taxes) yourself. FICA taxes help fund future Social Security benefits, including retirement, disability, and survivor benefits, but many people have no idea what they can expect to receive from Social Security in the future.

This year, get in the habit of checking your Social Security Statement annually to find out how much you've been contributing to the Social Security system and what future benefits you might expect, based on current law. To access your Statement, sign up for a *my* Social Security account at the Social Security Administration website, [socialsecurity.gov](http://socialsecurity.gov).

### Did your finances improve?

Once you've reviewed your account balances and financial statements, your next step is to look at your whole financial picture. Taking into account your income, your savings and investments, and your debt load, did your finances improve over the course of the year? If not, why not?

Next, it's time to think about the changes you would like to make for next year. Start by considering the following questions:

- What are your greatest financial concerns?
- Do you need help or advice in certain areas?
- Are your financial goals the same as they were last year?
- Do you need to revise your budget now that you've reviewed what you've earned, saved, and spent?

Use what you've learned about your finances to set your course for the new year ahead. Challenge yourself to save more and spend less so that you can make steady financial progress.

## January 2019

Key Retirement and Tax Numbers for 2019  
Four Tips for Planning a Career Change  
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Can a flexible work schedule help you stay in the workforce after having children?



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## Key Retirement and Tax Numbers for 2019

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2019.

### Employer retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$19,000 in compensation in 2019 (up from \$18,500 in 2018); employees age 50 and older can defer up to an additional \$6,000 in 2019 (the same as in 2018).
- Employees participating in a SIMPLE retirement plan can defer up to \$13,000 in 2019 (up from \$12,500 in 2018), and employees age 50 and older can defer up to an additional \$3,000 in 2019 (the same as in 2018).

### IRAs

The combined annual limit on contributions to traditional and Roth IRAs increased to \$6,000 in 2019 (up from \$5,500 in 2018), with individuals age 50 and older able to contribute an additional \$1,000. For individuals who are covered by a workplace retirement plan, the deduction for contributions to a traditional IRA is phased out for the following modified adjusted gross income (AGI) ranges:

	2018	2019
<b>Single/head of household (HOH)</b>	\$63,000 - \$73,000	\$64,000 - \$74,000
<b>Married filing jointly (MFJ)</b>	\$101,000 - \$121,000	\$103,000 - \$123,000
<b>Married filing separately (MFS)</b>	\$0 - \$10,000	\$0 - \$10,000

**Note:** The 2019 phaseout range is \$193,000 - \$203,000 (up from \$189,000 - \$199,000 in 2018) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered.

The modified AGI phaseout ranges for individuals to make contributions to a Roth IRA are:

	2018	2019
<b>Single/HOH</b>	\$120,000 - \$135,000	\$122,000 - \$137,000
<b>MFJ</b>	\$189,000 - \$199,000	\$193,000 - \$203,000
<b>MFS</b>	\$0 - \$10,000	\$0 - \$10,000

### Estate and gift tax

- The annual gift tax exclusion for 2019 is \$15,000, the same as in 2018.
- The gift and estate tax basic exclusion amount for 2019 is \$11,400,000, up from \$11,180,000 in 2018.

### Kiddie tax

Under the kiddie tax rules, unearned income above \$2,200 in 2019 (up from \$2,100 in 2018) is taxed using the trust and estate income tax brackets. The kiddie tax rules apply to: (1) those under age 18, (2) those age 18 whose earned income doesn't exceed one-half of their support, and (3) those ages 19 to 23 who are full-time students and whose earned income doesn't exceed one-half of their support.

### Standard deduction

	2018	2019
<b>Single</b>	\$12,000	\$12,200
<b>HOH</b>	\$18,000	\$18,350
<b>MFJ</b>	\$24,000	\$24,400
<b>MFS</b>	\$12,000	\$12,200

**Note:** The additional standard deduction amount for the blind or aged (age 65 or older) in 2019 is \$1,650 (up from \$1,600 in 2018) for single/HOH or \$1,300 (the same as in 2018) for all other filing statuses. Special rules apply if you can be claimed as a dependent by another taxpayer.

### Alternative minimum tax (AMT)

	2018	2019
<b>Maximum AMT exemption amount</b>		
<b>Single/HOH</b>	\$70,300	\$71,700
<b>MFJ</b>	\$109,400	\$111,700
<b>MFS</b>	\$54,700	\$55,850
<b>Exemption phaseout threshold</b>		
<b>Single/HOH</b>	\$500,000	\$510,300
<b>MFJ</b>	\$1,000,000	\$1,020,600
<b>MFS</b>	\$500,000	\$510,300
<b>26% rate on AMTI* up to this amount, 28% rate on AMTI above this amount</b>		
<b>MFS</b>	\$95,550	\$97,400
<b>All others</b>	\$191,100	\$194,800
*Alternative minimum taxable income		



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*In January 2018, the median number of years that wage and salary workers had been with their current employer was 4.2 years.*

*Source: Employee Tenure Summary, U.S. Bureau of Labor Statistics (September 20, 2018), [bls.org](https://www.bls.gov).*

## Four Tips for Planning a Career Change

Changing careers can be rewarding for many reasons, but career transitions don't always go smoothly. Your career shift may take longer than expected, or you may find yourself temporarily out of work if you need to go back to school or can't immediately find a job. Consider these four tips to help make the financial impact of the transition easier.

### 1. Do your homework

Before you quit your current job, make sure that you clearly understand the steps involved in a career move, including the financial and personal consequences. How long will it take you to transition from one career to the next? What are the job prospects in your new field? How will changing careers affect your income and expenses in the short and long term? Will you need additional education or training? Will your new career require more or fewer hours? Will you need to move to a different city or state? Is your spouse/partner on board?

You should also prepare a realistic budget and timeline for achieving your career goals. If you haven't already done so, build an emergency cash reserve that you can rely on, if necessary, during your career transition. It's also a good time to reduce outstanding debt by paying off credit cards and loans.

Assuming it's possible to do so, keep working in your current job while you're taking steps to prepare for your new career. Having a stable source of income and benefits can make the planning process much less stressful.

### 2. Protect your retirement savings

Many people tend to look at their retirement savings as an easy source of funds when confronted with new expenses or a temporary need for cash. But raiding your retirement savings, whether for the sake of convenience, to raise capital for a business you're starting, or to satisfy a short-term cash crunch, may substantially limit your options in the future. Although you may think you'll be able to make up the difference in your retirement account later — especially if your new career offers a higher salary — that may be easier said than done. In addition, you may owe income taxes and penalties for accessing your retirement funds early.

### 3. Consult others for advice

When planning a career move, consider talking to people who will understand some of the hurdles you'll face when changing professions

or shifting to a new industry or job. This may include a career counselor, a small-business representative, a graduate school professor, or an individual who currently holds a job in your desired field. A financial professional can also help you work through the economics of a career move and recommend steps to protect your finances.

### 4. Consider going back to school

You might be thinking about pursuing additional education in order to prepare for your new career. But before applying to graduate school, ask yourself whether your investment will be worthwhile. Will you be more marketable after earning your degree? Will you need to take out substantial loans?

In your search for tuition money, look first to your current employer. Some employers might cover the full cost of tuition, while others may cap reimbursement at a dollar amount. Generally, you'll be able to exclude up to \$5,250 of qualifying educational assistance benefits from your taxes.

In addition, it's likely that you'll have to satisfy other requirements set by your employer to be eligible for reimbursement benefits. These may include, and are not limited to:

- Discussing course of study with a manager or supervisor prior to enrolling (and receiving approval)
- Pursuing a degree or training that is job related
- Maintaining a minimum grade-point average
- Working a certain length of time for the company before taking advantage of the benefit
- Meeting eligibility requirements for regular benefits

Check with your human resources department to learn more about tuition reimbursement qualifications. Be sure to find out whether you can continue to work at your company while you attend school part-time.

Students attending graduate school on at least a half-time basis are eligible for Uncle Sam's three major student loans: the Stafford Loan, Perkins Loan, and graduate PLUS Loan. Also, at tax time, you might qualify for certain tax benefits, such as the Lifetime Learning credit. For more information, see IRS Publication 970, *Tax Benefits for Education*.



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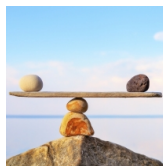
Shaeffer Investment Group  
2800 Quarry Lake Drive  
Suite 260  
Baltimore, MD 21209  
410-318-5096  
877-805-3672

shaefferinvestmentgroup@rbc.com  
www.shaefferinvestmentgroup.com

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## Women: Are you planning for retirement with one hand tied behind your back?

Women can face unique challenges when planning for retirement. Let's take a look at three of them.

First, women frequently step out of the workforce in their 20s, 30s, or 40s to care for children — a time when their job might just be kicking into high (or higher) gear.

It's a noble cause, of course. But consider this: A long break from the workforce can result in several financial losses beyond the immediate loss of a salary.

In the near term, it can mean an interruption in saving for retirement and the loss of any employer match, the loss of other employee benefits like health or disability insurance, and the postponement of student loan payments. In the mid term, it may mean a stagnant salary down the road due to difficulties re-entering the workforce and/or a loss of promotion opportunities. And in the long term, it may mean potentially lower Social Security retirement benefits because your benefit is based on the number of years you've worked and the amount you've earned. (Generally, you

need about 10 years of work, or 40 credits, to qualify for your own Social Security retirement benefits.)

Second, women generally earn less over the course of their lifetimes. Sometimes this can be explained by family caregiving responsibilities, occupational segregation, educational attainment, or part-time schedules. But that's not the whole story. A stubborn gender pay gap has women earning, on average, about 82% of what men earn for comparable full-time jobs, although the gap has narrowed to 89% for women ages 25 to 34.<sup>1</sup> In any event, earning less over the course of one's lifetime often means lower overall savings, retirement plan balances, and Social Security benefits.

Third, statistically, women live longer than men.<sup>2</sup> This means women will generally need to stretch their retirement savings and benefits over a longer period of time.

1) Pew Research Center, The Narrowing, But Persistent, Gender Gap in Pay, April 2018

2) NCHS Data Brief, Number 293, December 2017



## Can a flexible work schedule help you stay in the workforce after having children?

Yes, it just might be the key. Your job is the foundation for general financial security, including retirement. In

addition to providing you with a steady salary and valuable employee benefits, it typically brings with it the ability to save in a tax-advantaged employer-sponsored retirement plan like a 401(k), and if you're lucky, a pension. It also allows you to start qualifying for Social Security retirement benefits.

Women and men may start out on relatively equal financial footing in their 20s. But when children come along, women are much more likely to take time out of the workforce to care for them.<sup>1</sup> A common refrain is "my salary would just go to daycare costs anyway, so what's the point?" This is often true. But it's really not fair for one parent to assume sole responsibility for child-care costs; it is a *shared* financial responsibility that both parents should take on.

Many women want to keep at least one foot in the workforce after having children, not only for financial reasons but also for career mobility and personal fulfillment. If you'd like to keep

working but can't accommodate the traditional, 40-hour-per-week, in-office schedule, consider requesting a modified schedule if your job allows it. This could mean telecommuting from home one or more days per week, having a flexible work schedule (such as 11 a.m. to 7 p.m.), working part-time, or some combination thereof. In many cases, a flexible work arrangement can be the difference between staying in the workforce or having to leave it, so consider exploring this possibility before you exit prematurely.

Think about what your ideal work arrangement would be and request a meeting with your manager to discuss your well-thought-out proposal. This plan should include a trial period after which both sides can come back to the table and evaluate how things are working. Employers are increasingly recognizing that flexible schedules are key to having a diverse, gender-neutral workforce. In the end, asking for a flexible schedule might just allow you to keep that steady salary and continue saving for retirement.

1) U.S. Department of Labor Blog, Women and Retirement Savings, March 2017



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