APRIL 2018

Advisor

BALTIMORE - WASHINGTON FINANCIAL ADVISORS

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President's Address

INFLATION DOESN'T RETIRE WHEN YOU DO

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The need to outpace inflation doesn't end at retirement; in fact, it becomes even more important. If you're living on a fixed income, you need to make sure your investing strategy takes inflation into account. Otherwise, you may have less buying power in the later years of your retirement because your income doesn't stretch as far.

INFLATION CUTS PURCHASING POWER

When some people say, "I'm not an investor," it's often because they worry about the potential for loss. It's true that investing involves risk as well as reward. However, there's also another type of loss to be aware of: the loss of purchasing power.

Inflation is painful enough when you experience a sharp jump in prices. However, the bigger problem with inflation is not just the immediate impact, but its effects over time. Because of inflation, each dollar you've saved will buy less and less as time goes on. At 3% annual inflation, something that costs $100 today would cost $181 in 20 years.

Time is Money

	Now	In 20 Yrs.
House	$275,500	$497,584
Gallon of Milk	$3.81	$6.88
New Car	$28,352	$51,207

NOTE: If inflation averaged 3% annually, everyday objects could cost much more in the future.

YOUR SAVINGS MAY NEED TO LAST LONGER THAN YOU THINK

Gains in life expectancy have been dramatic. According to the National Center for Health Statistics, people today can expect to live more than 30 years longer than they did a century ago. Individuals who reached age 65 in 1950 could expect to live an average of 14 years more, to age 79; now a 65-year-old might expect to live for roughly an additional 19 years. Assuming inflation continues to increase over that time, the income you'll need will continue to grow each year. That means we need to think carefully about how to structure your portfolio to provide an appropriate withdrawal rate for you, especially in the early years of your retirement.

Current Life Expectancy Estimates

	Men	Women
At Birth	76.1	81.1
At Age 65	83.0	85.6

SOURCE: NCHS Data Brief, No. 293, December 2017.

ADJUSTING WITHDRAWALS FOR INFLATION

Inflation is the reason that the rate at which you take money out of your portfolio is so important. A simple example illustrates the problem. If a $1 million portfolio is invested in an account that yields 5%, it provides $50,000 of annual income. But if annual inflation runs at a 3% rate, then more income — $51,500 — would be needed the next year to preserve purchasing power. Since the account provides only $50,000 of income, $1,500 must also be withdrawn from the principal to meet retirement expenses. That principal reduction, in turn, reduces the portfolio's ability to produce income the following year. In a straight linear model, the principal reductions accelerate, ultimately resulting in a zero portfolio balance after 25 to 27 years, depending on the timing of the withdrawals.

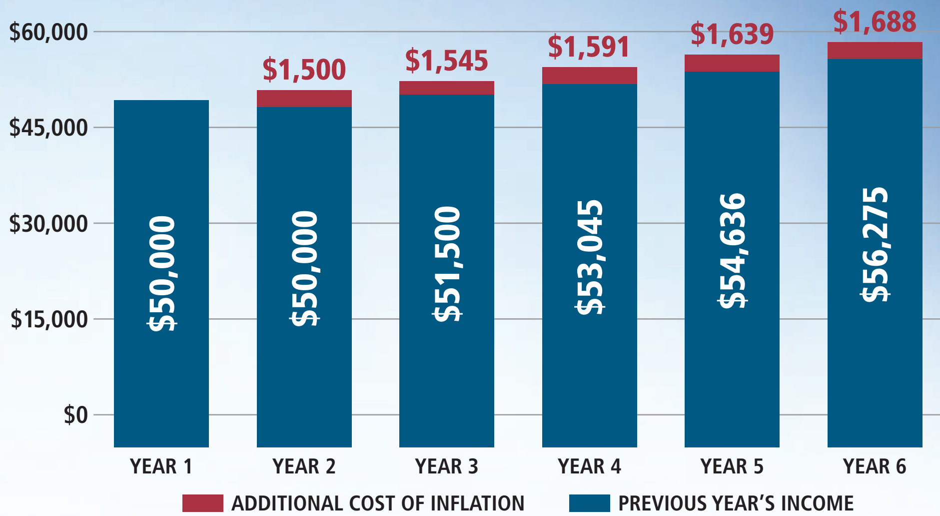
PHOTO: Overlook at Bryce Canyon National Park, Utah; Mule deer (Odocoileus hemionus) grazing in park woods

A seminal study on withdrawal rates for tax-deferred retirement accounts (William P. Bengen, "Determining Withdrawal Rates Using Historical Data," Journal of Financial Planning, October 1994), using balanced portfolios of large-cap equities and bonds, found that a withdrawal rate of a bit over 4% would provide inflation-adjusted income (over historical scenarios) for at least 30 years. More recently, Bengen showed that it is possible to set a higher initial withdrawal rate (closer to 5%) during early active retirement years if withdrawals in later retirement years grow more slowly than inflation.

INVEST SOME MONEY FOR GROWTH

Before coming to BWFA, some retirees are told to put most of their investments into bonds when they retire, only to find that doing so doesn't account for the impact of inflation. If you're fairly certain that your planned withdrawal rate will leave you with a comfortable financial cushion and it's unlikely you'll spend down your entire nest egg in retirement, congratulations! However, if you want to try to help your portfolio and income at least keep up with inflation (no matter how large or small), it is worth considering a growth component made of a diversified portfolio of stocks and fixed income securities. People are living longer and the price of goods and services is rising and your portfolio needs to keep up. I encourage all of our clients to be engaged with their Portfolio Manager at each meeting so you get the retirement lifestyle you deserve.

INCOME NEEDS RISE WITH INFLATION



SOME WAYS TO HELP YOUR SAVINGS LAST

- Don't overspend early in your retirement
- Consider putting at least part of your portfolio in investments that help you try to outpace inflation
- Plan IRA distributions so you can preserve tax-deferred growth as long as possible
- Postpone taking Social Security benefits to increase the amount of payments
- Keep growth in your asset allocation

Robert Carpenter

Advisor

PHOTO: Mossy cave waterfall near Bryce Canyon National Park, Utah

Do you know someone

WHO COULD USE GUIDANCE WITH THEIR INVESTMENTS?

MAYBE YOU KNOW SOMEONE WHO IS RETIRED OR NEARING RETIREMENT AND COULD BENEFIT FROM OUR SERVICES?

WE ASK YOU, OUR EXISTING CLIENTS, TO RECOMMEND OUR SERVICES TO FRIENDS OR FAMILY MEMBERS THAT COULD BENEFIT FROM OUR SUPPORT.

BY HELPING US GROW OUR "FAMILY OF CLIENTS," WE GET TO SHARE OUR PASSION WITH MORE PEOPLE JUST LIKE YOU.

PLEASE CONTACT MEGHAN AT MMANAS@BWFA.COM

COVER PHOTO: Sun shining through rock window, early morning in Bryce Canyon National Park, Utah

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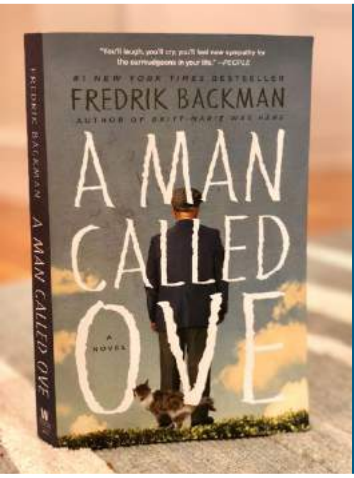

"A MAN CALLED OVE"

By: Fredrik Backman

BOOK DISCUSSION GROUP GATHERING

July 19, 2018
6:00 PM to 8:00 PM at BWFA
***Wine and hors d'oeuvres will be served**

To join the BWFA Book Club and/or to RSVP for the Book Discussion Group:

Email Eve Kennedy at ekennedy@bwfa.com

ABOUT THE BWFA BOOK CLUB

We are always looking for new ways to bring our clients, colleagues and friends together. If you love a good read, this is the club for you! We will select a book each quarter (4 books a year). There is no commitment to read every book in order to become a member. As a member, you can chose to participate with as many books as you'd like during the year. Whether you're local or afar, anyone can join and read along with us. For those that live nearby, there will be a book discussion group gathering at the end of each quarter. We hope you join us, as we discover new adventures through reading.

ABOUT THE BOOK: *"A MAN CALLED OVE"*

Meet Ove. He's a curmudgeon—the kind of man who points at people he dislikes as if they were burglars caught outside his bedroom window. Behind the cranky exterior there is a story and a sadness. So when one November morning a chatty young couple with two chatty young daughters move in next door and accidentally flatten Ove's mailbox, it is the lead-in to a comical and heartwarming tale of unkempt cats, unexpected friendship, and the ancient art of backing up a U-Haul. All of which will change one cranky old man and a local residents' association to their very foundations.

Financial Planning

MAKING A LARGE FINANCIAL COMMITMENT? BORROW OR PAY UPFRONT?

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For those who were raised in the Great Depression Era or raised by Great Depression Era parents, we sometimes have developed an aversion to borrowing money. Let us explore the benefits today of borrowing, versus paying outright for a large purchase (new home, second home, boat, vehicle, home improvements, or dare I mention, a very large tax bill owed this tax season!).

In the example of a new car purchase (you can apply this to all of the examples above in addition to others) your choices are basically to finance the purchase or pay in cash, which each have pros and cons. However, given the current low-interest rate environment, financing the purchase is the recommended option due to one major "pro"—you can keep more money invested in a properly diversified portfolio at BWFA!

Assuming you have good credit and there still exists low borrowing rates—as low as 0% for many vehicle purchases—you can stretch the payments of large purchases over several years or longer so that your money works for you in your investment portfolio over time and generally grows on average at a pace much higher than the low (or zero) interest rate costs you will pay on the loan.

What can you afford to pay in monthly loan payments?

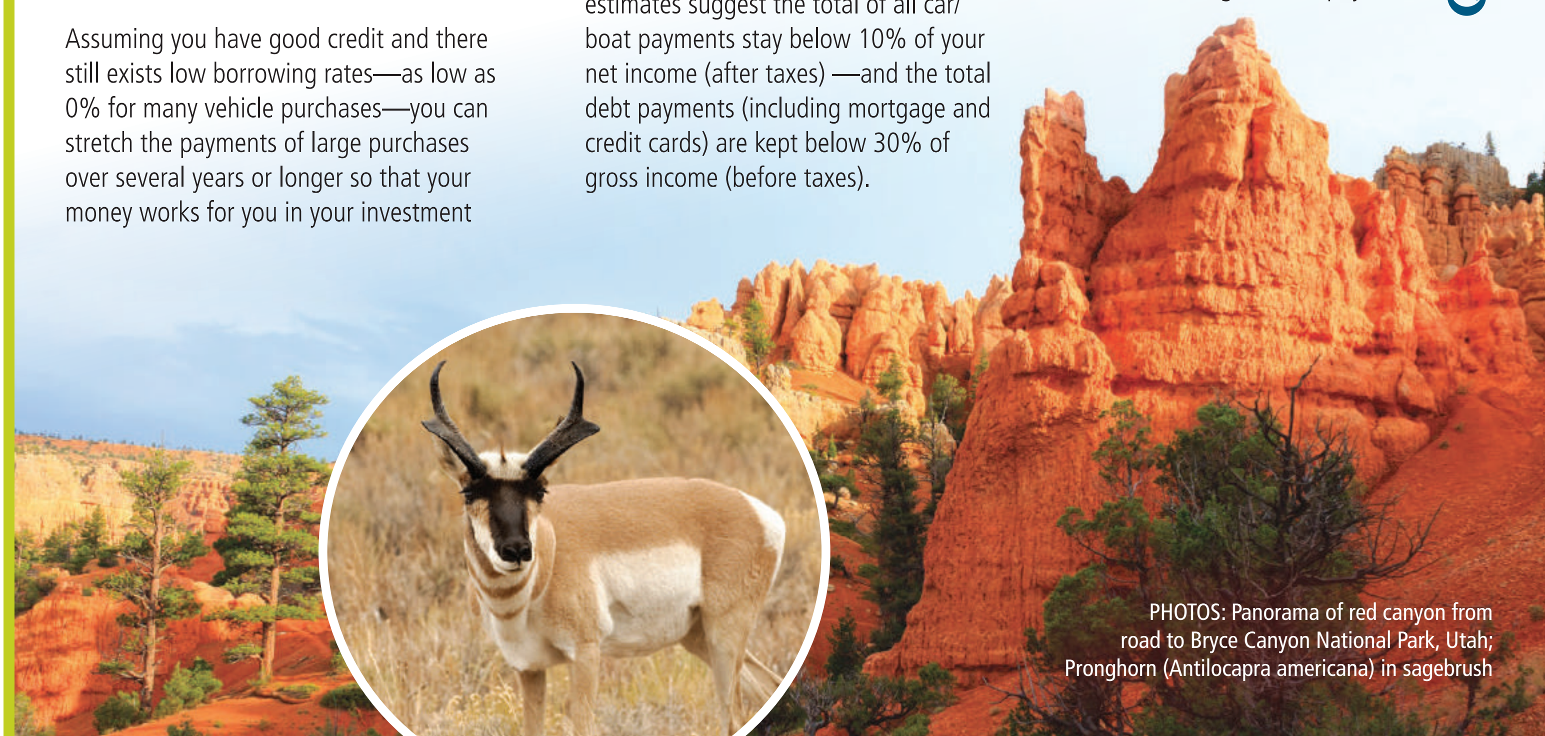
- **If you are retired,** you often hear us recommend keeping your overall annual draw rate (the amount you take from investments for living expenses) at 4-5% of your total invested assets (approximately $50,000 for every $1 million invested). If your current withdrawal rate is less than 5%, and if your new loan repayments do not increase your withdrawal rate above 5%, then financing the purchase would likely be financially beneficial, especially over a long time horizon.
- **If you are still working,** conservative estimates suggest the total of all car/boat payments stay below 10% of your net income (after taxes) —and the total debt payments (including mortgage and credit cards) are kept below 30% of gross income (before taxes).

Are there some drawbacks to financing? Maybe.

- **Zero-interest financing—** some businesses offer zero-interest loans, and if you make on-time payments, no interest or penalties will be applied. However, these zero-interest loans often have a "deferred interest clause" which means that even if you only miss one payment, you will be charged deferred interest, sometimes up to 30% or more!
- **Insurance costs—** you may be required to pay mortgage insurance when financing the purchase of a home, but in most cases if you make a down payment of 20% or more, then you can avoid this additional cost.
- **Rate fluctuations—** given the potential for continued gradual interest rate hikes, if you do not have a fixed rate loan, then in the future you may pay more in financing which could reduce the overall benefit of borrowing to make the purchase today. So, when possible, use a fixed rate loan in the current interest rate environment.

LENDING SOLUTIONS—BEYOND THE TRADITIONAL LOAN

In addition to "getting a loan from the bank", BWFA offers unique collateralized lending options for those with eligible, invested assets managed by us. Ask your BWFA advisor for more details when contemplating your next large purchase (even if it is a large tax bill payment!).



PHOTOS: Panorama of red canyon from road to Bryce Canyon National Park, Utah; Pronghorn (Antilocapra americana) in sagebrush

MILLENNIALS: COMING OF AGE

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In March 2018, Pew Research Center released a new study seeking to more conclusively define the Millennial generation. The study concluded that a Millennial is someone born between 1981 and 1996, making them now, in 2018, between the ages of 22 and 37. While it is of course impossible to conclusively define a "generation", cultural and historical touchstones are helpful to provide a more practical perspective.

For instance, Millennials likely did not have to deal with dial-up modems, bother with flip phones or, due to the ubiquity of GPS, ask for directions. Aside from the obvious technological advances, Millennials get married and buy homes later than preceding generations, and are less likely to have to dress up for work! However, as this generation ages there are surely signs that (surprise!) Millennials are not so different than the rest of us.

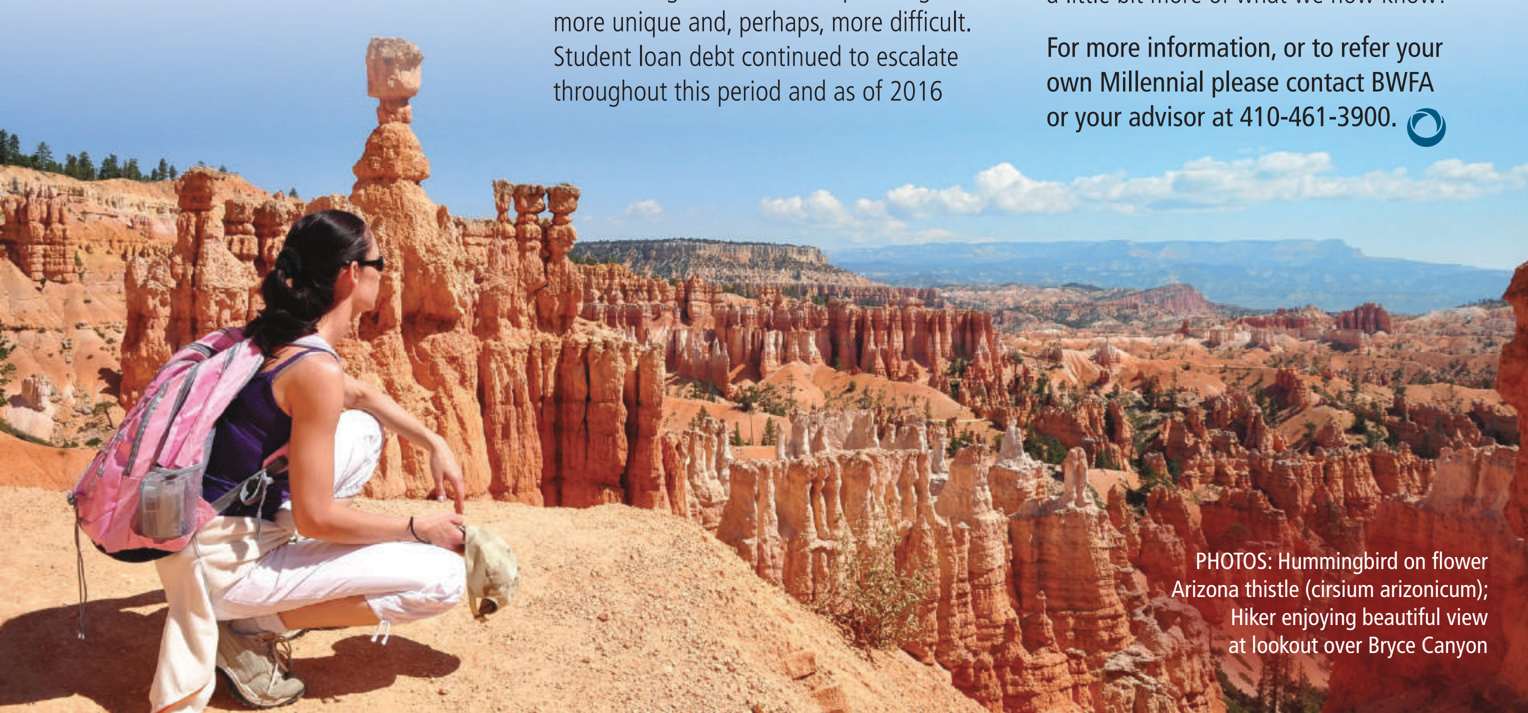
A recent story in USA Today noted that 16% of Millennials now have $100,000 or more in savings. This fact goes against the stereotype of Millennials as being foolish with money and not being long term planners. It is important to remember that Millennials came of age during the worst financial crisis since the Great Depression. There certainly is a lingering financial angst that comes along with that, as well as the ballooning student debt burden of so many adults within this age group.

Of course not all Millennials are on their way to becoming great savers. A recent CNN/Money survey found that 66% of Millennials had nothing saved for retirement. While this survey defined the group as only those between 21 and 32, it is still important to note that unique circumstances facing this generation make saving and retirement planning more unique and, perhaps, more difficult. Student loan debt continued to escalate throughout this period and as of 2016 the average student graduated owing over $37,000. Of course wages have not kept pace with this debt growth, where many Millennials entered the job market during a recession. Additionally, employer sponsored retirement plans such as 401k plans are now less pervasive, especially with the rise of the "gig" economy.

The benefits for many Millennials in having information at their fingertips, and the ability to work from anywhere goes hand in hand with the accompanying changes in how companies and industries now treat staffing. This means that the job security of sticking with one company throughout your career is not possible, and in fact often not what Millennials actually desire. However, having to forge a new path towards savings and retirement does not mean that retirement goals need to be foregone. No matter your specific goals, the principles of sound financial planning still endure, including the benefit of budgeting and early saving to capture the value of compounding returns.

Surely many BWFA clients have children and grandchildren in their lives that fit into this Millennial generation, and likely you have observed many of the changes, financial and otherwise, touched on here. At BWFA we value above all else the trust our clients put in us to help them achieve their unique and individual financial goals. We are here to provide guidance and support to clients of all ages and circumstances, and who among us has not wished we had known back then even a little bit more of what we now know!

For more information, or to refer your own Millennial please contact BWFA or your advisor at 410-461-3900.



PHOTOS: Hummingbird on flower Arizona thistle (cirsium arizonicum); Hiker enjoying beautiful view at lookout over Bryce Canyon

Investment Management

INTEREST RATES RISING... WHAT ABOUT THE STOCK MARKET?

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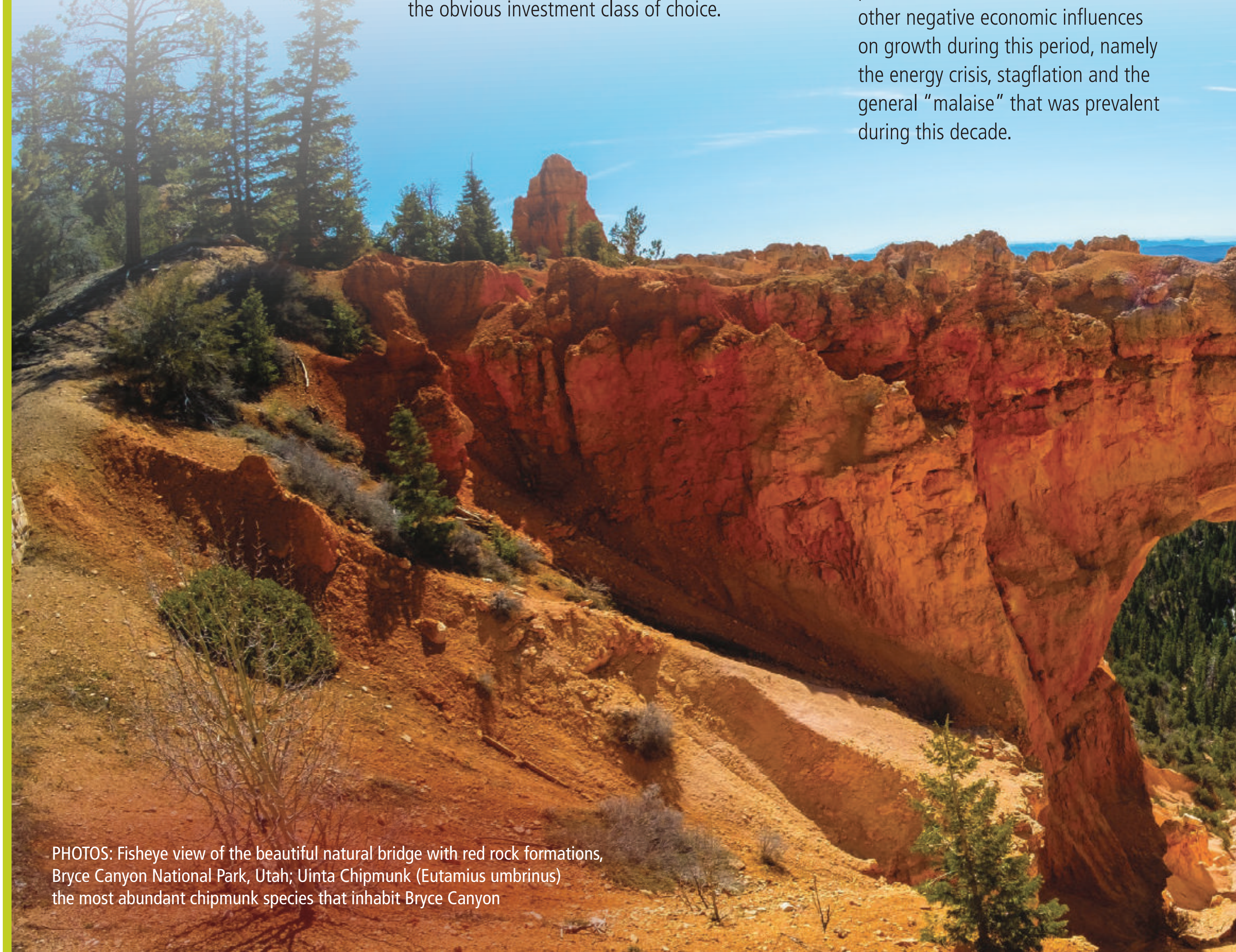
- **What is the relationship between interest rates and the stock market?**
- **Can stocks rise in a rising interest rate environment?**
- **Do interest rates impact all stocks the same?**

Logic, and recent stock market volatility, would seem to suggest an inverse relationship between interest rates and stock valuations. Interest rates have been low for many, many years (until recently the long term government bond yields were 2% or less) making bonds less competitive than stocks. This is particularly so for dividend paying stocks, making stocks the obvious investment class of choice.

However, rates are now rising on fixed income securities, and logic might then seem to suggest that stocks will become less attractive versus bonds.

A look at past events is often instructive when considering how to analyze and make current investment decisions. **Here are historical examples (from most of our lifetimes) that show the reality of rising interest rates and the concurrent effect on the stock market:**

- **1960s:** S&P 500 went up, nearly doubling during the last eight years, while interest rates were slowly climbing during that entire period.
- **1970s:** S&P 500 was mostly flat while interest rates were rising for large periods of this decade. There were other negative economic influences on growth during this period, namely the energy crisis, stagflation and the general "malaise" that was prevalent during this decade.



PHOTOS: Fisheye view of the beautiful natural bridge with red rock formations, Bryce Canyon National Park, Utah; Uinta Chipmunk (Eutamius umbrinus) the most abundant chipmunk species that inhabit Bryce Canyon

- **1980s:** S&P 500 was generally flat during pockets of rising interest rates during this decade. Most of us can recall the tremendous overall growth in stocks during the 1980s, a period in which the S&P 500 tripled.

- **1990s:** S&P 500 was flat (or sometimes rising by quite a bit) for periods during the mid and late 90s. Though, overall the S&P 500 grew by over 4 times!

- **2000s:** S&P 500 rallied consistently during a 3 year period in the middle of the decade, and (specifically isolating for when rates were rising) a 1 year period at the end. Interestingly, even though stocks made money during these rising interest rate periods, the S&P, overall, was down for the decade.

- **2010s:** So far, the S&P 500 has grown during this current decade, by 2.5 times. Further, there have already been two periods of rising rates, and each time the S&P 500 rose at the same time.

There is certainly some randomness to these tandem movements of stocks and rising interest rates, but there are more times than not, in the last 50 years or so, where the S&P 500 went higher while interest rates were also rising. One economic condition that contributes to increased stock values during rising interest rate periods is lower inflation, which we currently observe. This positive effect also has been seen to extend to the year following the start of rising rates. While evidence does exist showing stocks falling during certain periods when rates are rising this condition is more prevalent when inflation is higher than 4%, as it was in the 1970s.

As every cycle is of course unique, we should look to the overall condition of the economy, as well as specific companies, as the better correlating factor to increasing investment values, particularly in U.S. stocks.

Additionally, where here in the U.S. we are currently in this rising interest rate environment, we are keenly aware that there may well be better investment opportunities elsewhere throughout the world. Where certain interest rate sensitive sectors in the U.S. stock market are under more pressure than those less dependent on lower interest rates, foreign economies could outpace domestic returns, and we will look to diversify and allocate our investments appropriately.

Rising interest rates will trigger short term volatility and possibly short term declines in stocks as we have seen (in the short run) recently. At BWFA we will always look to broader economic conditions, which today are still quite good, as well as the stock market movements, in utilizing a long term perspective when assessing our investment decisions for our clients.

Investment Management

DIVIDENDS IN A PORTFOLIO

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WHY CONSIDER DIVIDENDS?

Dividend income has represented roughly one-third of the total return on the Standard and Poor's 500 since 1926. According to S&P, the portion of total return attributable to dividends has ranged from a high of 53% during the 1940s — in other words, more than half that decade's return resulted from dividends — to a low of 14% during the 1990s, when investors tended to focus on growth.

If a stock's price rises 8% a year, even a 2.5% dividend yield can push its total return into double digits. Dividends can be especially attractive during times of relatively low or mediocre returns; in some cases, dividends could help turn a negative return positive, and also can mitigate the impact of a volatile market by helping to even out a portfolio's return.

Another argument has been made for paying attention to dividends as a reliable indicator of a company's financial health. Investors have become more conscious in recent years of the value of dependable data as a basis for investment decisions, and dividend payments aren't easily restated or massaged.

Finally, many dividend-paying stocks represent large, established companies that may have significant resources to weather an economic downturn — which could be helpful if you're relying on those dividends to help pay living expenses.

THE CORPORATE INCENTIVE

Industrial and utility companies have been traditional mainstays for investors interested in dividends, but other sectors of the market also have begun to offer them. For example, investors have been stepping up pressure on cash-rich technology companies to distribute at least some of their profits as dividends rather than reinvesting all of that money to fuel growth. Some investors believe that pressure to maintain or increase dividends imposes a certain fiscal discipline on companies that might otherwise be tempted to use the cash to make ill-considered acquisitions (though there are certainly no guarantees that a company won't do so anyway).

PHOTOS: Breathtaking view of Paunsaugunt Plateau featuring an elevation range of 7,000 to 9,300 feet, Bryce Canyon National Park, Utah; Steller's Jay (Cyanocitta stelleri) in the Ponderosa Pine forest along the canyon rim

However, according to S&P, corporations are beginning to favor stock buybacks rather than dividend increases as a way to reward shareholders. If it continues, that trend could make ever-increasing dividends more elusive.

DIFFERENCES AMONG DIVIDENDS

Dividends paid on common stock are by no means guaranteed; a company's board of directors can decide to reduce or eliminate them. The amount of a company's dividend can fluctuate with earnings, which are influenced by economic, market, and political events. However, a steadily growing dividend is generally regarded as a sign of a company's health and stability. For that reason, most corporate boards are reluctant to send negative signals by cutting dividends.

That isn't an issue for holders of preferred stocks, which offer a fixed rate of return paid out as dividends. However, there's a tradeoff for that greater certainty; preferred shareholders do not participate in any company growth as fully as common shareholders do. If the company does well and increases its dividend, preferred stock-holders still receive the same payments.

The term "preferred" refers to several ways in which preferred stocks have favored status. First, dividends on preferred stock are paid before the common stockholders can be paid a dividend. Most preferred stockholders do not have voting rights in the company, but their claims on the company's assets will be satisfied before those of common stockholders if the company experiences financial difficulties. Also, preferred shares usually pay a higher rate of income than common shares.

Because of their fixed dividends, preferred stocks behave somewhat similarly to bonds; for example, their market value can be affected by changing interest rates. And almost all preferred stocks have a provision that allows the company to call in its preferred shares at a set time or at a predetermined future date, much as it might a callable bond.

LOOK BEFORE YOU LEAP

Investing in dividend-paying stocks isn't as simple as just picking the highest yield. When investing for income, we consider whether the company's cash flow can sustain its dividend.

Also, some companies choose to use corporate profits to buy back company shares. That may increase the value of existing shares, but it sometimes takes the place of instituting or raising dividends.

TAXES AND DIVIDENDS

Qualified dividends, based upon an individual's income, will be taxed at one of three tax rates — 20%, 15% or 0%. Also, depending on an individual's income, dividends may be subject to a 3.8% net investment income tax (also referred to as the unearned income Medicare contribution tax).

Qualified dividends are those that come from a U.S. or qualified foreign corporation, one that you have held for more than 60 days during a 121-day period (60 days before and 61 days after the stock's ex-dividend date). Form 1099-DIV, which reports your annual dividend and interest income for tax accounting purposes, will indicate whether a dividend is qualified or not.

Some dividends aren't taxed at the same rate as qualified dividends, and a portion may be taxed as ordinary income. Also, some so-called dividends, such as those from deposits or share accounts at cooperative banks, credit unions, U.S. savings and loan associations, and mutual savings banks actually are considered interest for tax purposes.

The investment professionals at BWFA consider dividend paying stocks to be an integral part of the overall investment management process as we strive to build portfolios that meet the retirement needs of our clients.

Tax Services

TAXES ARE CHANGING! WHAT DO WE DO?

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Don't worry, we've got you covered. We are going to work our way through a 1040 (individual income tax return) and give the highlights of the tax changes.

The first item on the return that changed is alimony. Starting in 2018, you are no longer required to claim alimony income. This also means that you will no longer receive a deduction for alimony paid.

The other income that was affected by the change in tax law is related to Pass-through Entities. Qualified entities include sole proprietorships, LLCs, partnerships and S-corporations. You can now deduct up to 20% of your income from a pass-through entity. There are limitations, however, so be sure to talk to your tax advisor before you take the deduction.

One deduction that could be taken even if you didn't itemize, is moving expenses. Before 2018, you were allowed to deduct moving expenses that were related to a job change. The new job was required to be at least 50 miles from where you used to live and where your old job was. This deduction has been removed completely starting in 2018.

The most significant changes to deductions relate to exemptions and the standard deduction. For 2017 and prior, each taxpayer and dependent was allowed an exemption of $4,150. Starting in 2018, there will be no more exemptions. I know this seems like a huge loss, but the government has made up for some of it by increasing the standard deduction.

In the past, a single person, or someone filing married filing separately would get a $6,500 deduction. They now get $12,000. Married filing jointly went from $13,000 to $24,000, and Head of Household went from $8,350 to $18,000.

Those of you that itemize instead of taking the standard deduction are probably wondering how this affects you. There are quite a few changes to the itemized deductions as well.

Before 2018, you could take a deduction on Schedule A for the total combination of state and local income taxes (or sales tax), real estate taxes and personal property taxes. Going forward, you can still take that deduction, but it is limited to $10,000.

The next big thing for itemizers is the change to mortgage interest. If you purchased your home on or before December 14, 2017, you can follow the old law of a deduction of mortgage interest on debt up to $1,000,000. If your house was purchased on December 15, 2017 or after, you are limited to debt up to $750,000. The home equity debt interest on debt up to $100,000 is no longer allowed to be deducted, no matter when the loan was taken out.

If you're starting to worry about charitable contributions, don't! The deduction is now allowed up to 60% of Adjusted Gross Income (AGI). This was previously only up to 50%. They also increased the allowance of medical expenses. Starting in 2017 (yes, that's right), medical expenses over 7.5% of AGI can be included. For 2016 and earlier, this was 10%, unless you were over 65, and then it was 7.5%.

The final change to itemized deductions is the Miscellaneous Deductions. This includes casualty and theft losses, unreimbursed employee expenses, tax preparation fees, investment fees, and even safety deposit boxes. These are no longer deductible. This may be a hit for some, but many people never received the benefit for these anyway, because you could only deduct the amount that was over 2% of your AGI.

Now that we've completely changed our taxable income, let's talk about the tax rates themselves. Below are comparisons of the Single bracket and the Married Filing Jointly bracket. Keep in mind that these are graduated brackets. Just because your income falls into the 32% tax bracket, it doesn't mean that all of your income is taxed at 32%. Only the amount over $157,500 is taxed at that rate. Everything below the $157,500 is taxed at each income's respective bracket.

For those of you that fall into Alternative Minimum Tax (AMT), there are some great changes for you. The original income threshold that put a taxpayer into AMT was $120,700 for a Single taxpayer and $160,900 for Married Filing Jointly. These have now increased to $500,000 and $1,000,000, respectively. The exemptions that are allowed have also increased. Originally, Single or Head of Household was allowed $54,300, Married Filing Jointly was $84,500 and Married Filing separately was $42,250. These have now increased to $70,300, $109,400 and $54,700, respectively. Many of you that once fell into the AMT, have now been pushed back out.

Now that we have your total tax for the year, let's talk about credits; namely the Child Tax Credit. This credit saw a lot of change in the new tax law. The original credit was set up as follows: Each child under 17 qualified for a $1,000 tax credit. The refundable amount of the credit was up to 15% of earned income. The AGI phase-outs started at Single over $75,000 and Married Filing Jointly over $110,000. Starting in 2018, each child under 17 qualifies for a $2,000 credit.

PHOTOS: Riding along scenic horse trail in Bryce Canyon National Park, Utah; Raven (Corvus corax) watching out over landscape

SINGLE				MARRIED FILING JOINTLY			
Original		**New**		**Original**		**New**	
Marginal Tax Rate	Single	Marginal Tax Rate	Single	Marginal Tax Rate	Married Filing Jointly	Marginal Tax Rate	Married Filing Jointly
10%	$0-$9,525	10%	$0-$9,525	10%	$0-$19,050	10%	$0-$19,050
15%	$9,525-$38,700	12%	$9,525-$38,700	15%	$19,050-$77,400	12%	$19,050-$77,400
25%	$38,700-$93,700	22%	$38,700-$82,500	25%	$77,400-$156,150	22%	$77,400-$165,000
28%	$93,700-$195,450	24%	$82,500-$157,500	28%	$156,150-$237,950	24%	$165,000-$315,000
33%	$195,450-$424,950	32%	$157,500-$200,000	33%	$237,950-$424,950	32%	$315,000-$400,000
35%	$424,950-$426,700	35%	$200,000-$500,000	35%	$424,950-$480,050	35%	$400,000-$600,000
39.6%	Over $426,700	37%	Over $500,000	39.6%	Over $480,050	37%	Over $600,000

The refundable amount of the credit is $1,400, and the phase-outs have increased to Single over $200,000 and Married Filing Jointly over $400,000. Hopefully that gives a few more people a credit for all of those kids.

Although many states are still deciding how to handle the new tax law changes, there is one already-decided, partially state-related change. The 529 College Savings Plan has been in existence since 1996. The way it works is that you contribute to a 529 on behalf of a future/current student. The contribution grows tax-free until the money is needed to pay for college. When the money is distributed and paid to a qualified university, there are no tax implications. If, however, the money is used for something other than tuition, room and board, books or computer equipment, the distribution may be taxable and subject to an early-distribution penalty. There is no deduction for the contribution on your Federal return, but many states allow a limited deduction each year. Maryland in particular allows a deduction of $2,500 per contributor, per beneficiary, per year as long as it is into a Maryland specific 529 plan (which does not mean that the student has to attend a Maryland school). If you happen to "over contribute" in one year, it will carry forward to the next year.

Starting in 2018, these tax-free accounts can now be used for K-12 private schools. The only expenses that are allowed to be paid are tuition and tutoring. Although the amount of a distribution used for a college or university is unlimited, K-12 can only be up to $10,000 a year. Because these contributions are placed into a 529 plan, most states are still allowing the deduction to be taken on the state return. Check with your 529 provider as well as the state you file in to see what they offer.

One final note is related to the increase in the estate and gift tax exemption. Each individual is allowed to gift up to $15,000 (in 2018) to one individual, without having to file a gift tax return. Anything more than the $15,000 will reduce the amount of your lifetime exclusion. This exclusion was originally $5,000,000 per person, but has now been increased to $10,000,000. When your day comes, anything left in your estate will reduce the exclusion to zero, and then the leftover will be taxed at the estate rate.

We hope that this was informative and not too overwhelming. As always, if you have any tax questions, we have an entire tax department waiting for your call.

Business Services

LIFE INSURANCE FOR BUSINESS OWNERS

BRIAN MACMILLAN
MANAGING DIRECTOR
MERGERS & ACQUISITIONS
bmacmillan@bwfa.com

If you own your own business, chances are you've at least thought about the conditions under which you will leave the business and who is going to take over after you're gone. Business continuation is difficult enough under normal circumstances, but if it takes place following the unexpected death of a key person or owner, the complications can increase exponentially.

A WAY TO HELP MANAGE THE RISK

Company-owned life insurance is one way to help protect a business from financial problems caused by the unexpected death of a key employee, partner, or co-owner. If the covered individual dies, the proceeds from this type of insurance can help in several ways. Here are some examples.

FUND A BUY-SELL AGREEMENT

A buy-sell agreement typically specifies in advance what will happen if an owner or a key person leaves the company, either through a personal decision or because of death or disability. The death benefit from a company-owned life insurance policy can be used to purchase the decedent's interest in the company from his or her heirs.

KEEP THE BUSINESS GOING

If a decision is made to continue the business, there may be a period when operations cease while the survivors develop a plan to move forward. The death benefit can be used to help replace lost revenue or to pay costs associated with keeping the doors open, including rent, utilities, lease payments, and payroll. It may also help the surviving owners avoid borrowing money or selling assets.

REPLACE LOST INCOME

If a business owner has family members who depend on the income from a business, which simply could not continue if he or she were suddenly gone, the proceeds from company-owned life insurance could help replace the lost income and help protect the family's quality of life while they adjust and move on.

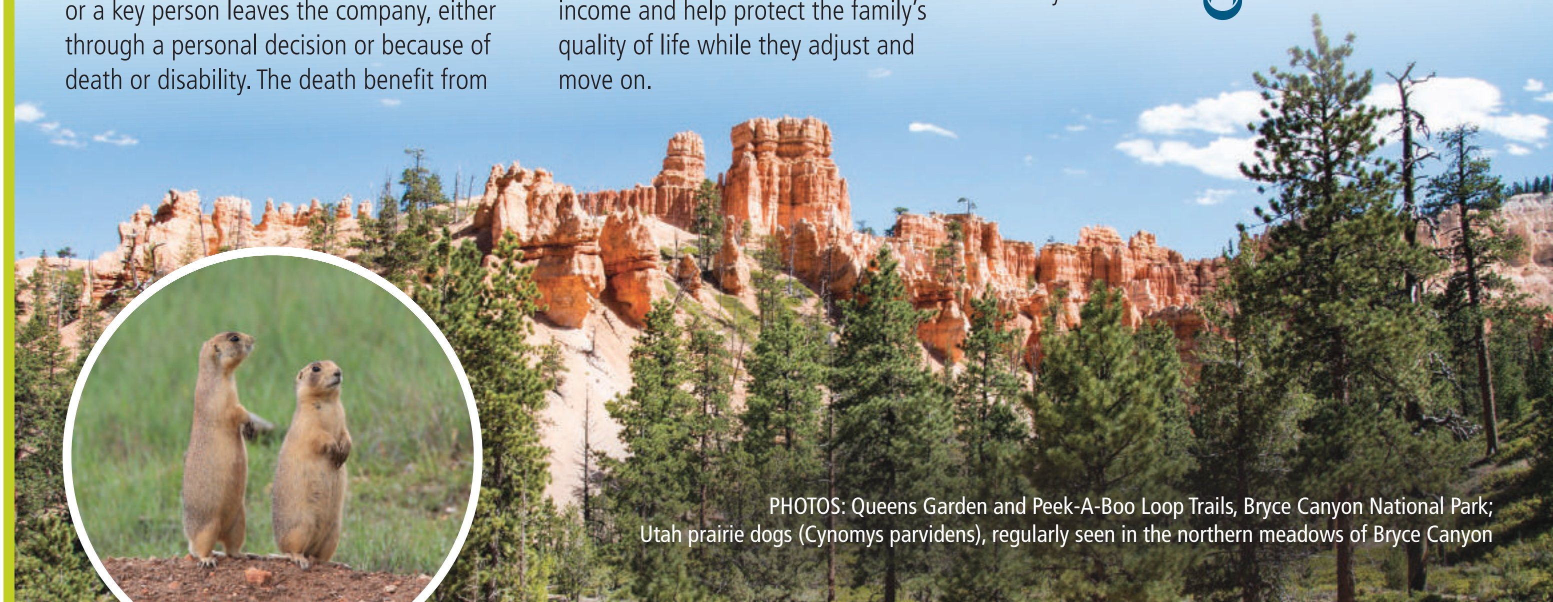
The appropriate coverage amount will depend on several factors. It could be a multiple of the business owner's annual salary or the company's operating budget. Don't forget to factor in such details as the cost of hiring and training a successor, where applicable, and any debts that the family may have to repay.

A thorough examination of a business and the related personnel should be conducted before the exact amount of coverage is determined.

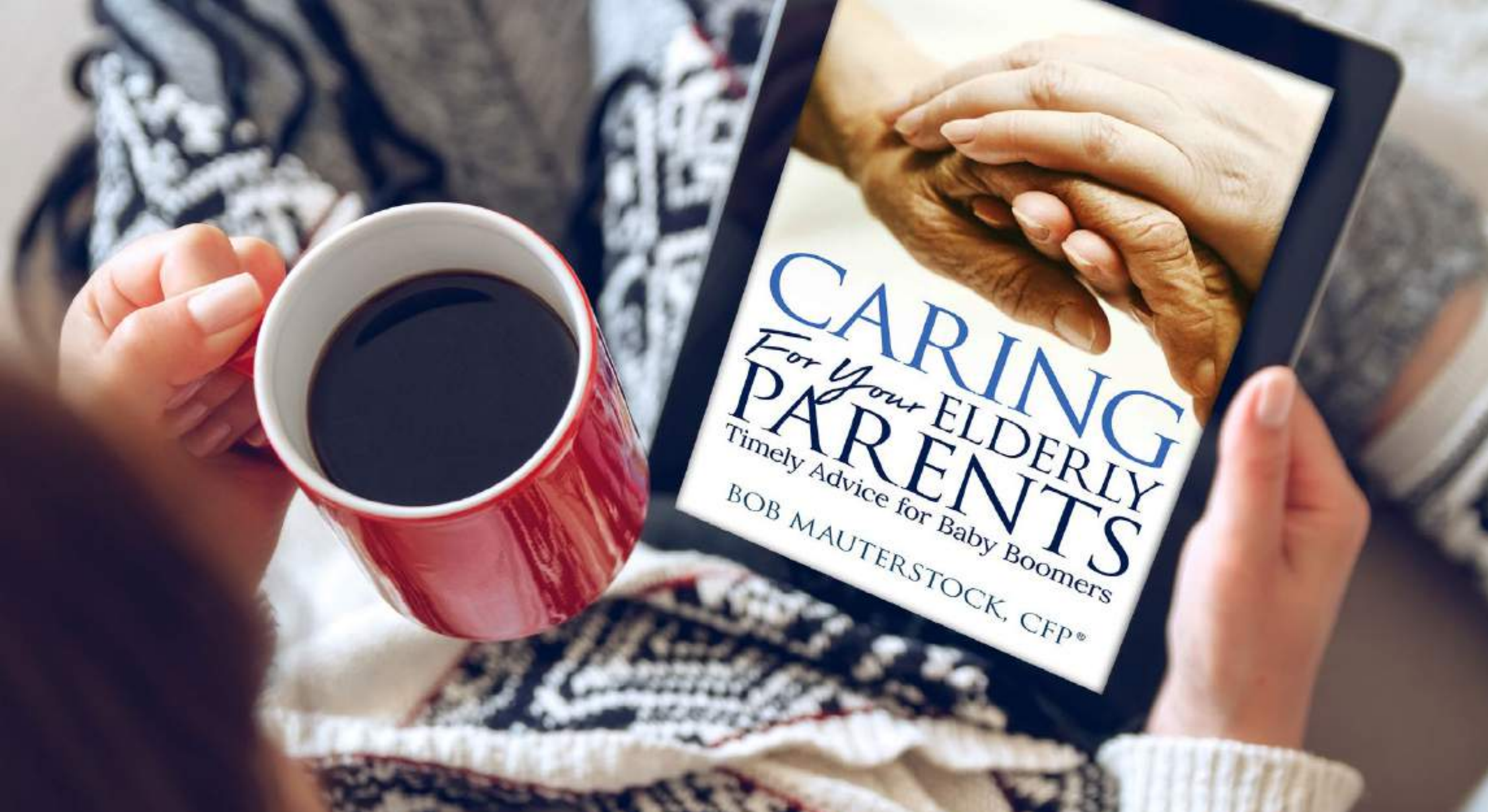
Remember that the cost and availability of life insurance depend on factors such as age, health, and the type and amount of insurance purchased. Before implementing a strategy involving life insurance, it would be prudent to make sure that the individual is insurable. As with most financial decisions, there are expenses associated with the purchase of life insurance. Policies commonly have contract limitations, fees, and charges, which can include mortality and expense charges. In addition, if a policy is surrendered prematurely, there may be surrender charges and income tax implications.

The loss of an owner can be devastating to a small business. A company-owned life insurance policy may help reduce the financial consequences if such a loss were to occur.

Baltimore Washington Financial Advisors is unique in that we have both Financial Planning and Business Succession expertise under one firm. Please contact our Financial Planning or Mergers and Acquisitions team to discuss the best use of life insurance for you, your family, and your business.



PHOTOS: Queens Garden and Peek-A-Boo Loop Trails, Bryce Canyon National Park; Utah prairie dogs (Cynomys parvidens), regularly seen in the northern meadows of Bryce Canyon



"Caring for Your Elderly Parents: Timely Tips for Baby Boomers"

By: Bob Mauterstock

BOOK REVIEW & INTERACTIVE WEBINAR
with Guest Speaker and Author,
Bob Mauterstock

June 28, 2018
11:45 AM to 1:00 PM at BWFA
***Lunch will be provided**

To register for the seminar:

Email Eve Kennedy at ekennedy@bwfa.com

ABOUT THE SEMINAR

Guest Speaker, Bob Mauerstock, will lead a discussion on how we can help our parents — and ultimately ourselves — plan for housing, healthcare, and financial security. The book covers pertinent issues facing baby boomers who can easily be overwhelmed by handling their aging loved one's affairs.

Bob Mauterstock, Certified Financial Planner and Author with over 30 years of experience, will share real-life situations he has faced, conversations with his own parents, and how he developed real life practical solutions to deal with them.

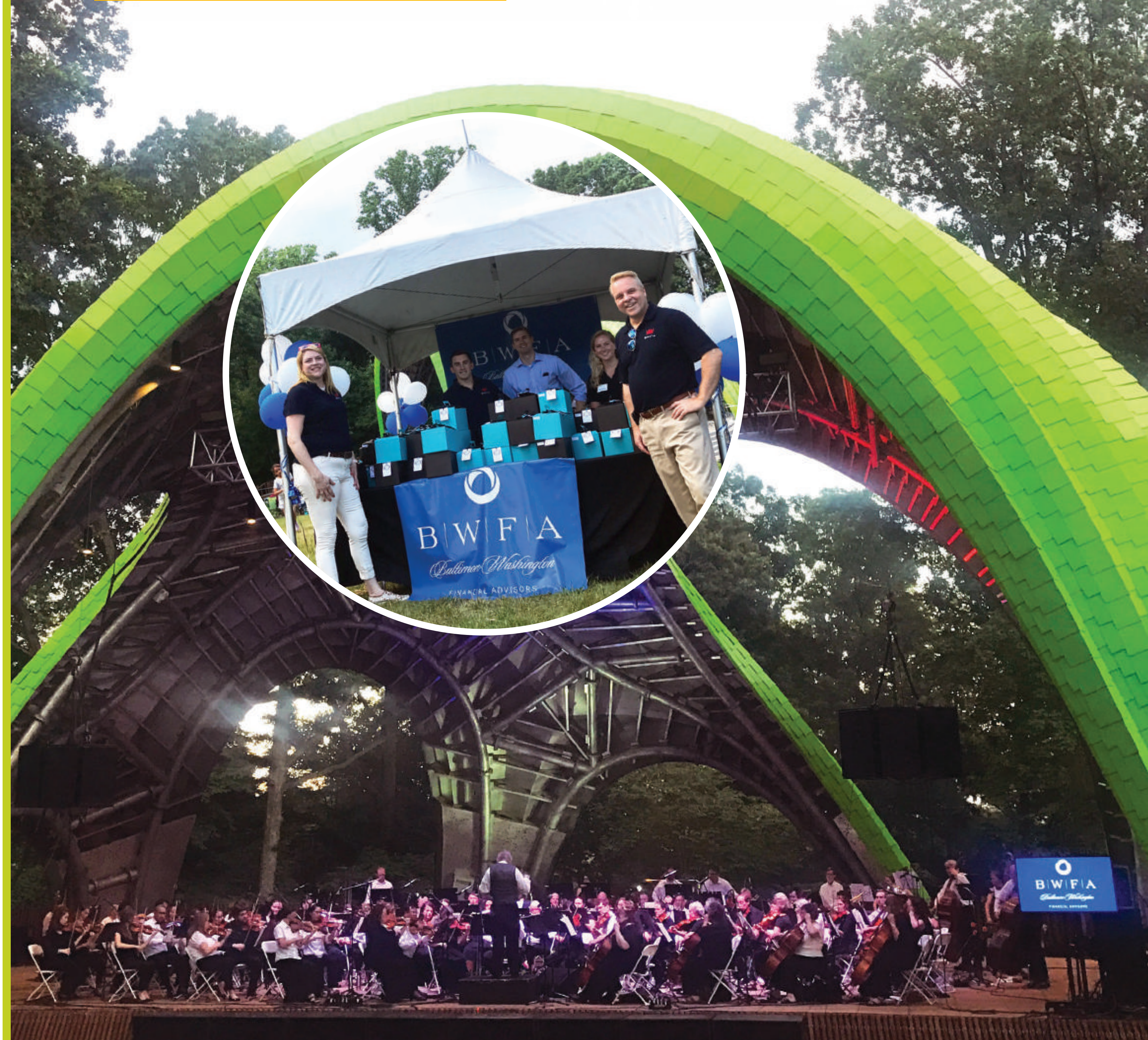
ABOUT BOB MAUTERSTOCK

Bob Mauterstock is an accomplished speaker, author and sought-after authority on the financial concerns of baby boomers and their adult children. Bob is the author of *Can We Talk? A Financial Guide for Boomers Assisting Their Elderly Parents, Passing the Torch, Critical Conversations with Your Adult Children and Financial Advisor Safeguard Volume 1: How to Protect Yourself, Your Practice and Your Aging Clients Who Have Diminished Mental Capacity.*

BWFA *in the Community*

BWFA SPONSORS COLUMBIA ORCHESTRA SUMMER POPS CONCERT

The Chrysalis
at Merriweather Post Pavilion
June 2018



B|W|F|A

Baltimore-Washington

FINANCIAL ADVISORS

SPRING CLEANING AT BWFA!

START YOUR SPRING CLEANING AT BWFA!

Join us for a complimentary Shred-it event and empty out your file cabinet!

Saturday, May 19, 2018 • 11:00 AM to 2:00 PM

BWFA will have a Shred-it truck at our office available for our clients to bring any documents they would like to dispose of securely, professionally and confidentially. The truck will be located in our parking lot. Pull up & unload your items ready for shredding!

We look forward to seeing you there.

Sincerely,

Robert Carpenter

Robert Carpenter
President and CEO

To register for the event:

Email Eve Kennedy at ekennedy@bwfa.com

Upcoming Events

Please join us and bring a friend!

April

APRIL 10, 2018 • 11:30 AM – 1:00 PM
Planning for Your Loved One with Special Needs w/ Elville and Associates

APRIL 12, 2018 • 11:45 AM – 1:00 PM
Estate Planning: Protecting from Creditors w/ Gary Greenwald, Esq.

APRIL 19, 2018 • 11:45 AM – 1:00 PM
Volatility in the Markets

APRIL 24, 2018 • 11:45 AM – 1:00 PM
How to be a Trustee w/ Gary Greenwald, Esq.

May

MAY 1, 2018 • 11:45 AM – 1:00 PM
Business Owner Series Part 1: Exit Strategy & Succession Planning w/ Elville and Associates

MAY 8, 2018 • 11:45 AM – 1:00 PM
Legacy Giving w/ Elville and Associates

MAY 10, 2018 • 6:00 PM – 7:30 PM
Estate Planning 101 w/ Gary Greenwald, Esq.

MAY 15, 2018 • 11:45 AM – 1:00 PM
Making the Most of Medicare

MAY 17, 2018 • 11:45 AM – 1:00 PM
Wellness Series w/ Dr. Emily Telfair, N.D.

MAY 22, 2018 • 11:45 AM – 1:00 PM
Disability Planning w/ Gary Greenwald, Esq.

MAY 31, 2018 • 11:45 AM – 1:00 PM
Good vs. Bad Debt

PHOTOS: Hoodoo-filled Bryce Canyon Amphitheater from Inspiration Point at sunrise, elevation 8,100 feet

June

JUNE 2018
BWFA Sponsors The Columbia Orchestra Summer Pops Concert

JUNE 7, 2018 • 11:45 AM – 1:00 PM
Estate Planning for Second Marriages w/ Gary Greenwald, Esq.

JUNE 12, 2018 • 11:45 AM – 1:00 PM
Estate Planning for Retirement Plan Benefits w/ Elville and Associates

JUNE 26, 2018 • 11:45 AM – 1:00 PM
How to Avoid Probate Court w/ Gary Greenwald, Esq.

JUNE 28, 2018 • 11:45 AM – 1:00 PM
Book Review "*Caring for Your Elderly Parents: Timely Advice for Baby Boomers*" By: Bob Mauterstock

July

JULY 4, 2018 • 6:00 PM – 9:00 PM
Fourth of July Client Appreciation Event at The Center Club

JULY 10, 2018 • 11:45 AM – 1:00 PM
When a Loved One Passes w/ Gary Greenwald, Esq.

JULY 12, 2018 • 11:45 AM – 1:00 PM
Business Owner Series Part 2: Showtime: Selling Your Business w/ Elville and Associates

JULY 24, 2018 • 11:45 AM – 1:00 PM
Planning for College

JULY 26, 2018 • 6:00 PM – 7:30 PM
How to be a Trustee w/ Gary Greenwald, Esq.

Check out BWFA.COM for latest list of seminars.

RETIREMENT & ESTATE PLANNING | INVESTMENT MANAGEMENT | TAX SERVICES | BUSINESS SERVICES

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