PREPARING NOW FOR 2019

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CLOSING

LENOX ADVISORS, A LEADER IN PRIVATE CLIENT RESOURCES AT NFP
About this time last year, the big question was whether the Trump Administration, with a Republican-led Congress, would be able to push forward meaningful tax legislation for the 2018 tax year. 12 months later, taxes remain the focal point of a solid year-end plan but this time around, with a recently passed tax bill to guide us, we consider how the new laws will apply to our individual situation. While the Tax Cuts and Jobs Act did not represent an overhaul of our nation’s tax system and nobody will be filing taxes this year via a postcard, there remain some significant changes to many aspects of the tax code which we must consider.

The following are some items we feel are helpful to highlight surrounding the new tax laws, as well as a number of planning tips, ideas, and thoughts. Your Lenox Team is here to help ensure you are making the right financial planning decisions, and we look forward to working closely with you as we head towards the end of another year.
INCOME TAX PLANNING

Given all the change, it is more important than ever to take this step. CPA’s will be busy heading into year-end so we advise that you set up a time to speak with your CPA as soon as possible.

CONSIDER THE FOLLOWING ACTIONS WITH REGARD TO THE NEW TAX LAWS:

Alternative Minimum Tax Planning: This has always been a source of confusion for taxpayers, and one of the more critical items to plan for. This changes a bit in 2018 as the exemption has dramatically increased and it is expected that very few taxpayers will ultimately be subject to AMT. As a result, please consult with your tax advisor before taking any of the traditional steps to avoid or reduce exposure to AMT.

SALT Deductions: One of the more recognizable changes is the capping of the State & Local Income Tax deduction at $10,000. There are a number of high-tax states attempting to challenge the SALT cap – in July a group of Attorneys General from New York, New Jersey, Connecticut, and Maryland formally filed a lawsuit to eliminate the cap. We will have to wait and see how this and similar lawsuits play out, but for the time being, traditional strategies such as making extra estimated income tax or property tax payments early may not have any merit.

Hidden Capital Gains Tax Increase: As part of the SALT cap noted above, those who live in states which levy their own capital gains tax will no longer be deductible at the Federal level, effectively resulting in increased capital gains taxes. (All states except AK, FL, NV, NH, SD, TN, TX, WA & WY)

Bundling of Deductions: Given that several itemized deductions were reduced or eliminated, it makes sense to evaluate those that were not. Enter the charitable deduction. Not only was this not reduced or eliminated, it was increased. Taxpayers can now deduct cash gifts up to 60% of adjusted gross income (AGI). That said, one potential strategy is to bunch 2 or more years of gifting into a single year, possibly using a Donor Advised Fund to help spread out the actual gifts. There may also be some added State Tax advantages to making Charitable Contributions which we can discuss with you.

Medical Deductions: It is worth noting that deductions for medical expenses must exceed a 7.5% of AGI threshold in 2018, however this limit will go up to 10% in 2019 and beyond. If you are considering an elective surgery or have other significant expenses that can be pre-funded, it may make sense to do this in 2018.

Home Equity Lines: The new federal tax law created a lot of confusion over whether tax filers may still deduct the interest they pay on their home equity loans and home equity lines of credit. The new law suspends the deduction for interest for the next 8 years, but it does not apply to all home equity loans. Lines that were used for acquisition indebtedness (generally defined as funds used to buy or improve a property) remain deductible, provided total debt is below the new $750,000 limit.

Mortgage Interest Deduction: As noted above, this deduction is limited to interest paid on the first $750,000 of acquisition indebtedness. Note that loan balances before 12/15/17 will be grandfathered in up to the old $1,000,000 limit.

Timing of Income: Be sure you understand the modified income tax rates and thresholds as well as which brackets you fit into for both income and capital gains purposes. Your CPA can help you to adjust your paycheck withholdings, or there is a free calculator available on the IRS website.

Qualified Charitable Distribution: The QCD provision is now a permanent part of the Internal Revenue Code. This means you can plan your charitable giving and begin reviewing your tax situation earlier each year. For those 70½ and older, you can directly transfer funds up to $100,000 from an IRA custodian to a qualified charity. The funds can not be included in your taxable income or Medicare cost calculations. You will get a charitable deduction, and these distributions will count towards satisfying your Required Minimum Distributions (RMD). QCDs do not hit income and therefore do not get a double bite at the apple for a charitable deduction.

529 Plans for Elementary or Secondary Schools: The tax reform package expanded 529 plan benefits to $10,000 per year, per child, to be used to fund tuition at public, private, or religious elementary or secondary schools. If you have excess funds in your 529 Plans or have additional plans through a grandparent or other relatives, this is a great way to soak up some of the balance. However, be mindful that while funds pulled for this purpose will be exempt from Federal taxes, the withdrawal may still be subject to State taxes.

TAX-LOSS HARVESTING

There could be opportunities to sell out of a down position to book the tax loss. You could repurchase the security after 31 days while owning the index in-between to maintain market exposure.

ESTATE PLANNING

While the lifetime exemption for federal estate taxes has risen to a level where even fewer people will be affected, state estate regimes still require proper planning. Regardless of taxes, control and asset protection remains a critical factor in any estate plan. Additionally, many states are going through fundamental changes in their estate tax laws. For instance, the New Jersey tax has been eliminated while Connecticut and New York are steadily increasing exemption amounts. Illinois, on the other hand, has not increased its exemption amount since 2013.
GIFTING STRATEGIES

ANNUAL EXCLUSION GIFTS
The annual exclusion gifting limit is $15,000 per person in 2018 or $30,000 for married couples should the election be made to split gifts.

LIFETIME GIFTS
The lifetime gift exemption rose from $5,490,000 in 2017 to $11,200,000 in 2018. For those who used the entire exemption as of 12/31/17, you can gift an additional $5,710,000 in 2018 if it meets your goals and objectives. We expect another inflation adjustment for 2019.

CHARITABLE CONTRIBUTIONS
Your charitable contributions must be made before 12/31 to be taken as a deduction on this year’s return. If you do intend to make gifts, we should consider this in conjunction with a review of your portfolio as you may have highly appreciated stock that could be used for additional tax leverage on your gift. By gifting appreciated securities, you will avoid paying capital gains taxes on those securities if you have held the position for more than a year. This same strategy can also be applied to some other appreciated assets besides just publicly traded securities (i.e., privately held company stock or real estate). While using less liquid assets does add a layer of complexity, the potential capital gains savings can be significant. Regardless of the source of the donation, a way to help facilitate the gift is through the use of a Donor Advised Fund. This strategy allows you to take an up-front charitable deduction for the full fair-market value of the assets contributed to the account. You can then send gifts from the fund to your favorite charities over a period of time.

While Donor Advised Funds have become much more popular in the last few years, Private Foundations are still a viable option depending on many factors. The key benefits of the Donor Advised Fund are that it requires significantly less administration and can be created with a much smaller contribution (average minimums are $5,000). However, a Private Foundation allows for greater flexibility in how the assets are invested, where grants can be made and how involved your family can be in the administration and mission of the Foundation. Generally, the minimum amount required to make the administration costs of a Foundation worthwhile is $250,000 to $500,000.

GIFTING STRATEGIES TO NOTE
• Contributions to 529 Plans are considered a gift. If you are actively participating in a 529 Plan, you should be sure to make your 2018 contributions soon to take advantage of your 2018 gift tax exclusion. Also, keep in mind, 30+ states now offer some tax deduction or credit for contributions to those plans made by residents. Be sure to convey these details to your tax advisor.
• If you do intend to make a gift for 2018, we encourage you to do so by 12/1. For your contribution to be considered complete, the check must be deposited on or before 12/31, so it is always a good idea to give the additional recipient time.
• One approach for parents of children with earned income is to use part of their annual gifting exclusion to fund a Roth IRA for each working child. This strategy helps transfer wealth to the next generation in a tax-efficient manner.
• For those of you who own life insurance in an irrevocable life insurance trust, keep in mind that premiums paid on these policies are considered gifts and will count against your annual exemption.
INSURANCE PLANNING QUESTIONS TO CONSIDER

PERMANENT LIFE INSURANCE
Now may be the time to increase your permanent life insurance if you’ve maxed out your retirement distribution or are sitting on a lump sum of cash.
• Because of favorable tax laws applicable to life insurance, the policy cash value (money available to you while you are alive) and the policy death benefit (money to your beneficiaries upon your passing) grow tax deferred and are distributed tax free.
• Should you be building cash value for tax free retirement income, college tuition costs, future health care costs and/or future long term care needs?
• Should you consider gifting your policy into a trust for estate planning or making a charity the beneficiary of your policy for an income tax deduction?

DISABILITY INCOME INSURANCE
• Disability benefits are taxable if an employer pays for the insurance premiums on your behalf. Do you know if your benefit is taxable?
• Does your disability benefit equal your monthly spending, college savings, and retirement contributions?

LONG-TERM CARE INSURANCE
Recognizing that government can’t pay the bill for long-term care, federal and a growing number of state tax codes now offer tax incentives to encourage you to take personal responsibility for your future long-term care needs.
• What coverage can you secure now that addresses future long-term care needs?
• Are you going to care for parents or in-laws as they age?
• Is a hybrid life insurance and long-term care policy a good fit for you?

PROPERTY & CASUALTY INSURANCE
Equally important to building assets is having a plan to protect them. Review your property & casualty policies annually to ensure your plan still fits your needs.

Homeowner’s Insurance:
• Is your dwelling and personal property covered on an all risk basis? (All causes of loss (perils) are covered unless specifically excluded)
• Do you have full replacement coverage?
• Are your multiple and/or international properties coordinated?

Auto Insurance:
• Did you add and remove new vehicles or drivers properly?
• Do you have enough liability coverage?
• Review medical coverage (medical can affect your coverage)

Umbrella Insurance:
• Is your umbrella coverage equal to your net worth? What if someone sues you for “everything your worth”?
• Do any liability gaps exist between your homeowners/auto and umbrella policies?
• Ensure your Living Trust and/or any LLCs are named as an “additional insured” to cover assets titled to your Trust/LLC
• For your Domestic employees, did you consider the workers’ compensation law? Is there a need for “employment practice liability” coverage?
• Are memberships on profit and not-for-profit boards reviewed for personal liability risks?

Health Insurance:
Your health insurance coverage probably came in handy several times over the past year. It all seemed so simple at the time — you paid a deductible, and your insurance usually kicked in the rest. But what do you do at tax time? Just what are you taxed on, and what can you deduct on your federal income tax return?
• Are you taking advantage of the contributions towards your Health Savings Account (HSA)?
• Have you considered a limited purpose flexible spending account in addition to your HSA?

Your Lenox Team can help you determine if you’re taking advantage of any tax strategies that may be associated with your insurance coverage, as well as review your coverage.

IT’S NOT A MATTER OF IF YOU SHOULD PLAN FOR THE FUTURE, IT’S WHEN
REQUIRED MINIMUM DISTRIBUTIONS

If you are 70½, you must take your Required Minimum Distribution for 2018. If you have several IRA accounts, you may receive the distribution from just one, but the distribution must be calculated on the aggregate of your IRA balances. Note that if you are a recent recipient of an Inherited IRA, you must take distributions by 12/31 of the year after the year of the original owner’s death. Consult your Lenox Team to plan the best time to make these distributions.

SPOUSAL IRA

An often overlooked retirement strategy is the ability for a non-working spouse to make an IRA contribution. As long as you are filing taxes as “married filing jointly,” non-working spouses can make a $5,500 annual contribution to an IRA (or $6,500 if they are over 50 years old) in 2018. This is a great strategy to add to the retirement savings bucket. The deductibility of the IRA contribution can vary depending on the household income. If the modified adjusted earned income is over $199,000 in 2018, the Spousal IRA contribution cannot be deducted. However, in those cases, you can still make a non-deductible IRA contribution and immediately convert it into a Roth IRA. This is sometimes called a “Backdoor Roth” strategy. Careful consideration must be made while using this strategy to make sure there are no other pre-tax IRAs for the non-working spouse. This is because the IRS looks at the total IRA balance (including pre- and post-tax IRAs) while looking at the conversion and you will have to pay income taxes on the pro-rated portion of the traditional IRA balance. Your Lenox Team, in conjunction with your tax advisor, can help to ensure you do not run afoul of the rules here.

RETIREMENT PLAN CONTRIBUTIONS

Those with a 401(k) or other Deferred Compensation plans should remember to make allowable 2018 contributions before year-end ($18,500 Regular Contribution + $6,000 catch-up contribution for those age 50 or older by 12/31/18). While IRA structures, such as a SEP IRA, provide additional time to make 2018 contributions beyond 12/31/18, now is an excellent time to speak with your CPA to determine what your 2018 contribution can be. For those who have started new businesses and may not have set up a retirement plan, we recommend you sit with your Lenox Team to determine if a retirement plan makes sense and if so, what type.

ROTH 401(K)

Many plans are now offering a new option for 401(k) contributions. While you are likely familiar with the traditional, pre-tax salary deferrals, you may also have the option of electing a Roth 401(k). With traditional contributions, the amount is excluded from your income and then grows tax-deferred until you make a withdrawal. Assuming the withdrawal is made after age 59½ (to avoid the 10% penalty on early withdrawal), you would pay ordinary income tax on the amount that is withdrawn. With the Roth, you are contributing after-tax money, but both the contribution and all future growth will be income-tax free. To participate, your 401(k) plan must allow for the Roth 401(k) option and many employers have added this feature. The decision to elect the traditional or the Roth 401(k) is complicated and is based on a number of factors. Your Lenox Team can discuss how this may fit into your strategy.

NON-DEDUCTIBLE CONTRIBUTIONS

Another concept available in some employer-sponsored retirement plans is to be able to make deferrals beyond the 401(k) contribution limit ($18,500 for 2018). You may be able to make a non-deductible deferral beyond the 401(k) limit up to the defined contribution plan limit ($55,000 for 2018). Recent changes to non-deductible contributions can now be allocated when you separate from your firm and roll the assets to an IRA. As of January 1, 2015, you can differentiate how certain deferrals are allocated to different retirement accounts. For example, if you have $20,000 in pre-tax deferrals in your 401(k), $50,000 of non-deductible deferrals, and $10,000 of growth on the non-deductible deferrals, you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals), you could make a rollover as follows: $30,000 to a Traditional IRA ($20,000 from the 401(k) and $10,000 of growth on the non-deductible deferrals). Essentially this strategy allows you to make significant future contributions to a Roth IRA account.

Every employer plan is different, and you may be able to leverage additional tax strategies depending on the plan’s rules. Together with your Lenox Team, you should review the plan document annually to identify opportunities.

6 TIPS FOR A COMFORTABLE RETIREMENT

DON’T GO WITH THE DEFAULT SAVINGS RATE
Increase your 401(k) savings rate from the default 3%

ALWAYS GET THE 401(K) MATCH
Most employers match up to 6%

INCREASE CONTRIBUTIONS AS YOU AGE
It’s okay to save smaller portions when you start out, but be sure to increase them as you age

BE AWARE OF IRS PENALTIES
Know the rules about early and late withdrawal penalties

NEVER MISS CATCH-UP CONTRIBUTIONS
IRS allows you to save more as you age

DIVERSIFY WITH ROTH 401(K)
A Roth 401(k) allows you to withdraw tax-free in retirement
FAMILY MONEY CONVERSATIONS

An annual family meeting with adult children can be a great way to ensure that they understand the framework of your financial plan in the event of your death or incapacity. While most of us want to focus on celebrating and having fun when gathered together, our modern culture tends to result in a limited amount of time throughout the year when all those who matter most to us are under one roof. Another take – year-end provides dozens of excellent educational opportunities for younger children to learn lessons about managing money. Try to involve kids who are old enough in the many activities suggested in this guide, from gathering tax documents to reviewing investments to budgeting for your holiday shopping list.

MILESTONE BIRTHDAYS

We will all celebrate birthdays in 2019, but for some, an added gift awaits:

• Age 18 or 21: Depending on your state, this is the age of majority for your children. If they have UTMA accounts, this is the day the assets become theirs.

• Age 50: You can now make additional catch-up contributions of up to $6,000 in your 401(k), 403(b), and other workplace retirement accounts or up to $1,000 in your Traditional or Roth IRA accounts.

• Age 59½: Early Withdrawal Penalties end for qualified plan withdrawals.

• Age 62: You become eligible to receive reduced Social Security payments. Check your Social Security statement for your Full Retirement Age (FRA).

• Age 65: You become eligible for Medicare. Waiting to sign up for Medicare may adversely affect your benefits.

• Age 70½: Required Minimum Distributions from Qualified Retirement Accounts (Traditional IRA, 401(k), etc.) accounts begin.

OFF TO COLLEGE

If you are sending any children off to college, we recommend that you speak with your Trust & Estate attorney and see that a Health Care Directive/Proxy and Power of Attorney are drafted for each. Once they reach the age of maturity, their status as adults trumps your status as their parent, and while many colleges include this sort of paperwork in their enrollment packages, we recommend a personalized document drafted by your attorney.

ADULT CHILDREN TO AGE 26 AND HSAs

The Health Care Reform Act requires health plans to cover children up to age 26. However, once the child is no longer tax-dependent, but still on the parent’s High Deductible Health Insurance Plan, the child has the opportunity to open up their own Health Savings Account and contribute up to the family maximum ($6,900 for 2018). This opportunity arises because once your child is no longer considered a tax-dependent, qualified medical expenses cannot be paid out of your Health Savings Account. Talk to your benefits consultant or tax advisor to confirm eligibility.
PORTFOLIO REVIEW & REBALANCE
We encourage you to review your portfolio in detail to ensure your overall asset allocation is appropriate. It is important to consider asset location to maximize tax efficiency. To whatever extent possible, you should own your tax-inefficient asset classes in your IRA, 401(k), and other tax-deferred accounts.

MUTUAL FUND CONSIDERATIONS
Pay particular attention to mutual funds this time of year. Year-end is typically when mutual funds declare and make their income and capital gains distributions. Each year, mutual funds are required to pay out capital gains to their shareholders, which can be significant for investors. Even in times of slow market growth, a mutual fund may hold a highly-appreciated holding which, when sold, would generate a taxable event to you if you own that mutual fund in a taxable account.

Mutual fund companies will communicate when they expect to make capital gains distributions, so it’s important to be on the lookout to confirm whether a large distribution is expected to you. Your Lenox Team can review your holdings and help to harvest possible losses to lessen the impact of a large capital gain distribution. If you’re considering purchasing additional shares of a mutual fund at the end of the year, it is advised to research when and if that fund will pay out capital gains distributions. Buy into the fund at the wrong time, and you could be distributed capital gains that were realized in the portfolio before you bought it. On the flip side, if you’re planning on rebalancing out of mutual funds or raising cash from a mutual fund portfolio, you can sell your shares before the deadline and not get hit with the capital gains distribution. You would still pay taxes on the difference between the value and your cost basis, but you can at least avoid the capital gains taxes if you plan accordingly.

FIDUCIARY APPOINTMENT/BENEFICIARY DESIGNATION REVIEW
Year-end is an excellent time to review your fiduciary appointments in your estate planning documents. Are the people you have listed still the people you want to serve in your stead should something happen? Review your beneficiary designations on all accounts that will pass upon your death via these appointments. Beneficiary-driven accounts include:

• 401(k), 403(b), and 457 Plans
• Life Insurance Policies
• Deferred Compensation Agreements
• Traditional and Roth IRA Accounts
• Annuity Contracts

If you are listed as a fiduciary in somebody else’s estate planning documents, you have a legal responsibility to ensure that the investments, insurance and other assets held in that plan are both performing well and adequate to the goals of the plan. Your Lenox Team can assist you in evaluating your responsibilities.

2019 EXPENSE BUDGET
Keeping a regular annual budget is one of the central building blocks to sound long-term financial planning. Whether you use Excel, Quicken, or an old-fashioned check register, now is an excellent time to review your spending for the past year and to create some goals for 2019. As always, your Lenox Team is ready and available to assist with this sometimes daunting task.

In addition to evaluating your annual expenses, we find it useful to set precise yearly savings targets based on your total income and expense structure. Your Lenox Team can take you through this exercise as well.

CREDIT REPORTS
We encourage you to review your full credit report at least once per year. For those who have not done so already, you should consider signing up for a Credit Monitoring service. Though far from foolproof, it can be a valuable tool in protecting yourself from identity theft.
There are many moving parts to an adequately designed wealth strategy, and the elements are rarely static. Planning a course for your ideal financial future is an ongoing process, not a one-time event. Taking the time to prepare before year-end could help you make appropriate adjustments in your circumstances, avoid potential pitfalls and take advantage of short-term opportunities, which helps keep you on track for your long-term goals.

### KEY DATES

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<td>09/17/2018</td>
<td>3rd Quarter 2018 Estimated Tax Payment Due</td>
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| 10/15/2018 | • Final deadline to file individual tax returns for the year 2017  
            | • Last chance to re-characterize 2017 Roth IRA conversion |
| 12/01/2018 | Execute any gifting checks, must be deposited by recipient by December 31 |
| 12/31/2018 | Last day to make any tax moves for the year 2018 (i.e. Annual gifts, charitable contributions, etc.) |
| 01/15/2019 | 4th Quarter 2018 Estimated Tax Payment Due              |
| 04/14/2019 | Due date for Individual 2018 Income Tax returns and Gift Tax returns to be filed, or to elect a 6-month extension; also the last day to make a 2018 IRA contribution |