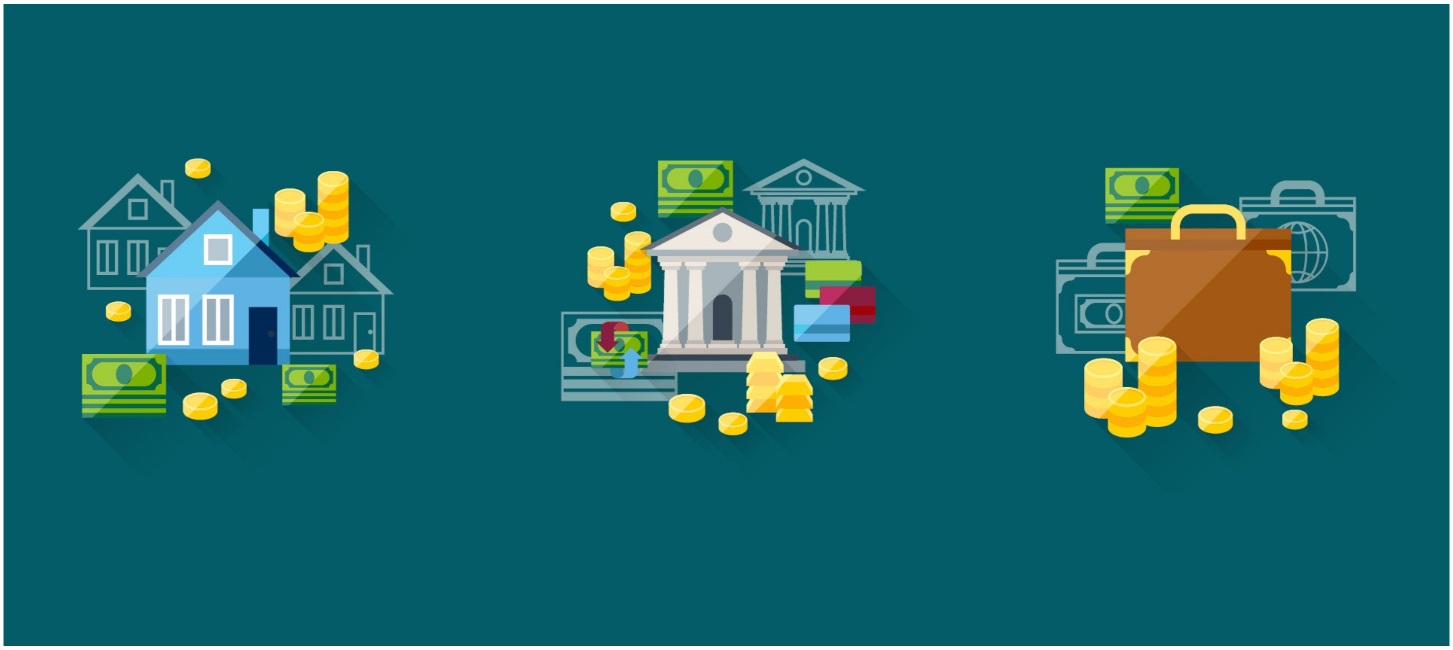

Ask the Experts: Financial FAQs (Winter 2017)

In this issue, we examine the impact of potential tax reform on the municipal bond market, steps to take as you enter your retirement homestretch, and creative ways business owners can use insurance.

Q: I have been hearing about the possibility of tax reform. How will the proposed tax law changes affect municipal bonds?

A: In the weeks following the election, investors sold billions of dollars of municipal bonds, driving prices down and yields up. Headlines claimed that investors reacted on fears that then-President-elect Trump's proposed tax changes, if enacted into law, would undermine the municipal bond market. As always, market behavior is more than meets the eye.

With a Republican-controlled government, tax reform appears likely, but we believe its impact on municipal bonds will be small. Municipal bonds' taxable-equivalent yields will remain attractive — even if the income-tax-rate cuts proposed by President Trump pass. The negative impact would be reduced further if Congress passes a watered-down tax bill. Second, while tax rates affect the attractiveness of municipal bonds, the bond-market environment plays a larger role. The Federal Reserve's recent comments about multiple interest rate hikes in 2017 likely played as big a role in municipal bonds' performance as any other factor.

As it does whenever tax reform is taken up in Washington, the tax-exempt nature of municipal bond income may come into question. Cutting or capping the exemption would make municipal bonds less attractive. However, it would most likely not impact existing municipal bonds. Further, while removing the tax exemption would provide federal tax revenue, that amount is dwarfed by many other deductions and would come at a great cost to the states. So far, President Trump and the Republican leadership have been silent on plans to cut or cap the tax exemption.

We remain positive on municipal bonds in 2017. Municipal bonds became expensive last summer as markets priced in a Clinton presidency with higher taxes. The recent sell-off has made valuations more attractive, which should cushion returns from volatility. However, if tax reform comes during a period of weakness, we would expect municipal bonds to underperform as prices reset to appropriate levels. All else equal, we would view this kind of pullback as an opportunity to add to municipal bond allocations.

Q: I'm planning to retire in 2017. I feel like I am prepared, but are there any specific actions I should be taking?

A: First of all, congratulations. Getting to the point where you're comfortable that you can retire is a long journey and a big decision.

There are number of ways to look at your question that take into account the many domains of your life, ranging from the financial and family to the health, social, and spiritual aspects of your life. A comprehensive answer to your question is probably best done as a feature in a future *VESTED* issue, but we can focus on the financial aspects for now.

Many financial planners suggest that a typical retiree needs to replace about 80 percent of pre-retirement income during retirement to maintain his or her lifestyle. That's a helpful rule of thumb, but as you're coming into the homestretch, rules of thumb are not enough. You will want to perform a more thorough analysis based on the specifics of how you will live in retirement.

You will want to answer questions such as:

- **Living Arrangements**
  Where do you want to live in retirement? Will you be moving or downsizing? Do you plan to keep a second home — or maybe move into it?
- **Budget**
  Have you made a budget that covers both your basic needs and maybe a few wants? Did you include the cost of Medicare premiums and Medicare supplement insurance? What about taxes?
- **Income Sources**
  What level of income do you expect in retirement? Do you have a pension? What is the best way to maximize your Social Security benefits? Do you plan to pursue part-time work during retirement? If so, what income and benefits do you expect?
- **Savings and Investment Accounts**
  What long-term assets can generate cash flow or be drawn from in retirement — i.e. 401(k)s, 403(b)s, IRAs, investment accounts, bank accounts, etc.?

Once you've captured the raw materials, the analysis can begin. You — or your financial advisor — should perform a cash flow projection to determine how much you can withdraw from your savings and not run out of money — or that preserves a desired amount for your heirs or a special bequest. You'll want those projections to include a range of rate-of-return and inflation assumptions to make sure your plan includes a margin of safety that you're comfortable with.

Along the way, you should also address a few other items:

Account Consolidation
For the sake of convenience, you may want to consider consolidating your investment accounts with a single financial institution.

Estate Plan
This is a good time to update your wills, trusts, powers of attorney, advance healthcare directives, and beneficiary designations.

Insurance Policies
You should confirm that the account ownership, beneficiaries, and benefit amounts for any life insurance policies you own are up to date and appropriate.

A sound financial plan that includes a budget and cash flow projections is critical, but the financial aspects are just one facet of a good retirement plan. The good news is that a financial advisor can help you address the financial questions — so that you can focus on the other aspects. Don't feel like you have to go it alone.

Q: I own a business. Are there creative ways I can use life insurance in my business?

A: The tax advantages of life insurance — combined with its flexibility — make it a versatile tool that can benefit businesses, business owners, and employees and their families. Business owners use life insurance to achieve several important objectives.

A few of the more common uses include:

- **Key-person Coverage**
  You might consider purchasing a key-person life insurance policy that covers the loss of services in the event a key employee or partner dies. The business owns the insurance policy and receives a tax-free death benefit, which can be used to cover lost profit and the cost of replacing the employee or business partner.
- **Buy-sell Agreement Funding**
  Another way to insure against the death of a business partner is through a buy-sell agreement funded with life insurance. For example, three partners in a business each own the same amount of stock. One partner, Janice, dies, and her stock goes to her husband as beneficiary under her will. If the business had written a buy-sell agreement and funded it with life insurance, the two surviving partners would have received a life insurance benefit when Janice died, enabling them to buy Janice's company stock from her husband.

- **Supplemental Retirement Savings**
  Creating a deferred compensation plan for key employees to supplement their retirement savings is another option. Under this arrangement, your company buys life insurance policies on the lives of key employees and funds them with salary or bonus compensation set aside by the employees. These savings come out of the employees' paychecks before taxes and accumulate tax deferred until withdrawn from the plan by the employees or their beneficiaries. Because the business is the owner and beneficiary of the policies, it receives the death benefit in the event of an employee death.
- **Group Life Insurance**
  Adding group life insurance to your employee benefit portfolio can help your business attract and retain employees. Group insurance is less expensive than individual coverage and may not require a medical exam, depending on the size of your company. Premiums are tax deductible to your business, and benefits are paid directly to your employees' beneficiaries.

Have questions? Need help? Call the CAPTRUST Advice Desk at 800.967.9948 or schedule an appointment with a retirement counselor today.
