What To Expect In 2018

Talking Points

▶ Between increases to retirement account contribution limits and the recently passed tax bill, there are plenty of financial-related changes for clients to be made aware of in 2018.

▶ The start of a new year is the perfect time for clients to lay out a month-by-month plan for tackling some nagging financial tasks they may have been putting off.

▶ Although their tax advisors will likely provide details about how the new tax bill will impact them specifically, clients should have a basic understanding of the key changes for 2017 and 2018.

▶ Many firms have muted stock- and bond-market return expectations for the next several years.

▶ Such intermediate-term market forecasts are most useful for investors whose time horizons are in that ballpark, or for new retirees who face sequence-of-return risk in the next decade.
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On Deck for 2018: Higher Retirement Contributions, a Social Security 'Raise'

How higher contribution limits and Social Security payouts should affect your plan.

Inflation is currently so modest that the Federal Reserve has wrestled with what steps it could take to drive it higher. But the cost of living has picked up enough to affect retirement savings contribution and income limits, as well as Social Security payments, for 2018.

Here's a roundup of what's set to change on the retirement investing and Social Security fronts, as well as implications for investors' plans.

**401(k), 403(b), 457 Plans**

*What's changing:* 401(k) participants will be able to boost their contributions in 2018, up to $18,500 from $18,000 in 2017. As in 2017, investors older than 50 will be able to contribute an additional $6,000 in 2018, for a total of $24,500.

Total contributions to 401(k)s and other defined-contribution plans are also getting a boost, up to $55,000 for 2018 ($61,000 including catch-up contributions for those older than 50), from $54,000 in 2017. That's a boon to high-income workers who participate in workplace retirement plans and have the wherewithal to make after-tax 401(k) contributions. (The limit includes employee pretax or Roth contributions; employer matching contributions, including forfeitures; and aftertax contributions.)

*Takeaway:* If you’re in a position to make the maximum allowable contribution to a 401(k) or other employer-sponsored plan next year, make sure that you’re taking full advantage of any matching contributions on offer from your employer. Some employers match contributions on a per-pay-period basis, meaning that high-income earners who hit their own contribution limits early in the year can miss out on matches later on. (Some plans include a "true-up" provision to ensure that heavy savers receive the full employer match regardless of contribution timing, but some do not.)

As you set your contribution level for 2018, take a closer look at your decision to make Roth or traditional contributions. Sixty percent of employers now allow Roth contributions, but most employees who have the choice between Roth or traditional favor traditional. Roth contributions aren’t right for everyone, but they can make sense for early career workers who expect their incomes to ramp up over time, as well as mid- and late-career workers seeking tax diversification in their portfolios. Because Roth contributions are aftertax, the accounts have a higher effective contribution rate than traditional 401(k)s.
Traditional IRAs

What’s changing: IRA contribution limits are staying the same in 2018: $5,500 for investors younger than 50 and $6,500 for those 50 and older. However, the income thresholds used to determine eligibility for IRA contributions are going up a bit in 2018.

To make a fully deductible traditional IRA contribution, a single taxpayer who can also contribute to a workplace retirement plan would need to have a modified adjusted gross income of less than $63,000. (Singles with incomes between $63,000 and $73,000 can take a partial deduction on their contributions.) For married couples filing jointly and the spouse making the contribution is covered by a workplace retirement plan, they can make a fully deductible IRA contribution only if their income is less than $101,000. (The deduction for contributions is phased out—or is reduced—for married filers with income between $101,000 and $121,000.) For an IRA contributor who’s not covered by a workplace retirement plan but is married to someone who is covered by such plan, contributions are fully deductible only if modified adjusted gross income is less than $189,000; the deductibility of contributions phases out at incomes between $189,000 and $199,000.

Takeaways: While Roth accounts receive the lion’s share of attention, traditional deductible IRA contributions can make sense in certain situations. One of the most attractive candidates for traditional IRA contributions is the older worker who can deduct his or her contribution and hasn’t yet amassed significant retirement savings. Such individuals are apt to owe tax at a lower rate in retirement than they do while they’re working.

Anyone can make a traditional IRA contribution, but if they exceed the income thresholds outlined above, the contribution won’t be tax-deductible.

Roth IRAs

What’s changing: As with traditional IRAs, contribution limits to Roth IRAs are staying the same in 2018 as they were in 2017: $5,500 for investors younger than 50 and $6,500 for investors who are age 50-plus. The income thresholds for Roth IRA eligibility are nudging up, however. Single filers with modified adjusted gross incomes of less than $120,000 can make a full Roth contribution in 2018; contributions for single filers are reduced at incomes between $120,000 and $135,000. For married couples filing jointly, a full Roth contribution is available at modified adjusted incomes less than $189,000; contributions phase out between $189,000 and $199,000, and are not allowed at incomes higher than that.

Takeaways: Roth IRA contributions are sensible for investors who expect to pay tax at a higher rate in the future—for example, early career go-getters who believe their incomes—and in turn their tax rates—will rise in the future. Roth IRA contributions can also be an attractive way to pursue “tax diversification,” offering tax-free withdrawals and relief from RMDs for retirement savers whose accounts are dominated by traditional tax-deferred assets.
For would-be Roth IRA contributors who earn too much to make a direct Roth contribution (and therefore cannot make a deductible traditional IRA contribution, either), it's worth noting that the backdoor Roth IRA is alive and well for 2018. That means that such investors can contribute to a traditional nondeductible IRA, then convert those assets to Roth. (Income limits don't apply to nondeductible IRA contributions or conversions.) This maneuver isn't advisable for investors with substantial traditional IRA assets already, however.

**Health Savings Accounts**

*What's changing:* HSA contributions are getting a slight boost in 2018, up to $3,450 for singles covered by a high-deductible healthcare plan (from $3,400 in 2017) and $6,900 for those with family coverage (from $6,750 in 2017). Savers older than 55 can contribute an additional $1,000 to an HSA, whether they have self-only or family coverage.

In addition, the minimum deductible for a plan to be considered a high-deductible healthcare plan is increasing to $1,350 for self-only coverage and its $2,700 for family coverage. The maximum allowable out-of-pocket costs associated with these plans is also increasing next year, to $6,650 for self-only coverage and $13,300 for family coverage.

*Takeaways:* For many individuals getting by on a shoestring, the rapid adoption of high-deductible healthcare plans—and related out-of-pocket expenses—is an unwelcome development. But for wealthier consumers with the wherewithal to fund out-of-pocket healthcare costs from taxable accounts, HSAs are a terrific addition to their retirement-savings tool kits. The accounts offer the best tax treatment of any account type: pretax contributions, tax-free growth, and tax-free withdrawals for qualified healthcare expenses.

**Social Security**

*What's changing:* The headline is that Social Security recipients will pick up a 2% cost-of-living increase in 2018. Yet many Social Security recipients won't actually see an increase in their checks. If they're having their Medicare Part B premiums deducted directly from their Social Security benefits and are subject to Social Security's "hold harmless" provision, the increase in Medicare premiums will partially offset their increase in Social Security benefits. On the flip side, Social Security recipients who are not subject to the hold harmless provision—a group that has been hurt in recent years by increasing Medicare premiums—will benefit from declining premiums in 2018.

In addition, the amount of income that Social Security recipients who are not yet of full retirement age can earn without triggering a reduction in their benefits is increasing. For 2018, early filers who have earned income from work will see a $1 benefit reduction for every $2 in earned income above $17,040 threshold. (There's no reduction in benefits for workers who are of full retirement age, and even those who are subject to benefits reduction due to exceeding the earned-income threshold will get their money back in the form of a higher payout once they reach full retirement age.)
High-income accumulators, meanwhile, will see the amount of income that's subject to the Social Security tax increase in 2018. Income of up to $128,700 will be subject to the 6.2% Social Security tax, up from $127,200 in 2017.

*Takeaways:* Even though Social Security recipients are receiving their highest COLA since 2012, for many retirees, much of that increase will be offset by Medicare premium increases. That underscores the importance for retirees to stay vigilant on the inflation front.
Your 2018 Financial To-Do List

As the new year dawns, here’s your plan to get financially fit, one job at a time.

During this just-ended holiday season, the average American expected to spend $900 on gifts, the highest level in 12 years, according to CNBC.

Clearly, the wealth effect is alive and well. The economy is thriving, employment levels are high, and portfolios are enlarged thanks to strong stock and bond markets.

When everything in your financial life is humming along, it’s easy to get caught up in the euphoria and overspend. It’s also common to slack off on seemingly small financial jobs like tracking expenses and managing your investments for tax efficiency. It feels like small ball.

But the market isn’t likely to go up forever, which will accentuate the benefits of minding the details, both with your portfolio and elsewhere in your financial life. Toward that end, here’s a 2018 calendar that walks you through many common financial jobs and flags important dates for the year ahead. While some of them are time-sensitive, such as the tax to-do’s early this year, many of the others aren’t. You should feel free to tackle those in any order you see fit, or to ignore those that don’t apply to you or that you’ve already achieved.

January

See how you’re doing: Are you on track to hit your financial goals? If you’re still in accumulation mode, review how much of your salary you managed to save and invest last year; 15% is a reasonable minimum target, but reach for a higher percentage if you’re a higher-income person/household. If you’re retired, review last year’s spending rate to make sure it passes the sniff test of sustainability; this article covers the basics of viable long-term in-retirement spending plans. T. Rowe Price’s Retirement Income Calculator is a solid option for assessing whether your current strategy is on track—whether you’re still saving or already retired.

Find your best return on investment: The most successful investors consider their total opportunity sets—including not just investment opportunities but debt paydown as well. Are you deploying your money into those opportunities that promise the highest return on your investment? If you have high-interest-rate credit card debt, the answer is easy; you’d be hard-pressed to out-earn that interest rate by investing in the market. It’s also worth noting that the recently passed tax package may make itemizing your deductions less attractive than claiming the standard deduction; check with your tax advisor to find out how much of a tax benefit you’re getting from your mortgage interest. If the answer is not too much, that’s an argument for paying more on your mortgage than your lender requires you to do. (Notably, home equity loan interest won’t be deductible in many instances starting this year.) For investors with
lower-rate mortgages and tax-sheltered investment options such as 401(k)s to contribute to, it’s usually sensible to deploy money into both.

**Bump up contribution rates to accommodate new limits:** Investors can contribute a bit more to their company retirement plans in 2018 than they did last year: $18,500 for investors younger than 50 and $24,500 for those 50 and older. Assuming your plan is decent, check your elections to make sure you’re contributing as much as you possibly can. If you have a high income and earn a bonus, just be sure not to run into the high-class problem of contributing too much too early to earn full matching contributions. While you’re at it, consider putting your other investment contributions—to your IRA, for example—on autopilot via automatic withdrawals from your checking or savings accounts. That is apt to help your long-term investment results versus waiting until April to make an IRA contribution, and spreading out your investments help ensure you don’t skip that contribution altogether. A contribution rate of $458 per month will get investors under 50 to the $5,500 per year maximum, whereas IRA investors over 50 will need to contribute $541 a month to make it to their $6,500 maximum allowable amount. (Contribution limits to IRAs are the same in 2018 as in years past.)

**Important dates:** Jan. 16, is your deadline for paying your estimated taxes for the fourth quarter of 2017 if you are self-employed or retired and don’t have taxes withheld from your IRA withdrawals.

**February**

**Conduct a review of your investments:** If you undertook a portfolio review at the end of 2017, there’s no need to go back through it. But if you haven’t checked up on your investments for a while, it’s a good time to do so. Use Morningstar’s Portfolio Manager—and especially the X-ray functionality—to check up on your portfolio’s allocations to the major asset classes. (Instant X-Ray is the simplest way to take advantage of this functionality if you don’t have a portfolio saved on the site.) An exceptionally strong year for stocks in 2017, following on the heels of the multiyear runup in stocks since 2009, means that many portfolios are more equity-heavy (and higher-volatility) than they were meant to be.

**Check in with your tax professional and gather tax documentation on deductible items:** Tax day—April 17—will be here before you know it. That means it’s not too early to start gathering together your tax-related paperwork (either physical or virtual)—especially receipts and other proof of deductible items as well as 1099s listing any income or gains your holdings have paid out. Most of the tax package won’t affect your 2017 return, but there’s a notable exception: Whereas previous tax law only allowed taxpayers to deduct medical expenses in excess of 10% of adjusted gross income, the new tax package lowers that threshold to 7.5% for all taxpayers, effective with for 2017 and 2018. That’s still a high hurdle, but if you had heavy healthcare outlays last year, scrutinize your receipts to see if you can find critical mass.

**Take a good look at 1099s and W-2s:** As these documents roll in, take a moment to gather some intelligence from these numbers before stashing them in a file or copying them onto your tax return. Your 1099 and W-2s provide valuable information about your earnings and investing habits. If your salary has increased, have you also increased your savings rate, including your 401(k) contribution? If
you receive piddling levels of income from a number of savings-type accounts, can you wring a higher level of income from an online savings account? If your mutual funds made sizable capital gains distributions, would you be better off holding tax-friendly index funds or ETFs in your taxable account?

March

Discuss 2018 taxes with your tax advisor: Not much is changing on the tax front for the 2017 tax year; the sweeping tax laws that were passed at the end of last year mostly apply to 2018 and beyond. But while you're checking in with your tax advisor on your 2017 return, ask for some guidance about 2018. Will it still make sense for you to itemize, for example, given higher standard deduction amounts? If you've been subject to the alternative minimum tax in the past, is it likely you'll continue to be? Because your tax advisor knows your profile, he or she should be able to provide you with some tax tips that take your personal situation into account.

Contribute to an IRA for 2017: April 17 is your deadline for filing your 2017 tax return, and it's also your deadline for funding an IRA for 2017. If you haven't yet made your contribution, it's time to get on the stick. Contribution limits are $5,500 for those younger than 50 and $6,500 for people older than 50. Bear in mind that the backdoor Roth IRA maneuver is alive and well for investors who earn too much to contribute to a Roth outright (you simply contribute to a traditional IRA, then convert to a Roth shortly thereafter), but beware of conversions if you have a lot of traditional IRA assets.

Fund your health savings account for 2017: You also have until April 17 to make a contribution to a health savings account if you want your contribution to count for the 2017 tax year. For 2017, individuals with self-only coverage through a high-deductible health plan can contribute $3,400 to an HSA, whereas those with family high-deductible coverage can contribute $6,750. People older than 55 can contribute an additional $1,000 to their HSAs. Those thresholds are going up slightly for 2018, to $3,450 for self-only coverage and $6,900 for family coverage. An HSA can make an excellent ancillary savings vehicle for investors who are maxing out their contributions to their traditional 401(k)s. Contributions are pretax (or deductible if you contribute to an HSA on your own) and compound tax-free, and qualified withdrawals are tax-free.

April

Know what to save and what to shred: Tax time has a way of reminding us of the shortcomings of our filing systems for financial paperwork. While the pain of digging around for the documents you need is still fresh, resolve to get organized. If your file drawer is bulging with old statements, prospectuses, and utility bills from 2003, it's time to do some culling. Before you start shredding old financial statements and trade confirmations, make sure that you have documentation regarding your cost basis—or that your financial provider does. (Mutual fund companies and brokerage firms are now required to maintain cost-basis information, but that wasn't the case until this decade.)

Go paperless: Your financial providers have probably been badgering you for years about switching over to electronic delivery of your statements. It's time to take them up on it. After all, each piece of financial documentation that passes through the mail puts you at greater risk of financial fraud; you're likely
paying extra fees for paper document delivery, too. Before going paperless, make sure that your computer security is up to snuff and that you can readily retrieve all of the data you rely on using the company website.

Create a master directory: Every household needs a basic document outlining financial accounts, along with the provider name, account number, URL, and the names of any individuals they work with. You can create a simple spreadsheet. Whatever you do, encrypt your document (or keep it under lock and key) and alert a trusted loved one of its existence.

Important date: April 17 is your tax-filing deadline. It’s also your deadline to file an extension if you need more time. Individuals will also need to make their quarterly estimated tax payments by this date. Finally, April 17 is your deadline to make an IRA or health savings account contribution for the 2017 tax year. (See above.)

May

Assess your emergency fund: Unexpected expenses can crop up no matter your life stage, making it essential to hold liquid reserves—apart from your long-term retirement assets—to defray them. For most households, holding three to six months’ worth of living expenses in true cash instruments is a good starting point, though investors who earn high salaries or have volatile earnings streams will want to hold more. At this point, an online savings account will tend to offer the highest yield of any risk-free investment type.

Assess liquid assets if retired: Retired people will want to hold even more cash, in case one of their income sources is disrupted for some reason. Knowing that their near-term income needs are covered can also help retirees ride out volatile times with their long-term portfolios.

June

Create or review your investment policy statement: Running your portfolio without an investment policy statement is a little like trying to build a house without any blueprints. Your IPS needn’t be complicated, but it should convey the basics of what you’re trying to achieve: your financial goals and expected duration/completion, your asset-allocation policy, your criteria for selecting investments, and the specifics of how—and how often—you’ll monitor the whole thing. If you already have an IPS, it’s a good time to review it to make sure that it syncs up with your current situation and reflects your current belief system and investment approach.

Create a retirement policy statement: Retired people should also craft a document that addresses the specifics of their spending strategies: their targeted income needs and how much of them will be covered by pensions and Social Security, their portfolio spending rate and the extent to which it might change over time; and whether they’re using an income-centric, total-return, or blended approach.

Important date: Investors who are paying quarterly estimated tax payments will need to have them in by June 15.
July

Evaluate the viability of your portfolio and your plan: Midyear is a good time to conduct a portfolio checkup, because you have time to course-correct if you've gotten off track. Focus on the fundamentals of your plan and your portfolio, including its asset allocation, whether your savings and spending rates are on track, and salient changes with your holdings.

Conduct a cost audit: In addition to checking up on your portfolio plan, it's also worthwhile to periodically assess the costs you're paying to keep the whole thing running. Because they rarely write a check for financial services, most investors are tremendously insensitive to the dollars and cents they're forking over for fund management, trades, and advice. Spend some time reviewing these costs and translating those percentages into dollars and cents; then see if you can shave them down. Swapping high-cost funds for lower-cost ones is one of the easiest ways to bring your cost load down; investors can buy broad-market index funds for well under 0.2%.

Conduct a tax audit: In addition to checking up on your portfolio's direct costs, also conduct an audit of the drag taxes are exerting on your return. Your 2017 tax return can serve as a valuable guide to the tax efficiency of your portfolio. Are you taking maximum advantage of your tax-sheltered options, including 401(k)s, IRAs, and HSAs? Have you revisited your decision about whether to make traditional or Roth contributions to your IRA and company retirement plan? Are aftertax 401(k) contributions a reasonable option for you if you're a high-income earner who's maxing out the other usual retirement receptacles? If your taxable holdings kicked off substantial capital gains distributions in years past, see if you can't make some tax-efficient tweaks, such as switching to index funds and ETFs for your equity exposure and adopting municipal bonds for your near-term cash needs.

August

Craft or revisit your estate plan: Planning for your own disability or mortality isn't pleasant, which is probably why estate planning falls by the wayside in so many households. Others may assume that estate planning is unnecessary for them, given that the estate tax exclusion is currently over $10 million per individual. But a basic estate plan—in which you determine who will inherit your assets, serve as a guardian for your minor children, and make important decisions on your behalf if you cannot make them yourself—is a must for people at all life stages and wealth levels. Do-it-yourself estate-planning kits are increasingly easy to come by and may help you tick some of the boxes if your situation is very straightforward. But most of us have special situations—special-needs loved ones, our own businesses, or complicated family situations, for example—that call for a customized estate plan drafted by an attorney.

Review your beneficiary designations: Many investors aren't aware that beneficiary designations for 401(k)s, IRAs, and other accounts supersede the information they've laid out in their wills. Thus, if you've gone to the trouble of drafting a will or creating trusts, it's essential that your beneficiary designations sync with what's in those documents.
Get a plan for your digital estate: Do you have a plan for your digital footprint—your social media or email accounts, for example? Most people don’t.

September
Review your long-term-care plan: Long-term care is another one of those topics that is no fun to think about and, unfortunately, there are no easy answers about whether to buy insurance or self-fund using your own portfolio. To make an informed decision, it’s helpful to understand the likelihood that you’ll need long-term care, the potential duration, and the costs.

Important date: Investors who are paying quarterly estimated tax payments will need to have them in by Sept. 17.

October
Kick college funding into high gear: Are your children or grandchildren growing by leaps and bounds, yet you haven’t given their college plans more than a nervous thought (or two or three)? If so, it’s time to take a hard look at how you’ll pay for it. Morningstar’s Save for College center provides a wealth of information on 529 plans and college funding in general. Note that the recent tax package allows families to use up to $10,000 of their 529 assets to cover qualified K-12 expenses.

Important date: If you received an extension on your 2017 tax return, you must have the return completed and postmarked by Oct. 15 of this year.

November
Conduct an insurance review: Most employers offer open enrollment for health insurance at year end, but it’s also a good time to take stock of your other types of insurance.

Watch out for capital gains payouts: Mutual funds typically distribute capital gains in December, and by November, fund companies are usually publishing estimates of their impending distributions. At a minimum, you want to avoid buying a fund just before it makes a distribution.

December
Be generous: If giving financial gifts to loved ones is on your to-do list, you can be exceptionally generous without making your estate susceptible to the gift tax. For 2018, each individual can gift up to $15,000 per person per year without having to file a gift-tax return, and all but ultrawealthy, ultragenerous people will never pay gift tax during or after their lifetimes. Year end is also a good time to squeak in charitable contributions that may lower your tax bill; with the new higher standard deduction amounts that kick in in 2018, taxpayers may find it helpful to bunch their itemized deductions into a single year while claiming the standard deduction the next. Investors who are subject to required minimum distributions can direct their RMDs to charity, thereby reducing their taxable income for the year; donor-advised funds can also be a great option for the time-pressed.
Conduct a year-end portfolio review: There’s no telling how the market—and in turn your investments—will perform in 2018, but year end is a good time to check up on your portfolio. If you own investments in your taxable account that have lost value, selling to generate a tax loss is a way to find a silver lining. The 0% long-term capital gains rate is also in effect for 2018, so investors whose income puts them under the thresholds may be able to engage in tax-gain harvesting. And investors at all income levels can improve their portfolios by repositioning within their tax-sheltered accounts, where they’ll pay no taxes following changes as long as the money stays inside the account.

Take your required minimum distributions: If you’re post age 70 1/2, you know the drill: Dec. 31 is your deadline for taking required minimum distributions from your tax-deferred accounts, such as IRAs and 401(k)s. Affluent retirees love to hate their RMDs, but I always recommend that retirees trim their distributions from holdings they wanted to prune anyway—positions that have grown too large, for example, or funds and stocks that have outlived their usefulness. If you’re in the enviable position of not needing your RMDs to live on, consider steering a portion of the distribution, up to $100,000, to charity via the qualified charitable distribution maneuver.
Your 2018 Tax Fact Sheet and Calendar
Use this guide to stay abreast of the tax law changes going into effect this year.

The turn of the calendar page usually ushers in a few small tax adjustments—allowable 401(k) and IRA contributions may get bumped up a bit to account for inflation, along with the IRA income limits and estate/gift tax exclusion amounts.

But 2018 brings more sweeping changes on the tax front, thanks to major legislation that Congress passed and President Donald Trump signed into law in the final days of 2017.

As the new year dawns, here are key tax-related dates and data points to have on your radar for the year ahead. (Note that these changes apply to the 2018 tax year, unless otherwise noted.)

2018 Important Tax Facts for All Taxpayers

Income Tax Brackets: Seven tax brackets remain, but the specific parameters have changed, as follows:

- 10%: Single taxpayers with incomes between $0 and $9,525; married couples filing jointly with incomes between $0 and $19,050.

- 12%: Single taxpayers with incomes between $9,525 and $38,700; married couples filing jointly with incomes between $19,050 and $77,400.

- 22%: Single taxpayers with incomes between $38,700 and $82,500; married couples filing jointly with incomes between $77,400 and $165,000.

- 24%: Single taxpayers with incomes between $82,500 and $157,500; married couples filing jointly with incomes between $165,000 and $315,000.

- 32%: Single taxpayers with incomes between $157,500 and $200,000; married couples filing jointly with incomes between $315,000 and $400,000.

- 35%: Single taxpayers with incomes between $200,000 and $500,000; married couples filing jointly with incomes between $400,000 and $600,000.

- 37%: Single taxpayers with incomes of $500,000 or more; married couples filing jointly with incomes of $600,000 or more.
**Standard Deduction:** Standard deduction amounts are increasing in 2018, to $12,000 for individuals and $24,000 for married couples filing jointly. In addition, the new tax laws eliminate personal exemptions. The net effect of those higher standard deduction amounts, combined with new rules like the one limiting mortgage interest deductions to mortgages of less than $750,000, is that itemizing deductions will be less beneficial for many taxpayers than was the case in the past. Taxpayers might consider bunching their deductible expenses into a single year, to the extent that they have some control over them, while claiming the standard deduction in other years.

**Itemized Deductions:** The new tax laws cap the combined deduction for state and local taxes, including property taxes, at $10,000 for both single and married couples. Also of interest for itemizers, charitable contributions amounting to up to 60% of the taxpayer’s adjusted gross income are deductible (that’s an increase from the previous 50% of adjusted gross income deductibility threshold). The new laws also allow for the deductibility of medical expenses in excess of 7.5% of adjusted gross income for both the 2017 and 2018 tax years.

Additionally, taxpayers will no longer be able to deduct miscellaneous itemized expenses such as advisor fees and tax preparation fees; through the 2017 tax year, these expenses can be deducted if they exceed 2% of adjusted gross income. As noted above, the new law limits interest deductibility to mortgages of $750,000 or less. (Current holders of mortgages of $1 million or less would still be able to deduct their interest.) Home equity loan interest would no longer be tax-deductible in many instances; that puts a HELOC at a disadvantage relative to a 401(k) loan as a source of emergency funding. (In addition, the 401(k) loan interest gets paid back into the account, whereas the HELOC interest is paid to a bank.)

**AMT-Exempt Amounts:** Although the new tax laws don’t eliminate the alternative minimum tax, the exemption amounts for it are increasing significantly in 2018, to $70,300 for single filers and $109,400 for married couples filing jointly. In addition, those full exemptions are available to taxpayers with significantly higher incomes—$500,000 for individuals and $1 million for married couples filing jointly—than was previously the case.

**2018 Important Tax Facts for Investors**

**Qualified Dividend and Long-Term Capital Gains Rates:** Three rates are still in place for dividends and long-term capital gains—0%, 15% and 20%—but they don’t map perfectly by tax bracket as they did in the past. Here are the parameters for each of the rates.

- **0%:** Single taxpayers with incomes between $0 and $38,600; married couples filing jointly with incomes between $0 and $77,200.

- **15%:** Single taxpayers with incomes between $38,600 and $425,800; married couples filing jointly with incomes between $77,200 and $479,000.

- **20%:** Single taxpayers with incomes over $425,800; married couples filing jointly with incomes over $479,000.
Medicare Surtax: As in years past, an additional 3.8% Medicare surtax will apply to the lesser of net investment income or the excess of modified adjusted gross income over $200,000 for single taxpayers and $250,000 for married couples filing jointly.

IRA contribution limits (Roth or traditional): $5,500 under age 50/$6,500 over age 50.

Income limits for deductible IRA contribution, single filers or married couples filing jointly who aren’t covered by a retirement plan at work: None; fully deductible contribution.

Income limits for deductible IRA contribution, single filers covered by a retirement plan at work: Modified adjusted gross income under $63,000 — fully deductible contribution; between $63,000 and $73,000 — partially deductible contribution; more than $73,000 — contribution not deductible.

Income limits for deductible IRA contribution, married couples filing jointly who are covered by a retirement plan at work: Modified adjusted gross income under $101,000 — fully deductible contribution; between $101,000 and $121,000 — partially deductible contribution; more than $121,000 — contribution not deductible.

Income limits for nondeductible IRA contributions: None.

Income limits for IRA conversions: None, but note that the tax legislation eliminated the opportunity to recharacterize a Roth IRA as a traditional IRA, or vice versa.

Income limits for Roth IRA contribution, single filers: Modified adjusted gross income under $120,000 — full Roth contribution; between $120,000 and $135,000 — partial Roth contribution; more than $135,000 — no Roth contribution.

Income limits for Roth IRA contribution, married couples filing jointly: Modified adjusted gross income under $189,000 — full Roth contribution; between $189,000 and $199,000 — partial Roth contribution; more than $199,000 — no Roth contribution.

Contribution limits for 401(k), 403(b), 457 plan, or self-employed 401(k) (traditional or Roth): $18,500 under age 50; $24,500 for age 50 and older.

Total 401(k) contribution limits, including employer (pretax, Roth, aftertax) and employee contributions and forfeitures: $55,000 if under age 50; $61,000 if 50-plus.

Income limits for 401(k), 403(b), 457 plans: None, though annual compensation limits can come into play in certain situations, as discussed here.

SEP IRA contribution limit: The lesser of 25% of compensation or $55,000.
Saver's Tax Credit, income limit, single filers: $31,500.

Saver's Tax Credit, income limit, married couples filing jointly: $63,000.

Health savings account contribution limit, single contributor: $3,450 (under 55); $4,450 (over 55).

Health savings account contribution limit, family coverage: $6,900 (contributor under 55); $7,900 (contributor 55-plus).

High-deductible health plan out-of-pocket maximum, self-only coverage: $6,650.

High-deductible health plan out-of-pocket maximum, family coverage: $13,300.

Section 529 college-savings account contribution limit: Per IRS guidelines, contributions cannot exceed amount necessary to provide education for beneficiary. Deduction amounts vary by state, and those contributing very large amounts may have to file a gift tax form. Note that beginning in 2018, 529 assets can be used for qualifying K-12 expenses.

Section 529 college savings account income limit: None.

Estate Tax, Gift, Generation-Skipping Tax: The new tax laws greatly increase the lifetime exclusion amount to $11.2 million through 2025; couples receive an exclusion that's double that amount, or more than $22 million.

2018: Important Tax Dates to Remember

Jan. 1: New IRA, retirement plan, and HSA contribution and income limits went into effect for 2018 tax year, as listed above.


April 17:

Individual tax returns (or extension request forms) due for 2017 tax year.

Estimated tax payments due for first quarter of 2018.

Last day to contribute to IRA for 2017 tax year (2017 contribution limits: $5,500 under age 55; $6,500 for age 55 and above).

Last day to contribute to health savings account for 2017 tax year (2017 contribution limits: $3,400 for single coverage, contributor under age 55; $4,400 for single coverage, contributor age 55 and above;
$6,750 for family coverage, contributor under age 55; $7,750 for family coverage, contributor age 55 and above).

**June 15:** Estimated tax payments due for second quarter of 2018.

**Sept. 17:** Estimated tax payments due for third quarter of 2018.

**Oct. 15:** Individual tax returns due for taxpayers who received a six-month extension.

**Dec. 31:**

Retirees age 70 1/2 and older must take required minimum distributions from traditional IRAs and 401(k)s; those RMDs are based on their balances at the end of 2017.

Last date to make contributions to company retirement plans (401(k), 403(b), 457) for 2018 tax year.
Experts Forecast Long-Term Stock and Bond Returns: 2018

High starting valuations, low yields prompt muted return projections at most firms.

As 2017 dawned, few market experts had high hopes for stocks' returns over the next seven to 10 years; after all, the market had already staged a strong run stretching back to March 2009.

With stocks posting another stellar year last year — and with valuations that could hardly be described as cheap — most serious experts are even more circumspect in their long-range return expectations today.

True, economic fundamentals are fine: The economy is solid, unemployment remains low, and corporate earnings growth has been robust. But much of that good news is arguably already priced into stocks' valuations today.

At first blush, forecasting the market's returns, even on a long-term basis, might seem like folly. It's impossible to predict the future, right? But like it or not, market-return assumptions are an essential input for your financial plan. Without some reasonable expectation of what your portfolio will return, you can't know how much you'll need to save and for how long. You can't know whether saving for retirement should be your sole financial preoccupation or whether you can hit other goals, such as college funding, along the way.

To help you arrive at an educated guess of how much the market will contribute to the success of your plans, I've gathered return expectations from market experts both inside and outside of Morningstar. Note that the specifics of these return estimates vary a bit; some of these return expectations are inflation-adjusted while others are not. In addition, some of the experts cited below forecast returns for the next decade, while others employ slightly shorter time horizons. In any case, these return estimates are more intermediate-term than they are long. As such, they're the most relevant to investors whose time horizons are in that ballpark, or to new retirees who face sequence-of-return risk in the next decade. Investors with very long time horizons of 20 to 30 years or longer can reasonably assume that market returns will run in line with their very long-term historic norms: 8%-10% for stocks and half that amount for bonds.

John C. Bogle, founder of Vanguard Group

*Highlights:* 4% returns for stocks, 3% returns for bonds over the next decade (October 2017)

In an interview this past October, the Vanguard founder continued to assert that future returns from the major asset classes will be muted. As always, Bogle backs into his return forecast by looking at the equity market's current dividend yield, then factors in expected earnings growth and P/E multiple.
expansion or contraction. The S&P 500 currently yields less than 2%, and Bogle expects that earnings growth will run in the range of 4%, down a bit from its current torrid pace. He then gives that 6% expected return (the 2% dividend yield plus 4% earnings growth) a haircut to account for expected P/E contraction, bringing his self-described “reasonable expectation” for stocks down to 4%. To arrive at his 3% return expectations for bonds over the next decade, Bogle uses a blend of the starting yields for Treasuries and high-quality corporates.

GMO

Highlights: -4.4% real (inflation-adjusted) returns for U.S. large caps over the next seven years; 2% real returns for emerging markets equities (October 2017).

You didn’t expect a sunny return forecast from GMO, did you? True to pessimistic form, especially in the late innings of a bull market, the firm’s real-return expectations for most equity categories are negative, with a handful of exceptions. GMO’s outlook for U.S. large-cap growth stocks and what the firm classifies as “low-quality” U.S. large-cap equities is especially dour; the firm expects real losses in the neighborhood of 5%-7% over the next seven years. For GMO, emerging markets equities are the sole bright spot on the horizon for stocks: The firm expects emerging markets equities to return an inflation-adjusted 2% over the next seven years, while its real-return expectation for value-oriented emerging-markets equities is a sunny 7%. Indeed, the firm notes that the expected return advantage of value-priced emerging markets equities relative to the next-best asset class is the largest it has observed in more than two decades. It’s worth noting that the firm’s pessimism U.S. equities has cost it on the return front over the past several years: Wells Fargo Absolute Return WARAX, which GMO manages, has recently struggled and earns a Neutral rating from Morningstar’s analyst team.

Morningstar Investment Management

Highlights: 1.8% 10-year nominal returns for U.S. stocks; 2.5% 10-year nominal returns for U.S. bonds (Sept. 30, 2017).

Like GMO and Research Affiliates (below), Morningstar Investment Management’s return expectations for U.S. stocks and bonds are low, if not downright discouraging, especially when you factor in inflation. But the outlook is more optimistic for foreign equities: MIM expects U.S. holders of international developed equities to earn nearly 5% on a nominal (noninflation-adjusted) basis, and U.S. holders of emerging-markets equities to earn more than 5% nominally. (Note that those forecasts are down substantially from a year ago, owing to very strong performance from foreign stocks over the past year.)

Research Affiliates

Highlights: 0.3% real returns for U.S. large caps during the next 10 years; 0.8% real returns for the Barclays U.S. Aggregate Bond Index (Dec. 31, 2017).

I love Research Affiliates’ intuitive and user-friendly scatter plot depicting the firm’s expectations for 10-year returns and volatility from the major asset classes as well as portfolios. Users can use the tool to see the firm’s return/volatility expectations for numerous asset classes, as well as backward-looking
data. The firm's recent 10-year risk/return expectations, based on its "valuation-dependent model," suggest that investors who are inclined to stick with a plain-vanilla U.S. stock/bond portfolio should curb their enthusiasm: A 60% U.S. equity/40% bond portfolio will only barely break into the black on an inflation-adjusted basis over the next decade. Like GMO and Morningstar, the firm has higher return expectations from foreign stocks and especially emerging markets, however. It's expecting a 4.5% return over the next decade from the MSCI EAFE index (developed markets foreign stocks) and a nearly 6% return from emerging markets equities.

**Charles Schwab Investment Advisory**

*Highlights:* 6.7% expected nominal return from U.S. large-cap stocks from 2017-2026; 3.1% nominal returns from U.S. investment-grade bonds (August 2017)

Charles Schwab Investment Advisory (a separately registered investment advisor and affiliate of Charles Schwab & Co. Inc.) was forecasting higher equity returns than many of the other firms in our survey—roughly 7% on a noninflation-adjusted basis for U.S. and foreign large caps as of August 2017. (Given stocks continued run in the second half of 2017, it's possible the firm has ratcheted its expectations downward since then.) Moreover, the firm's return expectations for foreign equities wasn't appreciably better than for U.S. stocks. But like most of the other firms, Charles Schwab Investment Advisory expects returns over the next decade to be lower than in the past 45 years, owing to high stock valuations, among other factors.

**Vanguard**

*Highlights:* Nominal U.S. equity-market returns in the 3% to 5% range during the next decade; 5.5% to 7.5% returns for non-U.S. equities; 2% to 3% expected returns for global fixed-income markets (December 2017).

In its 2018 Economic and Market Outlook, Vanguard's Investment Strategy Group projects higher risks and lower returns for 2018 and beyond. "Elevated valuations, low volatility, and secularly low bond yields are unlikely to be allies for robust financial markets over the next five years," the firm's researchers wrote. In line with many of the other firms' return projections, Vanguard believes that the prospects for foreign equities are better than for U.S. stocks, accentuating the value of maintaining a globally diversified equity portfolio. Vanguard describes its outlook for global fixed-income assets as "positive but muted," noting that tightened credit spreads point to less variation in the returns of fixed-income subasset classes over the next decade than in previous periods.
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