A newsletter from Ascential Wealth Advisors

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LIVE FOR TODAY, PLAN FOR TOMORROW

By Kristin Rognerud

We help clients plan for the future. Another arguably more important side to financial planning is figuring out how to make the most of today without compromising future financial peace of mind. While we plan for lifespans into the 90s for most clients, none of us are promised a long life or good health. We all know people who have worked their entire lives to have their health fail just as they reach retirement, leaving them unable to fully enjoy the fruits of their labor. Financial planning is just as much about deciding how to enjoy today as it is about saving for the future. So how can you balance the two?

THINK BIG

Make a bucket list of things you want to do in life. Maybe it's visiting the country your ancestors came from, buying a cabin, taking your grandkids to Disneyland, canoeing in the Boundary Waters, or lying on a beach in the Mediterranean. Whether its travel and adventure or relaxation, having big goals to look forward to and work towards can make daily life more rewarding. Consider whether you want to do any of these things sooner than later.

PLANNING TIP

Your financial plan can help you understand what is possible, and what taking on a big goal sooner means in the context of your overall picture. For some people, it might be worth working a little longer or saving a little more if it means they can accomplish one or more of these big goals sooner.

THINK SMALL

A bucket list is great, but in daily life often the little things make a big difference. Imagine how you would spend a perfect day; would you like to spend time outdoors, volunteer, visit an old friend, tackle that landscaping project you've been thinking about or binge watch your favorite show? Life can be busy and responsibilities seemingly endless, but finding time and money for the small things can better quality of life tremendously. You may also be surprised at how many of these things cost nothing at all!

PLANNING TIP

Budgeting funds for small pleasures is important, and can increase overall happiness and satisfaction. Whether you are saving for retirement or already there, we encourage clients to save room in their budget for small expenses like hobbies, lunches with friends, or social memberships to name a few examples. Feeling restricted for an extended period of time can lead to splurges and poor spending habits that are less satisfying in the long run and might be detrimental to achieving long-term goals.

BE CREATIVE

When thinking about how to manage your wants and long-term goals, sometimes it pays to think outside the box. Would you consider working part time doing something you enjoy if it meant you could retire early from your career? Could you see yourself downsizing in the future if it would allow

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you to do more of your bucket list now? These are all things we regularly model in financial plans for clients to help them see the choices they have in shaping their lives.

PLANNING TIP

There are many different ways to achieve a goal, so be open to looking at all of your options. When we are exploring multiple choices in a financial plan, knowing what alternate paths are acceptable to you is very helpful. We can offer guidance about what other clients have done as well, and often come up with a solution that fits your needs.

BE REALISTIC

Daily money management and long-term planning are often about trade-offs, and we can help you understand what those trade-offs might be. In some situations, satisfying a desire today is fine but may impact your long-term goals. We are proponents of prioritizing your goals and the savings or spending tied to them. Knowing what is most important to you can help us to put together a plan that better reflects your wishes.

PLANNING TIP

Understanding where your money is being spent and saved not only helps you make decisions, it also gives us the ability to make better assumptions in a financial plan. Identifying what you are currently spending on wants versus needs allows us to create more realistic and potentially more flexible plans. We often create several layers of spending in a financial plan to accommodate how spending needs may change throughout your lifetime.

BE CONFIDENT

Shifting from the accumulation phase of life to the spending phase can be difficult. You have worked hard, prudently saving to create financial independence, and it isn't easy to change those ingrained behavior patterns. Our goal is to help you confidently make the transition to prudent spending before age or health issues prevent you from enjoying the things you love.

PLANNING TIP

When you are making the transition to spending, we will help you understand how best to use your financial assets. Part of this process is making sure that your spending is in line with your financial plan, and we will tell you if you are over or under planned spending so that you can make adjustments if needed. We will also revisit your plan periodically to make sure you remain on track.

A financial plan is a fantastic tool to help you understand your overall financial picture, and can also be a guide to helping you make the most of today without giving up your financial peace of mind for tomorrow. We encourage all of our clients to take advantage of this service to maximize decision making. Time truly does fly, so make sure you are not unnecessarily giving up opportunities to enjoy today!

"Yesterday is history, tomorrow is a mystery, today is a gift, which is why we call it the present."

Enhanced Authentication

Alex Meehan
Wealth Management Associate

By Alex Meehan

Last year, Raymond James began rolling out enhanced authentication for users of their client access platform. If not already, in the coming months you will be asked to register for this improved online protection. You may have already encountered this technology with other websites such as Facebook, Google, Amazon, or almost anywhere you have created a username and password. This two-factor authentication has become an industry standard and an important step forward in cyber security.

This feature uses a phone number to communicate a one-time passcode that you will need to populate in addition to your username and password. Once you receive the passcode, you will be asked to use the code and proceed with logging into your account as normal. You can also designate the system to remember your login device so you can avoid the need for a passcode in the future when using that same device to access your accounts. This is not recommended if you are using a shared device, for example, a hotel or public library.

The process will ask which of the phone numbers associated with your account you would like to receive the passcode. **Keep in mind, if any of your contact information has changed in the past few months, it is very important we have this updated for our records, otherwise you will be unable to receive the passcode.**

As always, if you are having any issues logging into your accounts, please give our office a call and we are more than happy to work out a solution together.

Most Americans will eventually receive Social Security and Medicare benefits. Each year, the Trustees of the Social Security and Medicare Trust Funds release lengthy reports to Congress that assess the health of these important programs. The newest reports, released on April 22, 2019, discuss the current financial condition and ongoing financial challenges that both programs face, and project a Social Security cost-of-living adjustment (COLA) for 2020.

WHAT ARE THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS?

Social Security: The Social Security program consists of two parts. Retired workers, their families, and survivors of workers receive monthly benefits under the Old-Age and Survivors Insurance (OASI) program; disabled workers and their families receive monthly benefits under the Disability Insurance (DI) program. The combined programs are referred to as OASDI. Each program has a financial account (a trust fund) that holds the Social Security payroll taxes that are collected to pay Social Security benefits. Other income (reimbursements from the General Fund of the U.S. Treasury and income tax revenue from benefit taxation) is also deposited in these accounts. Money that is not needed in the current year to pay benefits and administrative costs is invested (by law) in special Treasury bonds that are guaranteed by the U.S. government and earn interest. As a result, the Social Security Trust Funds have built up reserves that can be used to cover benefit obligations if payroll tax income is insufficient to pay full benefits. Note that the Trustees provide certain projections based on the combined OASI and DI (OASDI) Trust Funds. However, these projections are theoretical, because the trusts are separate, and generally one program's taxes and reserves cannot be used to fund the other program.

Medicare: There are two Medicare trust funds. The Hospital Insurance (HI) Trust Fund helps pay for hospital care (Medicare Part A costs). The Supplementary Medical Insurance (SMI) Trust Fund comprises two separate accounts, one covering Medicare Part B (which helps pay for physician and outpatient costs) and one covering Medicare Part D (which helps cover the prescription drug benefit).

HIGHLIGHTS OF SOCIAL SECURITY TRUSTEES REPORT

- Social Security's total cost is projected to exceed its total income (including interest) in 2020 and remain higher for the next 75 years. The U.S. Treasury will need to withdraw from trust fund reserves to help pay benefits. The Trustees project that the combined trust fund reserves (OASDI) will be depleted in 2035, one year later than projected in last year's report, unless Congress acts.
- Once the combined trust fund reserves are depleted, payroll tax revenue alone should still be sufficient to pay about 80% of scheduled benefits for 2035, with the percentage falling gradually to 75% by 2093.
- The OASI Trust Fund, when considered separately, is projected to be depleted in 2034. Payroll tax revenue alone would then be sufficient to pay 77% of scheduled benefits. These figures are unchanged from last year's report.
- The DI Trust Fund is expected to be depleted in 2052, 20 years later than projected in last year's report. The significant depletion date change reflects the fact that both benefit applications and the total number of disabled workers currently receiving benefits have been declining over the past few years. Once the DI Trust Fund is depleted, payroll tax revenue alone would be sufficient to pay 91% of scheduled benefits.
- Based on the "intermediate" assumptions in this year's report, the Social Security Administration is projecting that the cost-of-living adjustment (COLA), announced in the fall of 2019, will be 1.8%. This COLA would apply to benefits starting in January 2020.

HIGHLIGHTS OF MEDICARE TRUSTEES REPORT

- Annual costs for the Medicare program exceeded tax income each year from 2008 to 2015. There were fund surpluses in 2016 and 2017. In 2018, expenditures exceeded income, and this year's report projects that costs will exceed income by increasing amounts (excluding interest income). The report notes that in 2007, assets represented 150% of expenditures, but by the beginning of 2019, the ratio of trust fund assets to expenditures had fallen to 66%.
- The HI Trust Fund is projected to be depleted in 2026, the same year as projected in last year's report. Once the HI Trust Fund is depleted, tax and premium income would still cover 89% of estimated program costs, declining to 78% by 2043 and then gradually increasing to 83% by 2092. The Trustees note that long-range projections of Medicare costs are highly uncertain.

WHY ARE SOCIAL SECURITY AND MEDICARE FACING FINANCIAL CHALLENGES?

Social Security and Medicare are funded primarily through the collection of payroll taxes. Because of demographic and economic factors, including higher retirement rates and lower birth rates, there will be fewer workers per beneficiary over the long term, worsening the strain on the trust funds.

WHAT IS BEING DONE TO ADDRESS THESE CHALLENGES?

Currently, not much, but both reports urge Congress to address the financial challenges facing these programs soon, so that solutions will be less drastic and may be implemented gradually, lessening the impact on the public. Combining some of these solutions may also lessen the impact of any one solution.

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Some Social Security reform proposals on the table are:

- Raising the current Social Security payroll tax rate. According to this year's report, an immediate and permanent payroll tax increase of 2.7 percentage points to 15.1% would be necessary to address the long-range revenue shortfall (3.65 percentage points to 16.05% if the increase started in 2035).
- Raising or eliminating the ceiling on wages currently subject to Social Security payroll taxes ($132,900 in 2019).
- Raising the full retirement age beyond the currently scheduled age of 67 (for anyone born in 1960 or later).
- Reducing future benefits. According to this year's report, to address the long-term revenue shortfall, scheduled benefits would have to be immediately and permanently reduced by about 17% for all current and future beneficiaries, or by about 20% if reductions were applied only to those who initially become eligible for benefits in 2019 or later.
- Changing the benefit formula that is used to calculate benefits.
- Calculating the annual cost-of-living adjustment for benefits differently.

You can view a combined summary of the 2019 Social Security and Medicare Trustees Reports and a full copy of the Social Security report at ssa.gov. You can find the full Medicare report at cms.gov.

2020 Contribution & Gifting Limits

RETIREMENT CONTRIBUTION LIMITS

	2019	2020
IRA/Roth	$6,000	$6,000
Over 50 Catch-up	$1,000	$1,000
Simple IRA	$13,000	$13,500
Over 50 Catch-up	$3,000	$3,000
401(k)	$19,000	$19,500
Over 50 Catch-up	$6,000	$6,500
Annual Gifting Limit	$15,000	$15,000

HEALTH SAVINGS PLAN CONTRIBUTIONS

2020 contribution limits are:

- Individual - $3,550
- Family - $7,100
  - Over 55 Catch-up (both individual and family) - $1,000

Minimum Annual Deductible:

- Individual - $1,400
- Family - $2,800

From left:

Barb Perrault, *Registered Client Services Mgr.*
Lori Spilde, *Client Services Manager*
Brad Christiansen, *Financial Advisor*
Daniel Maki, *Financial Advisor*
Dave Kohlhaas, *Financial Advisor*
Kristin Rognerud, *Financial Advisor*
Mike Owens, *Financial Advisor*
Alex Meehan, *Wealth Mgmt Associate*

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DISCLOSURES