POLARIS
ADVISORS, LLC.

THE
Retirement Report

Retirement Transition Planning

508.481.2299 www.polarisadv.com Fourth Quarter 2018

A Guide To The New Rules On Tax Deductions In 2018

Uncle Sam giveth, and Uncle Sam taketh away. The new federal tax code, which went into effect in 2018 and affects the return you'll file in spring 2019, lowers taxes by expanding some deductions, but restricts or outright eliminates others.

Deductions lower your taxable income so you pay less tax. Here's how deducting items from your income were expanded, restricted, or eliminated.

EXPANDED DEDUCTIONS

Standard deduction. The standard deduction is the amount you can subtract from your taxable income if you don't itemize — that is, individually deduct items like mortgage interest, charitable donations, and car loans. Nearly doubling the standard deduction to $24,000 for joint filers and $12,000 for singles pushes it up from $12,700 and $6,350, respectively. Fewer than half of taxpayers who itemized their 2017 return are expected to itemize their 2018 return. If you file using the standard deduction, preparing your return will be much simpler. If the standard deduction is less than the total of your itemized deductions, you'll still want to file by itemizing, subject to the rules below.

Medical expenses. If you itemize deductions, medical expense deductions will be more generous. For tax years 2017 and 2018, medical outlays in excess of 7.5% of your adjusted gross income are deductible. Starting in 2019, the threshold rises to the previous level of 10%. Congress is widely expected to consider extending the 7.5% threshold or making it permanent.

Alternative minimum tax. This very unpopular parallel tax system has been reined in and will zap fewer Americans in 2018. The AMT started in 1982 as an effort to reduce loopholes open to ultra-high-income earners, but its net gradually spread and it affected more individuals. In the 1990s, Congress hiked the AMT tax rate, stiffening its cost. Under the AMT, the standard deduction and deductions for state and local income taxes are lost. With the new law, your exemption — the amount you can subtract from your AMT liability — is much larger. Previously, $54,300 was exempt for a single-filer and $84,500 for a married couple filing jointly. Respectively, the exemptions increased by almost a third, to $70,300 and $109,400.

Child tax credit. This actually is not a deduction against your income. It's a credit on your tax bill. A credit reduces your tax bill dollar for dollar. The credit for children under age 17 was raised to $2,000 from $1,000.

RESTRICTED DEDUCTIONS

State and local taxes. Lawmakers placed a $10,000 cap per return on deductions for state and local taxes (SALT). Till now, the amount you could deduct for SALT levies was unlimited. If

(Continued on page 4)

Investments: What Have They Done For Me Lately?

As we pen this column on December 24th, global stock markets are in decline. The deterioration began in September from an all-time high value for most markets. The day before Christmas the "Grinch" stole a lot more market value. But despite the "fun" journalists are having publishing articles like "Worst Christmas in decades", the markets are just doing what they're known to do: correcting!

On page two of this newsletter there's a great piece on the last 10 years in the markets. Among the pertinent points are:

- The S&P 500 was up 163% for the 10 years ending June 30th, 2018
- The S&P 500 was up 389% for the 9 ¼ years after recession of 2008 ended in March of 2009
- There were 4 double digit corrections since the great recession of 2008, all in the last 5 years
- The 40% market decline during the great recession of 2008, and the four corrections were all part of the 163% 10 year return of the S&P 500 noted above

Perspective like this is invaluable as we ask the inevitable question: What have our investments done for us lately? It would sure be great if we could just participate in the upside and dodge the downside! But that won't happen until pigs learn how to fly. A better approach is to look at our accounts the same way we look at our houses. If our neighbor is having trouble selling their house, we wish them the best possible outcome, while being thankful we don't have to sell ours until well into the future.

Level headed thinking like that will go a long way to insure we still have a house <u>and</u> a retirement portfolio a decade from now.

Paying Off A Mortgage And The New Tax Code

Among the most prized tax deductions to get trimmed by the Tax Cut And Jobs Act was the monthly mortgage interest. Should you pay off your mortgage, if your mortgage interest deduction is gone? The answer more often now is "Yes," providing you can afford to retire the debt. If you can't afford that now, aim to do it as soon you can.

Due to a large increase in the standard deduction, fewer taxpayers qualify for the mortgage interest deduction. The standard deduction under the new tax law almost doubled to $12,000 for single filers and $24,000 for married couples. Only people with deductions of more than those amounts can itemize and deduct their mortgage interest.

Piling up that much to itemize, especially for couples, will be difficult. As a result, the Tax Policy Center estimates that only 20 million Americans will itemize in 2018, as opposed to 46 million, had the tax law not changed.

Other changes in the law lessen the benefit of carrying the burden of a mortgage. There's now a $10,000 cap on deductions for state, local and property taxes. Before the law changed, the amount you could deduct was unlimited.

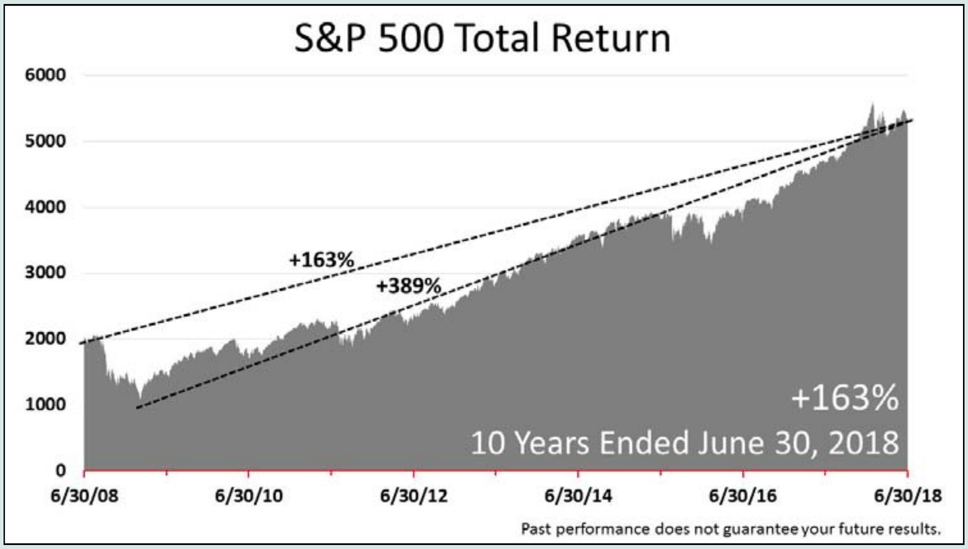
In addition, you are restricted from deducting interest on home equity loans if you use the debt for anything other than buying, building or upgrading a home. If you want to use the home equity loan for a tuition payment or to purchase a boat, Uncle Sam won't allow it anymore.

If you have deductions totaling more than the $12,000 and $24,000 thresholds, you can still itemize. In many cases, you can save more money by erasing your mortgage than you could earn in "risk-free" investments.

Here's the math. Say you have a $300,000 mortgage, which is about the average amount nationally, at a 4% yearly interest rate, and are in the 30% percent marginal tax bracket - 24% federal and 6% state levies combined. If you pay off the mortgage, you no longer have to pay roughly $12,000 annually in interest. When you did pay it, you received a tax deduction worth $3,600 - 30% of the mortgage interest. So that means, after the loan is retired, you saved $8,400. That beats the risk-free Treasury bond return. ●

Ten Things About 10-Year U.S. Stock Market Performance

Although a picture is said to be worth a thousand words, out of respect for your time, here are 290 words about this chart of U.S. stock market performance over an amazing decade.



1. Over the 10-year period ended June 30, 2018, the S&P 500 total return index gained +163%, an average annual return of 16.3%, compared to the average annually since 1926 of 10%.

2. From the financial crisis bottom on March 9, 2009, the S&P 500 total return index through June 2018 gained +389% — an average return in those nine years of 43.2%.

Protect Yourself Against Spearphishing

The Russian conspiracy to meddle in the 2016 presidential campaign relied on a common scam called "spearphishing." While the history-making scam may sound sophisticated, this form of digital fraud is running rampant. Anyone using email is likely to be attacked these days. Here are some tips to protect yourself.

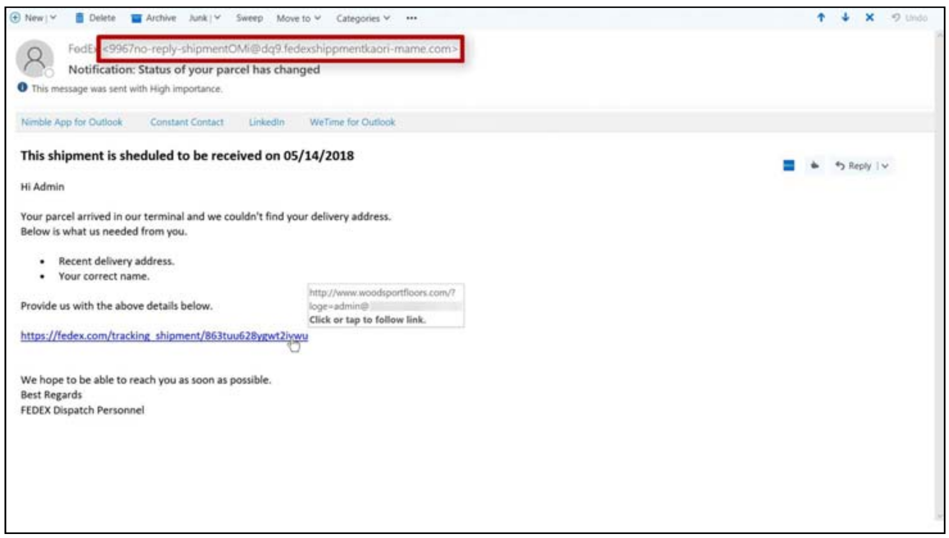
In a spearphishing attack, a hacker sends you an email message to trick you into disclosing your username and password to a secure account. The message looks like it's from a legitimate source you trust.

You click on the link and, unbeknownst to you, you install a program that records your next 100 keystrokes. The email from a trusted source was a Trojan Horse, malicious software that sends your password and user ID to the hackers.

New variants of the scam are appearing so fast that anti-virus software can't keep up, which puts you on the front line in defending yourself from attack. Perhaps the most important way to thwart an attack is by looking at links in emails before clicking.

In this popular spearphishing scam, hovering over the link in the email displays a website address that is absolutely, positively not Federal Express. And the email address from which this message was sent is plainly NOT a legitimate Federal Express dot-com account. Often the "From" address will tip you off to a fraud.

Phishing emails, until recently, were easy to spot because they commonly contained misspellings, grammatical errors and company branding mistakes. A scan of hundreds of recent phishing messages indicates fewer of these telltale signs. The scammers are getting smarter.



While the cat versus mouse game has of late been won by the evildoers, software solutions are growing stronger. For example, Microsoft Office 365 online users now have a way of designating a message as "Phishing." This new feature for "blacklisting" a malicious message prevents a scam from hitting you twice and gives Microsoft information about its origin. Of course, updating your anti-virus software is always a must. If you ever have any questions about emails you receive from us, please do not hesitate to call us. ●

3. In the nine-year bull run, stocks "corrected" — market-speak for a decline of 10% to 20% — four times, and each double-digit setback came in the last five years.

4. An investor with perfect timing predicted the March 9, 2009 low during the bottom of the 40% drop in prices in the bear market of 2008-9, which no one could, and then held for the next nine years, despite four corrections.

5. An investor with the worst possible timing, who put their retirement nest egg in stocks at market peak a decade ago, just before values plunged by 40%, in the decade, averaged a return of 16.3% annually.

6. The Great Recession decline of 40% was one of the worst bear markets in modern U.S. history.

7. Those within five years of retiring are at the greatest risk to bad timing and can be mitigated by strategically allocating assets, which is crucial to pre-retirees.

8. America's 500 largest publicly held companies more than fulfilled their role as the engine of growth in a broadly diversified retirement portfolio.

9. Understanding 10 years of stock market performance requires knowing statistics, but mostly depends on knowing the history of domestic and global financial assets, along with economic fundamentals driving growth.

10. No one can predict the end of a bear or bull market or the stock market's next big move. ●

This Is Not Your Parents' Interest Rate Cycle

If you're a pre-retiree, your returns on fixed income investments may be much lower than your parents' portfolio.

If you're over 70, you were invested during four decades marked by strong fixed income returns. From the astronomical highs of the late 1980s, rates climbed down before finally bottoming in 2017, and two generations of retirement investors enjoyed bull market returns in bonds annually for years. The next generation of retirees face an entirely different fixed income investing environment.

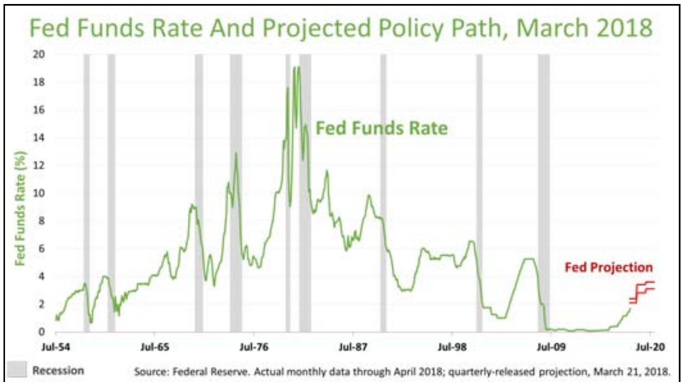
Past performance is not a guarantee of your future results. Source: Online Data Robert Shiller. Data through December 2017.

The last 50 years were an aberration when viewed from the perspective of the past 171 years. The rise in rates of the 1970s and 80s and the unwinding of that anomaly is behind us now, and history indicates the next decades could be characterized by 10-year U.S. Treasury bond rates of about 4%. That may be the new normal.

Past performance is not a guarantee of your future results, but we are nonetheless grateful to Robert Shiller, an economics professor at Yale University and Nobel Laurate in Economics, for sharing this historical data online. It shows that, over in the long arc of U.S. financial history, nothing like the last 50 years ever happened before the 1970s. If interest rates revert to their long-term mean, a 4% 10-year U.S. Treasury bond is a likely path in the decades ahead.

The yield on a 10-year U.S. Treasury bond, in the grand sweep of history, averaged about 4% annually. That's normal. Mortgage rates of the 70s, 80s, or 90s were abnormal. The new normal may be a 2% inflation rate and a 10-year bond yield of 4%. That's what the Federal Reserve Board of Governors expected in the second quarter of 2018.

The point is, this is not your parents' retirement savings environment.



Source: Federal Reserve. Actual monthly data through April 2018; quarterly-released projection, March 21, 2018.

Economic fundamentals are different. If you learned about investing from your parents or invest based on what's worked in the past, the future may not be much like the recent past but instead like the distant past. This is the kind of fundamental analysis you get from a real financial professional. This is the kind of analysis you can expect from us. ●

Tax Deductions In 2018

(Continued from page 1)

you live in a place with high state and local taxes and home prices, you're hit hard. If you earn more than $100,000 in adjusted gross income and live in California, Connecticut, Maryland, New Jersey, New York or Oregon, you're very likely to see a material hike in your annual federal tax liability for at least the next decade.

Mortgage interest. You can continue to deduct this interest for first and second homes. The change: For mortgages dated after Dec. 14, 2017, only the interest on the first $750,000 of debt is deductible. Before that date, the $1 million ceiling still applies. In places where home prices and, thus, mortgages, are low, that is not as much of a concern. In high-price locales, it is.

Home equity interest. You no longer can deduct interest paid on home equity loans, unless it is used to improve the dwelling. Many people use such loans, which are secured by their homes, to pay for college tuition or new cars. If a home equity loan and the mortgage totals more than $750,000, the amount over that limit can't be deducted.

ELIMINATED DEDUCTIONS

Personal exemption. Exemptions, which lowered your income by $4,050 per person — usually family members — are gone. For some families with children over 17, who can't take advantage of the expanded tax credit, the elimination of the personal exemption will be a net loss.

Alimony. For divorce and separation agreements made after 2018, alimony payments will no longer be deductible. The deduction is helpful to a paying ex-spouse who is short on funds.

Casualty and theft losses. If your house burned down or a crook took your wallet, you could deduct the loss not covered by insurance to the extent it exceeded 10% of your income. Under the new law, only casualty losses suffered in a natural disaster declared by the president are deductible.

Job expenses. Continuing education, medical tests and licensing fees previously were write-offs. Not anymore.

Moving expenses. Before, you could deduct these if you moved to start a new job and it was a good distance (that varies by circumstances, but typically meant 50 miles away) from your old home. Now, that is gone, unless you are in the military.

Tax prep. Depending on the complexity of the return, these fees can amount to more than $500. Uncle Sam no longer will let you deduct them, though. ●

Polaris Advisors, LLC • www.polarisadv.com
550 Cochituate Road, East Wing, 4th Floor, Suite 25, Framingham, MA 01701 • P (508) 481.2299 • F (508) 655.4066
P.O. Box 3036, Wakefield, MA 01880 • P (508) 481.2299