Oppenheimer & Co. Inc.
Mark Baniszewski, Exec. Director - Investments
Caitlin Falenski, CSRP®
Assoc. Director - Investments
385 S. Eton
Birmingham, MI 48009
248-593-3727
248-593-3712
mark.baniszewski@opco.com
caitlin.falenski@opco.com

Beyond the Basics

Customized Wealth Strategies

June 2019

Charitable Giving After Tax Reform
Medicaid or Veterans Pension?
What's the real return on your investments?
Inflation Variation, Eroding Purchasing Power

Time for a Mid-Year Investment Check

Many investors may be inclined to review their portfolios only when markets hit a rough patch, but careful planning is essential in all economic climates. So whether the markets are up or down, periodically reviewing your portfolio with your financial professional can be an excellent way to keep your investments on track, and midway through the year is a good time for a checkup. Here are three questions to consider.

1. How have my investments performed so far this year?

Review a summary of your portfolio's total return (minus all fees) and compare the performance of each asset class against a relevant benchmark. For example, for stocks, you might compare performance against the S&P 500 (for domestic large caps), the Russell 2000 (for small caps), or the Global Dow (for global stocks). For mutual funds, you might use the Lipper indexes to see how your funds performed against a relevant benchmark. (Keep in mind that the performance of an unmanaged index is not indicative of the performance of any specific security; you can't invest directly in an unmanaged index.)

Consider any possible causes of over- or underperformance in each asset class. If any result was concentrated in a single asset class or investment, was that performance consistent with the asset's typical behavior over time? Or was recent performance an anomaly that bears watching or taking action?

In addition, make sure you know the total fees you are paying (e.g., mutual fund expense ratios, transaction fees), preferably as a dollar amount and not just as a percentage of assets.

2. Do I need to make adjustments?

Review your financial goals (e.g., retirement, college, home purchase) and the market outlook for the remainder of the year to determine whether your investment asset mix for each goal continues to meet your time frame, risk tolerance, and overall needs. Of course, no one knows exactly what the markets will do in the future, but by looking at current conditions and projections for interest rates, inflation, and economic growth, you might identify factors that could influence the markets in the months ahead. With this broader perspective, you can update your investment strategy as needed.

Remember, even if you've chosen an appropriate asset allocation strategy for various goals, market forces may have altered your mix without any action on your part. For example, maybe your asset allocation preference is 60% stocks and 40% bonds, but now due to investment returns your portfolio is 75% stocks and 25% bonds.

To return your asset mix back to its original allocation, you may want to rebalance your investments. This can be done by selling investments in the overrepresented classes and transferring the proceeds to the underrepresented asset classes, or simply by directing new contributions into asset classes that have been outpaced by others until the target allocation is reached. Keep in mind that rebalancing may result in commission costs, as well as taxes if you sell investments for a profit.

Asset allocation does not guarantee a profit or protect against loss; it is a method used to help manage investment risk.

3. Am I maximizing my tax savings?

Taxes can take a bite out of your overall investment return. You can't control the markets, but you can control the accounts you use to save and invest, as well as the assets you hold in those accounts and the timing of when you sell investments. Dividing assets strategically among taxable, tax-deferred, and tax-exempt accounts may help reduce the effect of taxes on your overall portfolio.

In sum, by taking the time to periodically review your portfolio in good economic times as well as bad, you can feel confident knowing that your investing strategy is attuned to current market conditions and your overall needs.

All investing involves risk, including the possible loss of principal, and there can be no guarantee that any investing strategy will be successful.

See disclaimer on final page

Charitable Giving After Tax Reform

Some of the recent changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from your charitable contributions. Incorporating charitable giving into your year-end tax planning may be even more important now. If you are age 70½ or older and have a traditional IRA, you may wish to consider a qualified charitable distribution.

Tax reform changes to the standard deduction and itemized deductions may affect your ability to obtain an income tax benefit from charitable giving. Projecting how you'll be affected by these changes while there's still time to take action is important.

Income tax benefit of charitable giving

If you itemize deductions on your federal income tax return, you can generally deduct your gifts to qualified charities. However, many itemized deductions have been eliminated or restricted, and the standard deduction has substantially increased. You can generally choose to take the standard deduction or to itemize deductions. As a result of the changes, far fewer taxpayers will be able to reduce their taxes by itemizing deductions.

Taxpayers whose total itemized deductions other than charitable contributions would be less than the standard deduction (including adjustments for being blind or age 65 or older) effectively have less of a tax savings incentive to make charitable gifts. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of $15,000. They would have a standard deduction of $27,000 in 2019. The couple would effectively receive no tax savings for the first $12,000 of charitable contributions they make. Even with a $12,000 charitable deduction, total itemized deductions of $27,000 would not exceed their standard deduction.

Taxpayers whose total itemized deductions other than charitable contributions equal or exceed the standard deduction (including adjustments for being blind or age 65 or older) generally receive a tax benefit from charitable contributions equal to the income taxes saved. For example, assume that a married couple, both age 65, have total itemized deductions (other than charitable contributions) of $30,000. They would be entitled to a standard deduction of $27,000 in 2019. If they are in the 24% income tax bracket and make a charitable contribution of $10,000, they would reduce their income taxes by $2,400 ($10,000 charitable deduction x 24% tax rate).

However, the amount of your income tax charitable deduction may be limited to certain percentages of your adjusted gross income (AGI). For example, your deduction for gifts of cash to public charities is generally limited to 60% of your AGI for the year, and other gifts to charity are typically limited to 30% or 20% of your AGI. Charitable deductions that exceed the AGI limits may generally be carried over and deducted over the next five years, subject to the income percentage limits in those years.

Year-end tax planning

When making charitable gifts during the year, you should consider them as part of your year-end tax planning. Typically, you have a certain amount of control over the timing of income and expenses. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and to time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

For example, if you expect that you will be in a higher tax bracket next year, it may make sense to wait and make the charitable contribution in January so you can take the deduction next year when the deduction results in a greater tax benefit. Or you might shift the charitable contribution, along with other itemized deductions, into a year when your itemized deductions would be greater than the standard deduction amount. And if the income percentage limits above are a concern in one year, you might consider ways to shift income into that year or shift deductions out of that year, so that a larger charitable deduction is available for that year. A tax professional can help you evaluate your individual tax situation.

Qualified charitable distribution (QCD)

If you are age 70½ or older, you can make tax-free charitable donations directly from your IRAs (other than SEP and SIMPLE IRAs) to a qualified charity. The distribution must be one that would otherwise be taxable to you. You can exclude up to $100,000 of these QCDs from your gross income each year. And if you file a joint return, your spouse (if 70½ or older) can exclude an additional $100,000 of QCDs.

You cannot deduct QCDs as a charitable contribution because the QCD is excluded from your gross income. In order to get a tax benefit from your charitable contribution without this special rule, you would have to itemize deductions, and your charitable deduction could be limited by the percentage of AGI limitations. QCDs may allow you to claim the standard deduction and exclude the QCD from income.

QCDs count toward satisfying any required minimum distributions (RMDs) that you would otherwise have to receive from your IRA, just as if you had received an actual distribution from the plan.

Caution: *Your QCD cannot be made to a private foundation, donor-advised fund, or supporting organization. Further, the gift cannot be made in exchange for a charitable gift annuity or to a charitable remainder trust.*

OPPENHEIMER

Medicaid or Veterans Pension?

For information on Medicaid, see [Medicaid.gov.](Medicaid.gov)

For information on Veterans Pension benefits, see [benefits.va.gov.](benefits.va.gov)

It's a fact: People are living longer today than they used to generations ago. Although that's good news, the odds of requiring some sort of health care increase as you get older. And as the costs of home care, nursing home care, and assisted living escalate, you probably wonder how you're ever going to be able to pay for that care for yourself or your loved ones.

Medicaid and a Veterans Pension such as Aid and Attendance (A&A) are among the government programs available to help pay for some of these costs. While it's possible to qualify for both Medicaid and a VA Pension, very rarely does one receive assistance from both programs at the same time. However, that doesn't mean you should disregard either program when determining how to pay for the costs associated with long-term care.

What's the difference?

Medicaid and the Veterans Pension programs have similarities and many important differences. Very briefly, Medicaid is a joint federal-state program that provides medical assistance to aged, disabled, or blind individuals (or to needy, dependent children) who cannot otherwise afford necessary medical care. Each state administers its own Medicaid program based on broad federal guidelines and regulations. Medicaid is the primary payer across the nation for long-term care services.

The Department of Veterans Affairs administers programs for veterans (or their surviving spouses) with limited incomes who are eligible for a VA pension. The Basic Pension/Improved Income program pays a monthly benefit to healthy veterans over the age of 65 with low incomes. A&A is for veterans over age 65 who require assistance with activities of daily living, such as eating, bathing, and dressing. The Veterans Housebound Pension is similar to A&A, but is available for persons whose disability significantly limits their ability to leave their homes.

Veterans Pension benefits are paid monthly. The recipient is able to use the money as desired. Medicaid is an insurance program that pays for costs of care. While the Medicaid benefit amount is often much more than any Veterans Pension benefit, Medicaid generally pays the service provider directly.

Do you qualify?

There are several factors to consider when determining the program best suited for the type of care needed. First and foremost, will you qualify for either program? Both programs have asset and income limits that are similar, but not identical.

Also, both programs have look-back periods that can disqualify an applicant from receiving benefits if assets are transferred for less than fair market value, such as by gifting to family members. It is possible to qualify for A&A but not for Medicaid, or vice versa. Pension benefits are generally counted as income for Medicaid eligibility purposes and could cause the recipient to exceed Medicaid's income limits. Consult with an elder law attorney or advisor who specializes in this type of planning.

What type of care is needed?

Another important consideration relates to the type of care required. Generally, if home care or assisted living is the type of care needed, Veterans Housebound or A&A benefits may be more advantageous. If nursing home care is needed, Medicaid is usually the better option. The amount of pension income is rarely enough to make up the difference between the cost of nursing home care and the recipient's income. Conversely, Medicaid will cover this difference in most cases. Equally important, the pension benefit is reduced to $90 per month for a single person (veteran or surviving spouse) who is in a Medicaid-approved nursing facility and is covered by a Medicaid plan for services furnished by the nursing facility.

However, there may be limited circumstances when a pension is appropriate for a beneficiary in a nursing home. For instance, if the beneficiary has to "spend down" assets before qualifying for Medicaid, the pension would continue to be paid while the recipient is paying for nursing home costs "out-of-pocket."

There's another situation in which a married couple may be dually eligible for Medicaid and a Veterans Pension; for example, the veteran spouse is at home or in an assisted-living facility (community spouse), and the non-veteran spouse is in a nursing home. If both spouses are able to meet the respective income and asset qualifications for each program, the veteran community spouse may receive a Veterans Pension and the spouse in the nursing home may qualify for Medicaid.

What's the verdict?

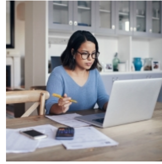
As you can see, coordinating Medicaid with a Veterans Pension can be a complicated process. Often, dovetailing a pension with Medicaid does not work well. It is always a good idea to consult with a professional who is proficient in planning for both Veterans Pension benefits and Medicaid to help you decide the best way to proceed.

OPPENHEIMER

Oppenheimer & Co. Inc.
Mark Baniszewski, Exec. Director - Investments
Caitlin Falenski, CSRP®
Assoc. Director - Investments
385 S. Eton
Birmingham, MI 48009
248-593-3727
248-593-3712
mark.baniszewski@opco.com
caitlin.falenski@opco.com

This newsletter should not be construed as an offer to sell or the solicitation of an offer to buy any security. The information enclosed herewith has been obtained from outside sources and is not the product of Oppenheimer & Co. Inc. ("Oppenheimer") or its affiliates. Oppenheimer has not verified the information and does not guarantee its accuracy or completeness. Additional information is available upon request. Oppenheimer, nor any of its employees or affiliates, does not provide legal or tax advice. However, your Oppenheimer Financial Advisor will work with clients, their attorneys and their tax professionals to help ensure all of their needs are met and properly executed. Oppenheimer & Co. Inc. transacts business on all principal exchanges and SIPC.

OPPENHEIMER



What's the real return on your investments?

As an investor, you probably pay attention to *nominal return,* which is the percentage increase or decrease in the value of an investment over a given period of time, usually expressed as an annual return. However, to estimate actual income or growth potential in order to target financial goals — for example, a certain level of retirement income — it's important to consider the effects of taxes and inflation. The remaining increase or decrease is your *real return.*

Let's say you want to purchase a bank-issued certificate of deposit (CD) because you like the lower risk and fixed interest rate that a CD can offer. Rates on CDs have risen, and you might find a two- or three-year CD that offers as much as 3% interest. That could be appealing, but if you're taxed at the 22% federal income tax rate, roughly 0.66% will be gobbled up by federal income tax on the interest.

That still leaves an interest rate of 2.34%, but you should consider the purchasing power of the interest. Annual inflation was about 2% from 2016 to 2018, and the 30-year average was 2.5%.[1] After factoring in the effect of inflation, the real return on your CD investment could approach zero and may turn negative if inflation rises. If so, you might lose purchasing power not only on the interest but also on the principal.

This hypothetical example doesn't represent the performance of any specific investment, but it illustrates the importance of understanding what you're actually earning after taxes and inflation. In some cases, the lower risk offered by an investment may be appealing enough that you're willing to accept a low real return. However, pursuing long-term goals such as retirement generally requires having some investments with the potential for higher returns, even if they carry a higher degree of risk.

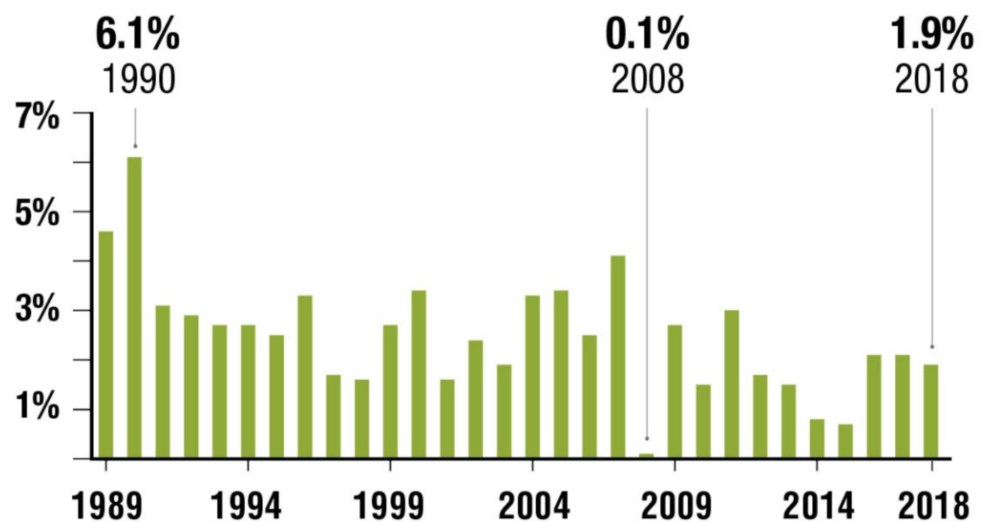
The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to $250,000 per depositor, per insured institution. All investments are subject to risk, including the possible loss of principal. When sold, investments may be worth more or less than their original cost.

[1] U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

Inflation Variation, Eroding Purchasing Power

Inflation averaged 2.5% for the 30-year period from 1989 to 2018. Although the recent trend is below the long-term average, even moderate inflation can reduce purchasing power and cut into the real return on your investments.

Annual rate of inflation, based on change in the Consumer Price Index



Source: U.S. Bureau of Labor Statistics, 2019 (December year-over-year change in CPI-U)

Prepared by Broadridge Investor Communication Solutions, Inc. Copyright 2019