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**Weekly Market Commentary | Week of January 2, 2018**

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**The IRS Clarifies Rules on Rollovers of Retirement Plan Monies**

After years of ambiguity, the IRS has ruled definitively that plan participants can roll after-tax contributions into a Roth IRA tax free.

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- The new law is intended to boost economic activity and simplify the U.S. tax code.
- Given clarity on the new tax law, we are raising estimates for U.S. gross domestic product (GDP) and S&P 500 operating earnings for 2018.

Investment Implications of the New Tax Law: Bonds at a Glance

After more than a year of political posturing and investor anticipation, Congress finally approved a $1.5 trillion tax cut, the most sweeping U.S. fiscal overhaul since 1986. The 2017 Tax Cuts and Jobs Act was signed into law by President Trump on December 22, 2017, meeting his pledge to deliver tax reform before Christmas. The complex 1,000-page bill features changes that are intended to spur economic activity through a reduction in both individual and corporate tax rates, and simplify the tax code by eliminating or trimming a variety of deductions and exemptions. In this week’s commentaries, we look at the likely impact of the final bill on the economy, monetary policy, and the financial markets in the coming years.

As we wrote in our Outlook 2018: Return of the Business Cycle publication, we believe the combination of improved business fundamentals and fiscal legislation should sustain momentum in the economy and equity markets in the coming year and potentially beyond. After years of depending on the largess of monetary policymakers, investors can now focus on fiscal levers that we believe will support consumption and spur new business investment over the next few years. The law has important implications for major corporations, small businesses, and individual taxpayers [Figure 1], and may shift the trajectory for economic growth, the federal budget, monetary policy, and perhaps most critically for investors--corporate profits.

<table>
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<tr>
<th>Current Law</th>
<th>Final Bill</th>
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<tr>
<td>Top individual tax rate</td>
<td>39.6%</td>
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<tr>
<td>Individual tax brackets and rates</td>
<td>10%; $0-$19,050; 15%; $19,051-$37,650; 25%; $37,651-$87,000; 28%; $87,001-$164,925; 33%; $164,926-$207,375; 35%; $207,376-$500,000; 39.6%; $500,001+</td>
</tr>
<tr>
<td>Estate tax exemption</td>
<td>$5.5MM/person</td>
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<tr>
<td>State and local tax (SALT)</td>
<td>Deductible</td>
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<td>Mortgage interest deduction</td>
<td>Deductible up to $1MM mortgage + $500,000 home equity</td>
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<td>Student loan interest deduction</td>
<td>Deductible</td>
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<tr>
<td>Personal exemption</td>
<td>$4,150/person</td>
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<tr>
<td>Standard deduction</td>
<td>$12,200 single; $24,400 married</td>
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<tr>
<td>Individual alternative minimum tax (AMT) includes a $100,000 exemption and an $114,000 phase-out</td>
<td>Increases exemption to $159,000 and phase-out to $2MM</td>
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<td>Child tax credit</td>
<td>$2,000/child; refundable up to $1,400</td>
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<td>Obamacare individual mandate</td>
<td>Repealed</td>
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<td>Requires first in, first out (FIFO) upon sale</td>
<td>No charge (i.e., no FIFO requirement)</td>
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<td>Municipal interest tax exemption</td>
<td>Repeals interest exempt from federal taxes</td>
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<td>Municipal private activity bonds</td>
<td>Tax-exempt bonds for specific public/private projects</td>
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<td>Advanced refunding bonds</td>
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<td>Capital gains</td>
<td>Long term: 0/10/20% income-dependent; short term: taxed as ordinary income</td>
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<td>Corporate tax rate</td>
<td>35%</td>
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<td>Corporate tax rate starts</td>
<td>2018</td>
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<td>Top pass-through rate</td>
<td>39.6%</td>
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<td>Corporate AMT</td>
<td>20% tax to broadly defined alternative income</td>
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<td>Expensing</td>
<td>50% expensing through 2020</td>
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<td>Interest expense deduction</td>
<td>No limit</td>
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<td>Net operating losses</td>
<td>Allows carry backs 2 years; carry forwards up to 20 years</td>
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<td>Taxation of foreign income</td>
<td>Worldwide (though only taxable when repatriated)</td>
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<tr>
<td>Deemed one-time repatriation tax</td>
<td>15.5%, 1% liquid</td>
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<tr>
<td>Carried interest</td>
<td>3-year holding period (minimum)</td>
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<tr>
<td>Minimum taxes from income</td>
<td>Not applicable</td>
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</tbody>
</table>

Source: LPL Research, Joint Committee on Taxation, Senate Finance Committee, House Ways and Means Committee, PMCO 12/06/17
**FIXED INCOME**

When considering the overall environment for bond investors, the new tax law adds to our concerns previously highlighted in our *Outlook 2018*, including a less supportive Fed and a potential rise in inflationary pressures.

Investors in the U.S. Treasury market face several challenges, including a Fed that is no longer backstopping Treasury auctions, higher issuance of federal debt to support deficit spending, and the inflationary risk associated with stronger economic growth.

Although he has not yet been confirmed, Jerome Powell, the presumed successor to Fed Chair Janet Yellen, announced plans in recent congressional testimony to raise the target for the fed funds rate at a gradual pace in 2018. Moreover, the central bank's plan to stop reinvesting proceeds of maturing securities on its balance sheet should result in “runoff” of approximately $300 billion in 2018.

The U.S. Treasury will need to increase issuance of debt in order to make up for the potential initial loss in tax revenue as the economy adjusts to the new dynamic. Though only time will tell what the additional tax revenue from the supply-side benefits of the legislation will be, the immediate need to fund U.S. government activities and programs is likely to result in further deficit spending, which has historically resulted in bond investors demanding higher yields (by paying lower prices) for the extra risk of increased Treasury issuance.

Improved consumer demand and business investment could fuel increased economic activity, supporting GDP growth and corporate profits. Yet this growth is typically associated with higher costs, rising wages, and inflationary pressures, which can diminish the value of fixed income investments.

We believe these dynamics will combine to pressure bond prices in the next few years. For 2018, we maintain our estimated range of 2.75% to 3.25% for the benchmark 10-year Treasury yield.*

While global investors may continue to find relative value in the benchmark 10-year Treasury, supporting demand and putting some downward pressure on rates, we suspect the degree of dollar strength will ultimately determine whether this trade persists, as global investors must consider the currency impact on dollar-denominated investments. Even with recent dollar weakness, any move near a 3.0% yield for the 10-year Treasury will likely attract global interest, in our opinion, potentially limiting the risk of a move above our target range.

Nevertheless, we think investors should be mindful of some risk to the upside for rates. While the yield curve (the difference between long-term and short-term rates) has not seen any real steepening due to the new law as it worked its way through Congress, the yield curve response was delayed following the 2003 Bush tax cuts [Figure 2]. If the Fed should hike rates three times in 2018, current spreads would put the 10-year Treasury yield near the upper end of our range. Our base case is for only slight yield curve steepening given the likelihood of foreign buying, but bond investors should be prepared to ride out a larger move.

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**YIELD SPREAD RESPONSE TO TAX CUTS WAS INITIALLY MUTED IN 2003 TOO**

![Graph showing yield spread response to tax cuts](image)

*Source: LPL Research, Strategas Research Partners 12/18/17.*

The 2003 tax cut was signed into law by President Bush on May 29, 2003. Performance is historical and no guarantee of future results.

Yield spread is the difference between yields on offering debt instruments, calculated by deducting the yield of one instrument from another. The higher the yield spread (yield advantage), the greater the difference between the yields offered by each instrument.

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**Muni Bonds**

Investors in the municipal bond market should also expect to confront some challenges, and some benefits, from the new fiscal dynamics. Uncertainty during negotiations over the new law resulted in heightened volatility in the Bloomberg Barclays Municipal Bond Index these past few months. Specifically, investors were concerned about the tax-free status of private activity bonds (PAB) and advance refunding bonds, along with the potential impact of lower tax rates. The new tax bill allows for the tax-free treatment of PABs, but not for advance refunding bonds issued after December 31, 2017.

We believe the dynamic tension between the forces of supply and demand will be on full display for the tax-advantaged
bond market in the coming years. Since the tax reform discussions pulled issuance forward into 2017, we could see a slowdown in municipal issuance next year, easing supply concerns. The lower individual tax rates may limit demand from top income earners, but the changes to state and local tax (SALT) deductions may actually increase demand in some high-tax states.

**Corporate Debt**

Investors in corporate debt must get comfortable with the changes in interest deductibility. The full deductibility of corporate interest is now limited to 30% of earnings before interest, taxes, depreciation, and amortization ("EBITDA"). While limits on the deductibility of interest expense is a negative for corporate debt, some of that can be offset by the positives of lower overall corporate tax rates, the full expensing of capital expenditures, and other provisions within the bill.

The impact of the deductibility provision is more negative for firms with increased leverage as there is larger relative loss from the deductibility limitation. Firms with the lowest quality debt are likely to feel the impact more severely than those companies with higher quality debt.

The tax bill may slightly reduce issuance for corporate debt in the coming year, though it was forecast to be lower anyway, due to the record investment-grade issuance in 2017.

Firms that repatriate cash may use some funds to buy back corporate paper to lower their debt levels, further reducing supply as demand for yield is expected to persist.

We believe demand for both investment-grade and high-yield corporate debt should remain robust amid the near historically low yields on government debt globally. We continue to favor higher-quality investment-grade corporate debt for suitable investors, and we encourage those investors who pursue high-yield bonds, which do offer added yield, to monitor overall portfolio risk levels. Fixed income exposure within a diversified portfolio can continue to play an important role, providing the potential for liquidity, yield, and smoothing out volatility during periods of weakness in the equity markets.

**CONCLUSION**

It's been our view since the election that the combination of a Republican president with a Republican Congress had a high chance of passing some form of tax relief, whether it be in the form of tax cuts or more comprehensive tax reform. Early legislative setbacks led us to push back our timeline, but we remained confident that a tax bill would find its way to the president's desk. While the accelerated legislative process that led to the president being able to sign the bill into law on December 22, 2017 was a surprise to us, it does not substantially change our views.

The biggest impact of the accelerated timeline is decreased uncertainty, allowing individuals and businesses the opportunity to begin planning around the changes and pulling forward the new law's impact. As a result, we have upgraded our economic growth path to 2.75-3.0%, maintained our bond market view though we see greater risk to the upside for rates, and upgraded our S&P 500 target to align with our view of the law's expected impact on corporate earnings. Our upgraded S&P 500 target keeps our broad return expectations for 2018 at approximately 10% including dividends. While the new law should help provide fiscal support for the economy as monetary support is withdrawn and helps decrease the chance of recession in 2018 and even in 2019, we still expect to see market volatility increase from the extraordinarily low levels that persisted in 2017. But nevertheless, for markets and the economy, we believe the new law provides a firmer launching point as we enter the new year.

*As noted in our Outlook 2018: Return of the Business Cycle, we forecast flat to low-single-digit returns for the Bloomberg Barclays U.S. Aggregate Bond Index, based on our expectations for a gradual pickup in interest rates across the yield curve. We also expect the 10-year Treasury yield to end 2018 in the 2.75 - 3.25% range, based on our expectations for a modest pickup in growth and inflation.*

*Please see the Outlook 2018: Return of the Business Cycle publication for additional description and disclosure.*

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invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. All performance referenced is historical and is no guarantee of future results. Estimates may not develop as predicted.

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features.

Government bonds and Treasury bills are guaranteed by the U.S. government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. However, the value of fund shares is not guaranteed and will fluctuate.

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA) is essentially net income with interest, taxes, depreciation, and amortization added back to it, and can be used to analyze and compare profitability between companies and industries because it eliminates the effects of financing and accounting decisions.

Yield curve is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the 3-month, 2-year, 5-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth.

DEFINITION

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country’s borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

INDEX DESCRIPTION

The Bloomberg Barclays Municipal Bond Index is a market capitalization-weighted index of investment-grade municipal bonds with maturities of at least one year. All indexes are unmanaged and include reinvested dividends. One cannot invest directly in an index. Past performance is no guarantee of future results.
KEY TAKEAWAYS

- The new law is intended to boost economic activity and simplify the U.S. tax code.
- Given clarity on the new tax law, we are raising estimates for U.S. gross domestic product and S&P 500 operating earnings for 2018.

INVESTMENT IMPLICATIONS OF THE NEW TAX LAW: EQUITIES AT A GLANCE

After more than a year of political posturing and investor anticipation, Congress finally approved a $1.5 trillion tax cut, the most sweeping U.S. fiscal overhaul since 1986. The 2017 Tax Cuts and Jobs Act was signed into law by President Trump on December 22, 2017, meeting his pledge to deliver tax reform before Christmas. The complex 1,000-page bill features changes that are intended to spur economic activity through a reduction in both individual and corporate tax rates, and simplify the tax code by eliminating or trimming a variety of deductions and exemptions. In this week’s commentaries, we look at the likely impact of the final bill on the economy, monetary policy, and the financial markets in the coming years.

As we wrote in our Outlook 2018: Return of the Business Cycle publication, we believe the combination of improved business fundamentals and fiscal legislation should sustain momentum in the economy and equity markets in the coming year and potentially beyond. After years of depending on the largess of monetary policymakers, investors can now focus on fiscal levers that we believe will support consumption and spur new business investment over the next few years. The law has important implications for major corporations, small businesses, and individual taxpayers [Figure 1], and may shift the trajectory for economic growth, the federal budget, monetary policy, and perhaps most critically for investors--corporate profits.
As we wrote in our *Outlook 2018*, corporate profitability will likely be a significant beneficiary of any meaningful change in the corporate tax rate. Indeed, the reduction of the corporate tax rate from 35% to 21%, combined with businesses’ ability to fully expense their capital expenditures for the next five years, are powerful potential tailwinds for profits, which have already enjoyed a renaissance in 2017, powered by improved domestic and global demand. We believe this will help elongate the expansion, which has thus far been powered by the U.S. consumer. Going forward, we look for business investment and further gains in corporate earnings per share (EPS) to power the economy and equity markets.

Given the potential for an extended expansion due to the new tax changes, we encourage all diversified investors to remain diligent relative to their targeted allocations. To be sure, 2017 was a year of extremely low volatility and the coming year may not be as docile, particularly when considering the historic examples of financial markets tending to test new Fed chairs, as well as the volatile trading patterns leading up to midterm elections. But given solid global growth and firming corporate profits, we recommend that any market pullbacks be considered as an opportunity to deploy cash or rebalance back toward targeted allocations.

### Size, Style, and Sector Implications

Entering the ninth year of this expansion, our view continues to favor small cap and cyclical exposure. Specifically, we prefer a slight overweight (relative to benchmarks) of small cap stocks and, despite the recent momentum supporting growth stocks, are positioning portfolios for a tilt toward the value style of investing. Small caps may benefit from the new law due to a typically higher tax burden relative to large caps [Figure 2]. Small caps would also be more likely to

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**EQUITIES**

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benefit should the dollar push higher due to the pickup in economic growth, since their more domestic focus makes them less vulnerable to the negative impact of a rising dollar on international profits.

We also believe the value style of investing should benefit from the new fiscal legislation. As investors search for opportunities, the recent gains in the price-to-earnings ratio (PE) for growth stocks should attract the attention of value seekers. The tax advantages combined with relative value should enable the value style to garner added attention, especially since many value names are in sectors that are poised to benefit from tax cuts, infrastructure spending, and reduced regulation.

The financial sector, typically exposed to higher tax rates, will be a primary beneficiary of the reduced corporate rate. In addition to fiscal policy changes, financial stocks may benefit from monetary policy in two separate ways. First, if economic growth lifts the yield on longer-dated Treasuries, it should help boost the spread between deposit and lending rates, known as net interest margin, which is a primary driver for bank profitability. Second, the new vice chair of supervision at the Fed, Randal Quarles, indicated a preference for less stringent regulatory burdens in his confirmation hearing, potentially freeing up more capital for lending in the coming years.

The industrial sector, which tilts toward the value style as well, may also benefit from a combination of lower taxes, infrastructure outlays, helped by 100% expensing, global growth, and increases in U.S. government defense spending.

Finally, the technology sector remains an overweight recommendation among growth-oriented sectors, despite its 2017 gains, given the combination of solid global demand and the large trove of profits held overseas that now have the opportunity for repatriation at attractive rates. Repatriated profits can then be used for either capital investment or shareholder friendly share buybacks or dividend payouts.

**Raising Profits Forecasts**

Considering the changes in the tax law and the likely boost to corporate profitability, we have decided to raise our Outlook 2018 operating earnings forecast for companies in the S&P 500 Index by $5.00 per share, from $142.50 to $147.50 in 2018. Assuming a trailing 12-month PE of 19-20, we believe the S&P 500 would be fairly valued in the range of 2,850-2,900 by year-end 2018. This represents a move of approximately 8.0% from current levels, not including dividends, as stocks have already begun to price in tax reform during the fourth quarter of 2017. We appreciate that this
market PE remains above historical averages, but we view the market multiple relative to interest rate and inflation levels, which we expect to remain well below their typical norms over the course of the next year, likely boosting the amount the market is willing to pay for each additional dollar of earnings.

CONCLUSION

It's been our view since the election that the combination of a Republican president with a Republican Congress had a high chance of passing some form of tax relief, whether it be in the form of tax cuts or more comprehensive tax reform. Early legislative setbacks led us to push back our timeline, but we remained confident that a tax bill would find its way to the president's desk. While the accelerated legislative process that led to the president being able to sign the bill into law on December 22, 2017 was a surprise to us, it does not substantially change our views.

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Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal, and potential liquidity of the investment in a falling market.

Because of its narrow focus, specialty sector investing, such as healthcare, financials, or energy, will be subject to greater volatility than investing more broadly across many sectors and companies.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

There is no guarantee that a diversified portfolio will enhance the overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

All investing involves risk including loss of principal.

DEFINITIONS

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Small cap is a term used to classify companies with a relatively small market capitalization. The definition of small cap can vary, but it is generally a company with a market capitalization of between $300 million and $2 billion. The prices of small cap stocks are generally more volatile than large cap stocks.

INDEX DESCRIPTIONS

The Standard & Poor’s 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized U.S. companies.

The S&P Small Cap 600 Index is an unmanaged index generally representative of the market for the stocks of small
capitalization U.S. companies.

This research material has been prepared by LPL Financial LLC.

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Not FDIC or NCUA/NCUSIF Insured | No Bank or Credit Union Guarantee | May Lose Value | Not Guaranteed by Any Government Agency | Not a Bank/Credit Union Deposit

Tracking #1-682608 (Exp. 01/19)
The IRS Clarifies Rules on Rollovers of Retirement Plan Monies

After years of ambiguity around what is and is not allowed regarding the disbursement of after-tax contributions to an employer-sponsored retirement plan, the IRS announced in September of 2014 that plan participants can roll those dollars into a Roth IRA tax free.

IRS Notice 2014-54, "Guidance on Allocation of After-Tax Amounts to Rollovers," provides rules for allocating pretax and after-tax amounts among disbursements that are made to multiple destinations from a qualified plan. Importantly, the Notice provides that all disbursements from a retirement plan made at the same time will be treated as a single distribution even if they are sent to multiple new accounts. Prior to this ruling, the IRS treated distributions from a retirement plan that were rolled over to multiple new accounts as separate distributions, each requiring that a proportional share of pretax and after-tax monies be disbursed.

A Simplified Process

Now individuals holding both pretax and after-tax amounts in their plan can transfer -- through direct, trustee-to-trustee rollovers -- the pretax portion of the distribution (including earnings on after-tax amounts) to a traditional IRA and the after-tax portion of the distribution to a Roth IRA. In the past, this could only be accomplished through indirect 60-day rollovers, not through simplified direct rollovers.

More Clarification, Please

As with many IRS rulings, Notice 2014-54 raised many questions with taxpayers. In response, the IRS recently issued some answers to those commonly asked.

Q: If I have both pretax and after-tax monies in my retirement account, can I roll over just the after-tax monies to a Roth IRA, leaving all of the pretax monies intact?
A: No, the rule does not change the requirement that each distribution from a plan -- including partial distributions -- must include a "proportional share" of the pretax and after-tax amounts.

Example: If your account balance is $100,000 and consists of $80,000 in pretax amounts and $20,000 in after-tax amounts, and you request a distribution of $50,000, your distribution would consist of $40,000 of pretax amounts and $10,000 of after-tax amounts.

In order to roll over all of your after-tax contributions to a Roth IRA, you could take a full distribution (all pretax and after-tax amounts), roll over all the pretax amounts directly to a traditional IRA or another eligible retirement plan, and roll over all the after-tax amounts directly to a Roth IRA.

Q: Can I roll over my after-tax contributions to a Roth IRA and the earnings on my after-tax contributions to a traditional IRA?
Yes, since earnings on after-tax contributions are considered pretax monies, after-tax contributions can be rolled over to a Roth IRA while the earnings on those contributions can be directed to a separate traditional IRA and avoid being taxed until they are distributed.

Plan Sponsors: A New Opportunity

The guidelines present an opportunity for plan sponsors to reach out to participants to determine which individuals have after-tax money in their plans and explain the new rules -- and the new opportunity -- to them. Further, for those participants who are not currently making after-tax contributions, advisors may want to encourage them to do so, if their employer plan allows.

With the current annual pretax contribution limit of $18,500 -- or $25,000 for individuals age 50 or older (for 2018) -- high-earning employees who are not making after-tax contributions are missing out on the chance to sock away significantly more (the annual total contribution cap on defined contribution plans is $55,000 in 2018) while benefitting from tax deferral of potential investment growth.


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As Americans, we can take pride in the many things we do well. We work hard. We have excellent hospitals and universities, and we entertain the world with the movies we make. But there's one thing that we could all do better -- and that's saving for the future.

Of course, if you are already saving for your retirement through your employer-sponsored savings plan, each contribution you make brings you closer to your retirement goal. But are you saving as much as you can?

If you need a reason to get serious about saving more, consider this: Today the average Social Security retirement benefit was just $1,404 a month at the beginning of 2018.¹ Given the uncertainty surrounding the Social Security system, maybe it's time to rethink your own saving habits.

Here are three quick ideas for giving your retirement plan a boost.

1. Apply a raise or bonus to retirement savings. Consider boosting your contribution rate with each increase in pay you receive. Making voluntary increases a habit year in and year out could bring you that much closer to the maximum contribution allowed by your employer. In 2018, workers may contribute up to $18,500 to a 401(k) plan, and workers age 50 and older may add an additional $6,000 in catch-up contributions (subject to plan limits).

2. Cut back household expenses. You may be surprised by how quickly small savings can add up. Things as simple as brown-bagging lunch, switching from brand name to store brand items, and doing away with premium cable channels can make a noticeable difference in your monthly cash flow. Setting up a monthly budget of income and expenses may help you find ways to cut back more.

3. Forgo a tax refund. In 2015, the IRS estimated the average tax refund check to be a little over $3,000.² If you typically get a tax refund, consider revising your W-4 form to reduce your withholding. Your paycheck will grow, which means you may be able to increase the amount you save in your employer's retirement plan.

You can probably think of other ways to save, such as paying off credit card debt. It really doesn't matter how you save, the important thing is to build your retirement account in ways that work for you.

¹Social Security Administration, "Fact Sheet--2018 Social Security Changes"


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Retirement: How Long Will a Million Dollar Nest Egg Last?

Although it may not buy you a yacht or a jet, a million dollars is still a lot of money. It certainly should prove adequate to fund a long retirement for most people. Right?

A new study by GOBankingRates suggests otherwise.\(^1\) The study looked at the average total expenditures, by state, for people 65 and older, including groceries, housing, utilities, transportation, and healthcare costs, then calculated how many years that $1 million would last. The results were sobering for some, promising for others -- depending upon where you live. While a million dollar nest egg would run out in under 12 years in Hawaii, it would last more than twice as long -- 26.4 years -- in Mississippi. In general, the study showed that the retirement dollar went the furthest in southern states, while California and the Northeast fared poorly.

Behind the disparity is a wide variation in living costs from state to state. In California, the average retiree spends over $60,000 per year to get by, while a retired Arkansan spends under $40,000. Much of the difference can be attributable to housing costs. Whereas California retirees pay an average of over $30,000 a year in housing costs, those in Arkansas average only about $12,000. But the other costs also vary widely.

**Location, Location, Location**

Here’s how long your million would last in selected states.\(^1\)

<table>
<thead>
<tr>
<th>State</th>
<th>Years, Months</th>
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</thead>
<tbody>
<tr>
<td>50. Hawaii</td>
<td>11 years, 11 months</td>
</tr>
<tr>
<td>49. California</td>
<td>16 years, 5 months</td>
</tr>
<tr>
<td>47. New York</td>
<td>17 years, 1 month</td>
</tr>
<tr>
<td>35. Pennsylvania</td>
<td>21 years, 11 months</td>
</tr>
<tr>
<td>33. Colorado</td>
<td>22 years</td>
</tr>
<tr>
<td>30. Florida</td>
<td>22 years, 4 months</td>
</tr>
<tr>
<td>24. Arizona</td>
<td>23 years, 2 months</td>
</tr>
<tr>
<td>18. North Carolina</td>
<td>23 years, 8 months</td>
</tr>
<tr>
<td>10. Alabama</td>
<td>24 years, 9 months</td>
</tr>
<tr>
<td>1. Mississippi</td>
<td>26 years, 4 months</td>
</tr>
</tbody>
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Beyond being simply interesting reading, the study helps point to the gaping differences in retiree living costs and how choosing a retirement location should be about more than being in a fun place to live.

Of course, the lion’s share of retirement investors will never see near this amount in their retirement nest eggs.

In fact, about half of households age 55 and older have no retirement savings at all, and those that have put aside something have saved a median of only about $104,000 for households age 55-64 and $148,000 for households age 65-74.\(^2\)

So if you anticipate hitting the $1-million mark, congratulations, you are way ahead of the pack. But don’t feel too confident if you’re hoping to retire to an expensive state.


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