POLARIS ADVISORS, LLC.

THE Retirement Report

Retirement Transition Planning

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Finding The Balance For Retirement Draw-Downs

Victor and Jane Muratti, a computer analyst and schoolteacher married for more than 30 years, are nearing retirement. Over the years, they have accumulated a mosaic of investments, including stocks, corporate and municipal bonds, mutual funds, exchange-traded funds (ETFs), annuities, real estate, and master limited partnerships (MLPs). Some of these investments are in taxable accounts while others are in tax-deferred retirement plans and traditional and Roth IRAs.

Once they retire, the Murattis will begin drawing income from these various accounts, and after they reach age 70½, they'll have to start taking required minimum distributions (RMDs) from their retirement plans and IRAs. But they don't have a clue about the best way to create their retirement "paychecks."

It's a common situation and the circumstances will vary for every person or couple. However, one typical objective is to minimize federal income tax from investment transactions, while preserving as much wealth as you can for a lengthy retirement.

One way to do that is by paying attention to tax brackets. Income taxes are based on a graduated seven-bracket system, with different tax rates for each bracket. The more of your income that falls into lower brackets—and so is taxed at lower rates—the better. And to the extent that you can control how much income you receive, you could try to take just enough to fill up your current bracket without moving into the next, higher one. You can use this tax bracket management strategy throughout retirement.

But to benefit, you'll need to learn the basics for three different types of accounts you're likely to tap during retirement.

1. Taxable accounts: This category includes all of the investments you hold outside of retirement plans. You may have stocks, bonds, mutual funds and ETFs, as well as interest-bearing savings accounts and certificates of deposit (CDs). If you sell any of these at a gain, your profit will generally be taxed at the favorable rate for long-term capital gains—that is, gains on investments you've held for a year or more. The tax rate for long-term gains is 15%, or 20% if your income puts you in the top tax bracket for ordinary income. Most dividend income from stocks is also taxed at 15% or 20%. But interest from bonds and other investments is likely to be taxed at the higher rates for ordinary income.

2. Tax-deferred accounts: Within tax-deferred accounts such as 401(k) plans and traditional IRAs, capital

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Estate Planning? Don't Forget The Estate Tax

We love when our clients expect to leave an estate. Not because we like to see their children get the inheritance, but because it means these clients should never have to worry about running out of money. Their portfolios are expected to generate more than enough income to support them in retirement.

What about estate taxes? Most clients know they don't have to worry about the IRS. The U.S. Treasury only taxes estates over $5.49 million. But how many people know that the State of Massachusetts taxes estates that exceed only $1 million?! A lot of our clients will be affected - just the value of their investments and home will put them in a taxable bracket. Proceeds of life insurance are counted, too. And, once you're over the million, the whole estate gets taxed.

What can you do? If you're close to the threshold, you can make annual gifts of $14,000 or less per recipient, attempting to get under it. If you're well over, you should make an estate plan with an attorney that specializes in this tax. And, of course, you can retire to a state without an estate tax. Only 20 states have either an estate or inheritance tax, so there are 30 others to choose from. Most are in the southern part of the country, but, locally, New Hampshire has no such tax. For a three-page summary of how the Massachusetts Estate Tax works, just give us a call.

Stay Well,

Ric and Trang

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How To Spell Estate Tax Relief

Here's an acronym you've probably never heard of: Pronounced D-Sue, it stands for deceased spouse's unused exemption, and it could be a crucial component of your estate plan.

Frequently, a plan relies on two key tax-saving provisions—the unlimited marital deduction and the unified estate and gift tax exemption. Under the marital deduction, a spouse is normally doesn't have to pay estate or gift tax on any property transferred from a spouse. The estate and gift tax exemption covers transfers to your children or other non-spouses up to $5.49 million in 2017.

That means that a married couple together can transfer almost $11 million to others without a penny of tax liability. Even better, the exemption is "portable" between spouses—so when the estate of the spouse who dies first doesn't exhaust all of that person's exemption, it can be used by the estate of the second spouse.

Normally, an estate tax return has to be filed only if an estate is worth more than the maximum exemption. However, a return will also have to be filed to take advantage of DSUE.

Consider this hypothetical example. A husband died early in 2017 with assets valued at $8.49 million. He left $5 million to his wife and the other $3.49 million to their children. Thus, amount of the DSEU—the $5.49 million exemption minus the amount given to non-spouses—is $2 million.

Now say that the wife dies late in the year with an estate valued at $7.9 million ($5 million from the husband and $2 million of her own assets). Thanks to DSUE, her estate can add that $2 million to the $5.49 million of her own exemption to cover her entire estate. Without DSUE, her estate would owe estate tax of 40% of $2 million, for an estate tax bill of $800,000.

Even if a surviving spouse remarries, he or she maintains the DSUE from the previous spouse. However, you can't use a DSUE from more than one spouse. So, if your second spouse dies before you do, your estate forfeits the DSUE from your earlier spouse.

Finally, keep in mind that the $5.49 million exemption gets higher every year to account for inflation, but the DSUE remains locked into the amount that was available when the first spouse died. ●

Five Retirement Questions To Answer

How much money do you need to save to live comfortably in retirement? Some experts base estimates on a multiple of your current salary or income, while others focus on a flat amount such as a million dollars. Either way, the task can be daunting.

But there is no magic formula and every situation is different. What's more, your definition of "comfortable" could be different than someone else's. Maybe a better approach is to answer these five basic questions:

Q. What will your expenses be?

It's almost impossible to figure out what you need to save if you don't know what you'll be spending. Draw up a monthly budget based on what you think might happen. If you downsize your home or won't have to spend as much on clothes as you do now, you may spend somewhat less in retirement. But you also might travel more and make greater outlays for leisure pursuits. Just don't expect your expenses to be dramatically lower in retirement than they are now.

Q. How long will your nest egg have to last?

This requires you to analyze several factors, including your age, medical condition, and family history. No one can predict the future, so it's usually best to plan for the worst and hope for the best. And with life expectancies on the rise, it becomes easier and easier to outlive your savings.

Q. How are you investing your savings?

It's not just how much you save that counts, it's also what you do with that money. If you invest wisely, reflecting your personal comfort level with investment risk, you may be able to stretch your savings longer. Of course, no one knows for sure how the markets will perform, but the independent research firm Morningstar projects that savings of about $1.18 million invested at 6% annually (with a

Five Documents At The Core Of An Estate Plan

Every estate plan is unique because of a particular family's circumstances. Still, most people share many primary objectives that may be reflected in five documents often found at the core of a plan.

If your current estate plan doesn't include these five items, you might need to fill the gaps. And if you don't yet have a comprehensive estate plan in place, it's probably time to make that a priority. Mortality can sneak up on anyone.

1. Financial power of attorney: A power of attorney is a legal document that authorizes another person to act on your behalf. A financial power of attorney enables the "attorney-in-fact"—the person specified to act for you—to conduct your financial affairs. Many states have a standard form for financial power of attorney.

Usually, the power of attorney is "durable," meaning that it remains in effect in the event you are incapacitated. But you might use a non-durable power of attorney for specific purposes, such as to have someone manage your portfolio temporarily. Keep in mind that a power of attorney is enforceable only when it has been established before its creator becomes incompetent.

2. Health care power of attorney: Like a financial power of attorney, this authorizes a designated person to act on your behalf in the event you're unable to make your own decisions—in this case, about your medical care. This goes further than a living will, which generally applies only if you're terminally ill or on life support, based on the prevailing state law.

Your attorney-in-fact for a health care power of attorney needs to be someone you can trust to act in your best interests. Typically, that would be a spouse, a child, or another close family member. But you'll also need to name contingent and successor agents.

3. Health care directives: Although there are several other kinds of health care directives that you might include in your estate plan, the most common version is a living will. Without it, family members may be left in a quandary about end-of-life decisions involving your care. This can lead to turmoil and questions could even end up being decided in court.

Often a health care power of attorney is coordinated with a living will, or the two may be combined in a single document. Some states have forms combining these elements and reflecting other personal choices such as whether to donate your organs.

4. Will: No matter how sophisticated your estate plan is, you'll likely circle back to the need for a will to tie everything together. A will can be used for a wide range of purposes, including (but not limited to):

- Dividing your assets and allocating them to your beneficiaries;
- Naming guardians for your children;
- Achieving estate tax benefits;
- Arranging gifts to charity;
- Creating trusts for your beneficiaries;
- Excluding certain family members from inheriting your assets;
- Avoiding a lengthy probate process; and
- Thwarting potential legal challenges.

A will may refer to other documents in your estate plan. If you don't have a legally valid will and you die "intestate," your estate will be governed by the laws of the applicable state.

5. Revocable trusts: Finally, your estate plan may include more revocable trusts, which let you change terms based on future events or preferences. Such trusts are commonly called living trusts—or, more technically—inter vivos trusts—because you create them while you are alive.

With a revocable living trust, you can transfer assets to the trust to be managed by a party you designate. The transferred assets aren't subject to probate.

Other kinds of trusts can also be created to complement the rest of your estate plan. These trusts might be designed to minimize potential state or federal estate taxes, as well as to protect assets from creditors or in the event of a divorce.

This list of estate planning basics can be a good starting place for many families. You'll need the help of an experienced attorney and other advisors to create a plan that fits your family's needs. ●

2.5% inflation rate) will provide annual income of $40,000 for 30 years. Naturally, your needs may differ.

Q. How will taxes affect your investments?

Don't forget to factor future taxes into the equation. Long-term capital gains currently are taxed for most people at a 15% rate, while those in the top ordinary income tax bracket pay 20%. But income from some investments—including municipal bonds and muni bond funds—is exempt from federal income tax. Also, remember that the tax law requires you to start taking minimum distributions from most retirement plans after age 70½.

Q. What can I do now to avoid problems?

If you're still working, you could boost your savings, utilizing tax-advantaged retirement accounts such as 401(k) plans. The compounding of the money inside your plan can help you catch up in meeting your retirement goal. In addition, you might consider postponing your retirement until you've saved enough. ●

How You Can Manage Risk Aversion

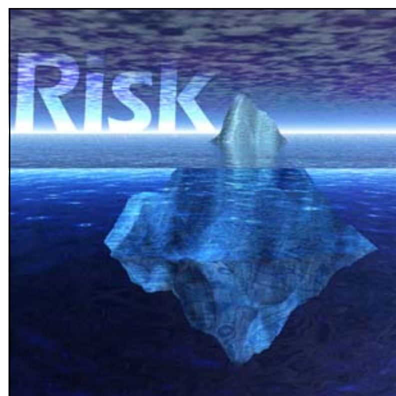
During the early part of 2017, the stock market was rolling merrily along, with the Dow Jones Industrial Average (DJIA) breaking through the 20,000-point barrier for the first time. But the "Trump bump" won't last forever and some prognosticators are forecasting eventual doom and gloom. In all likelihood, the stock market will continue to experience ups and downs, just like it has throughout its history.

Regardless of whether the market is going up or down, or staying relatively stable, your portfolio should reflect your personal aversion to risk. Primarily, there are three types of risk to address in this overall philosophy:

1. Risk of loss of principal: This is the risk of losing the money you initially invested. Say you buy a stock for $1,000 that jumps to $1,200 before it falls back to $900. If you sell the stock at that point, you will have lost $100 of principal.

2. Risk of loss of purchasing power: You may be willing to limp along with modest returns, but you're losing money if the inflation rate exceeds your rate of return. For instance, if you acquire a bank CD paying a 2% annual rate and inflation rises to 3.5%, you're losing 1.5% in the purchasing power of that investment.

3. Risk of outliving your savings: Is your investment plan overly conservative? Remember that the stock market historically has outperformed most comparable investments over long periods, although there are no absolute guarantees. Therefore, you're likely to fare better with a well-devised investment plan than you would if you stuffed your money under a mattress. Otherwise, you might outlive your savings, especially given recent increases in life expectancies.



Risk assessment surveys can provide some insights. Typically, an analysis will reveal that you tend to be either a conservative, moderate, or aggressive investor, within certain ranges. Your portfolio should reflect this characterization.

If you indicate a more conservative bent, you may want to fine-tune your investments accordingly, taking into account asset allocation and diversification methods. Again, these strategies do not offer any guarantees, nor do they protect against losses in declining markets, but they remain fundamentally sound.

Other potential ideas are to weight your portfolio more heavily to bonds than you did in your younger days. The technique of "bond laddering," with bonds maturing at different dates, is a variation on this theme. Similarly, conservative investors may emphasize dividend-paying stocks and blue chips, as well as mutual funds and exchange traded funds (ETFs) offering diversification.

Every situation is different. Reach out to us to address your specific concerns. ●

Retirement Draw-Downs

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gains and income from dividends and interest all can accumulate without being taxed. But once you start taking money out of these accounts during retirement, all or most of your withdrawals will be taxed as ordinary income. And when RMDs come along, some of the money *must* come out every year.

One kind of tax-deferred investment—annuities—may help you minimize taxes by postponing payouts until your income is lower during retirement. Deferred compensation from your company could offer similar tax benefits.

3. Tax-free accounts: Of course, no taxes are better than low taxes, and a Roth IRA may give you retirement income that isn't taxed at all. With a Roth IRA that you've had for at least five years, withdrawals after age 59½ are completely tax-free. Meanwhile, although interest income from most bonds is taxed at ordinary income rates, income from municipal bonds or municipal bond funds can be tax-exempt. These bonds could be a valuable part of your retirement portfolio.

When considering which account to draw from and in what order, a common strategy is to take RMDs first—because you must make those withdrawals—then tap your taxable accounts next, leaving assets in tax-deferred accounts to grow without being eroded by taxes for as long as possible. Finally, make tax-free withdrawals from your Roth IRA, which offers the additional advantage of not requiring distributions during your lifetime.

In addition, to the extent you can, you might practice tax bracket management, capping your taxable income at a level that will let you avoid moving into a higher bracket. So that even if you can't avoid taxes entirely during retirement, you may be able to keep them under control. ●

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