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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

August 2018

"I couldn't fix your brakes, so I made your horn louder" . MM

Is it only me, or does this month's quote make others think about the dysfunction in our nation's capital?

We should all be dancing in the street. The economy is 'on fire'. Unemployment is headed for a 50 year low. There are now more jobs than job seekers. More and more of the unemployed are returning to the workforce. The job participation rate is going higher.

GDP came in at 4.1% for the 2nd Quarter. Tax reform has been passed and de-regulation steams forward. U.S. corporations have never been in better shape. Market Watch reported that 1st quarter 2018 earnings were the best ever.

As good as things seem to be, they could be even better if our elected officials could find a way of working together. It boggles the mind to think of where we'd be if there were a bi-partisan spirit in Washington.

There is no question that trade wars are keeping the stock markets on edge. Where we end up in international tariff negotiations is anyone's guess; however as I write this, the EU has expressed an interest in working with the USA on trade, and NAFTA seems to be getting back up on the rails!

We may all look back on this period sometime in the future and be in awe of what may have been accomplished. I am a cautiously optimistic. Stay tuned!

Why Aren't You Getting All the Stock Market Gains You Keep Hearing About?

There have been some fascinating dynamics going on with the stock markets for several years now. They go a long way in explaining why you may now have seen the gains you hear about.

Most investors have either remained even, or for this year, are actually down on their returns, UNLESS…you have invested in one (or more) of six stocks.

Company	Percent of S&P 500 YTD returns ▲	Percent of Nasdaq 100 YTD returns	YTD percent change
Amazon	35	41	49
Netflix	21	21	117
Microsoft	15	15	19
Apple	12	12	13
Alphabet	8	8	11
Facebook	8	8	16

These six stocks (they are FAANG + Microsoft) have a market cap of approximately \$5T. The entire value of the S&P 500 is about \$25T. So, these six stocks = 20% of the total value of the most important stock market index in the world. WOW.

That means that all the other 494 companies are only worth the remaining 80%. Another startling fact: collectively these six are **worth more** than the bottom 282 stocks in the S&P 500 combined!

In fact, the top 50 companies in the S&P make up 50% of the total market-cap of the index. This is unprecedented. That is not only abnormal, it is also dangerous.

These stocks have two other things in common:

1. They have made up virtually all of the returns of the index in recent times.
2. They are also very over-valued, (in a few cases, obscenely over- valued) which is why they are probably not in your portfolio in the first place.

IRA Mistakes You Want to Avoid.

Ed Slott, has spent the past 30 years totally devouring anything and everything related to IRA's. He is nationally known as the IRA 'guru'. Here is his list of mistakes to avoid.

Relying on the IRA Custodian – The company that is holding your inherited IRA will let you know what the best option is for you, right? Wrong. They are not required to give you any information. In fact, their only obligation is to issue the appropriate tax reporting for transactions that are made on the account, and many times they don't even get that right.

Doing 60-Day Rollovers – IRA assets inherited by anyone other than the account owner's spouse can only be moved in a direct transfer from one IRA custodian to another. Any distribution payable to a non-spouse beneficiary is taxable. There is no fix for this mistake.

Not Stretching the Inherited IRA – Taking a lump-sum distribution wipes out the inherited IRA. The beneficiary must pay income tax on all pre-tax amounts distributed. When the inherited IRA is kept intact and only RMDs are taken each year, the account can continue to grow and compound on a tax-deferred basis (tax-free for inherited Roth IRAs) until the beneficiary is in his early 70's. At that point RMDs being to exceed the earnings on the account and the IRA will eventually be paid out in full.

Not Splitting an Inherited IRA into Separate Accounts – When there are multiple beneficiaries named on an inherited IRA, each beneficiary can use their own life expectancy for calculating RMDs IF the account is split into separate accounts for each beneficiary by 12/31 of the year after the account owner's death.

Not Taking RMDs – All non-spouse beneficiaries have RMDs beginning in the year after the account owner's death. This includes Roth IRA beneficiaries and beneficiaries of all ages. The RMDs will be based on the beneficiary's age in the year of the first distribution as determined by the Single Life Expectancy Table. The factor for the first year will be reduced by one in each subsequent year.

Spouses Have Different Options – A spouse can remain a beneficiary of the inherited account. She will use the Single Life Expectancy Table but look up her factor each year. But she can delay her first RMD until the deceased spouse would have been 70 ½. A spouse can do a 60-day rollover of inherited IRA assets to an IRA in his/her own name; neither of which a non-spouse beneficiary can do.

Not Naming a Successor Beneficiary – The beneficiary of the inherited IRA should always name their own beneficiary – the successor beneficiary. If the beneficiary dies while there are still assets in the inherited IRA, the successor beneficiary will inherit the inherited IRA instead of it going to the deceased beneficiary's estate. The successor beneficiary continues to receive the annual RMDs of the deceased beneficiary, as if the deceased beneficiary were still alive. The successor beneficiary cannot reset the RMD calculations to their own age.

When you inherit an IRA, you should consider working with an advisor who is knowledgeable in the area of IRAs and especially inherited IRAs. Don't depend on the IRA custodian, or even IRS, to give you the correct answers to your questions or to provide guidance. Mistakes can be very costly and can easily mean the end of the inherited IRA.

IRS Approved Back-Door Roth

The Basics of the Back-Door Roth IRA
To review, the reason the back-door Roth evolved was because of the income limits for making a contribution to a Roth IRA.

Since there are no income limits on Roth conversions or on contributions to traditional IRAs, the strategy was to first contribute to a traditional non-deductible IRA and then convert those funds to a Roth IRA, bypassing the Roth IRA contribution limits. The funds actually go into the Roth as a Roth conversion, not as a Roth contribution.

Also, not everyone qualifies for the back-door Roth. You still have to be eligible to make a contribution to a traditional IRA, which is the first step in the back-door Roth process.

Qualifying for a traditional IRA contribution means having earned income (except for a non-working spouse if filing a joint return with a spouse having the earned income) and not being over age 70½, since traditional IRA contributions cannot be made for the year one turns age 70½ or later years.

In addition, keep in mind that the pro-rata rule applies, which means that part or all of the back-door Roth conversion might be taxable if there are other traditional IRA funds, including SEP and SIMPLE IRA funds. The once-per-year 60-day IRA rollover rule does not apply to Roth IRA conversions.

Are You At Risk: Outliving Your Money?

Could underestimating your longevity mean you'll run out of retirement money?

At age 65, the average life expectancy is 81.8 years for a man and 84.8 years for a woman. At age 75, the average life expectancy is 85.5 years for a man and 87.6 years for a woman.[1] With recent advances in medical science, it's no longer a stretch to think that you could live to be 100. In fact, the U.S. Census Bureau projects that by 2050, there will be nearly one million centenarians.

No one wants to die *sooner*, so that's great news. The problem: If your retirement plan doesn't recognize the possibility of a long retirement, then you could potentially outlive your money.

Consider the following hypothetical example. Assume you're 64 years old and earn $60,000 per year. You plan to retire next year at age 65. You've accumulated $1,000,000 in retirement savings, which you think will return a hypothetical 6 percent per year throughout your retirement. And, you have a $60,000 annual retirement need (excluding Social Security). If you have a 15-year retirement from ages 65 to 80, you'll have no shortfall in retirement funds; in fact, you'll end up with almost $696,000 to pass on to your heirs. On the other hand, if you have a 30-year retirement from ages 65 to 95, you'll run out of money at age 88.[2] The table below illustrates.

Hypothetical retirement savings

Age	Savings	Retirement savings needed
64	$1,000,000.00	$0.00
64	$1,059,999.94	$0.00
66	$1,058,028.28	$61,860.00
67	$1,053,905.60	$63,777.66
68	$1,047,439.82	$65,754.77
69	$1,038,425.39	$67,793.17
70	$1,026,642.42	$69,894.76
71	$1,011,855.72	$72,061.50
72	$993,813.88	$74,295.41
73	$972,248.18	$76,598.57
74	$946,871.51	$78,973.12
75	$917,377.18	$81,421.29
76	$883,437.69	$83,945.35
77	$844,703.39	$86,547.66
78	$800,801.08	$89,230.64
79	$751,332.50	$91,996.79
80	$695,872.80	$94,848.69
81	$633,968.79	$97,789.00
82	$565,137.20	$100,820.46
83	$488,862.75	$103,945.90
84	$404,596.18	$107,168.22
85	$311,752.06	$110,490.44
86	$209,706.59	$113,915.65
87	$97,795.12	$117,447.03
88	$0.00	$0.00
89	$0.00	$0.00
90	$0.00	$0.00
91	$0.00	$0.00
92	$0.00	$0.00
93	$0.00	$0.00
94	$0.00	$0.00
95	$0.00	$0.00

Source: Burling Bank. Assumes $1,000,000 in retirement savings has already been accumulated; another $60,000 is added. The money

grows at a hypothetical 6 percent per year; $60,000 (in today's dollars) is withdrawn each year. Inflation runs at 3%. This example above is hypothetical and for illustrative purposes only. It is not meant to represent performance of any particular product.

1 Source: National Center for Health Statistics, as of March 2006 (http://www.cdc.gov/nchs/data/hus/hus05.pdf#027).

2.Source: Burling Bank retirement calculator, http://www.burlingbank.com/calculators/calcs.htm.

This illustration can be pretty frightening, but it highlights the need to work with a financial advisor to help steer you through a fairly complicated process, as your retirement evolves.

Obviously the 6% rate of return will change from year-to-year. It is however through the ongoing calculations and making annual adjustments to actual gains or losses, accounting for non-discretionary vs discretionary expenditures, that will help you keep your financial plan on track.

Can You Count On Dividend Income?

One of the challenges many older investors face when managing their cash flow pertains to income from dividends. Unfortunately, common stock dividends come with no guarantees. Companies are not required to pay them, and those that do can suspend their dividends at any time as their business needs dictate. Since there are no guarantees for dividends, should you rely on them for planning even a portion of your retirement income? Possibly, but first consider the following points.

First, create a diversified portfolio of different dividend-paying stocks. If your dividends are coming from a single source, you run the risk losing what could be a significant portion of your income should the company decide to discontinue their dividend payments. With a diversified portfolio, your regular dividend income stream could continue, buffered by the on-going payments of the other stocks in your portfolio. Although diversification does not guarantee against the risk of loss in a declining market, it can help to reduce the market volatility risk of your overall portfolio.

Second, when building your dividend-income portfolio, look for high-quality companies in sectors that have historically paid out a steady stream of dividends to shareholders. Finding these stocks can be tricky, but there are a few good places to start. Companies in stable industries or in highly-regulated markets such as electric utilities are typically good candidates for a dividend-income portfolio. These companies usually face fewer threats to their business and fewer interruptions of their cash flow, making it less likely that they would have to discontinue dividend payments.

Another way to invest in a diversified portfolio of high-quality dividend-paying stocks is to choose a dividend income fund. A dividend income fund offers diversification in a mutual fund investment. Plus, a fund offers the expertise of a professional money manager, who does the research and selects the stocks on your behalf.

Can You Retire On High-yield Bonds?

Most financial advisors will tell you to invest your retirement funds in a diversified portfolio of stocks, because over a long period of time, such a portfolio could potentially outperform a diversified portfolio of bonds. That may be good advice, if you have time to ride out stock market volatility. But what if you don't have 40, 20, or even 10 years until retirement?

If you're in you're in your fifties, sixties or even seventies, and you're worried about a retirement shortfall, this traditional wisdom may not apply—and high-yield bonds may be appealing.

First, bonds may offer some tax advantages over stocks when invested in a tax-deferred retirement account, such as an Individual Retirement Account (IRA) or 401(k) plan.

When you deposit your retirement funds in a tax-deferred retirement account and invest it in stocks, and distributions are made from that account, they're taxed as ordinary income. That could potentially be more than 25 percent for earners in the higher tax brackets.

On the other hand, if you invest that money in a taxable account, and invest it in stocks, the earnings would be taxed at the capital gains rate, now just 15%.

So, it may be a good strategy to invest your non-qualified money in stocks and your qualified money in an account whose returns are taxed entirely as ordinary income—which is usually the case with bonds. This way you enjoy tax deferral.

But why *high-yield* bonds? Because they offer potentially higher returns and may not be as volatile as stocks. If, however, you are worried about the risk of bond issuer bankruptcies, consider instead a mutual fund which focuses on high-yield bonds.