2019
NAVIGATING
THE YEAR AHEAD
Even before 2019 began, it promised to be a year in which careful planning would be especially important:

• The new tax law is now in effect and by April 15th, you will have a much better idea how it will affect you...at least until the end of 2025 when a number of newly enacted provisions are scheduled to be rescinded.

• Interest rates, while still relatively low, have been climbing, which may make borrowing more expensive, but also reflects a growing economy.

• The stock market ended last year with roller coaster volatility. In December, the Standard & Poor’s 500 rose or fell more than 1% nine times, compared to eight times in all of 2017.

This Guide is designed to help you gain a firmer grasp of the ground rules so you can make more informed decisions when it comes to tax, retirement, investment and other planning activities. Of course, Lenox Advisors is committed to providing you with guidance that is tailored to your individual circumstances. If you have any questions about anything you read here or wish to discuss what you should be doing to plan for 2019 and the years beyond, please don’t hesitate to contact us.

Best wishes for a happy and prosperous year.
Once the new tax law was passed in 2018, hundreds of clients called us to determine how they might be affected. This year may be quieter, but it pays to understand what’s changed so you can avoid pitfalls that didn’t previously exist and take advantage of more favorable provisions.

First, tax brackets have changed, and your new rate may be lower. The top 39.6% bracket, for example, has been reduced to 37%. It’s important to remember, however, that lower tax brackets will not necessarily result in lower taxes. If you itemize deductions, you’re going to find that there is now a $10,000 cap on the deduction allowed for state and local taxes. Residents of high tax states like New York, New Jersey, Connecticut and California are placed at a considerable disadvantage.

Another change that could increase your tax bill is deductibility of mortgage and home equity loan interest. If you already have a mortgage, you can continue to deduct interest payments as you have in the past. Between 2018 and 2025, however, the interest you pay on any new mortgage will only be deductible on debt below $750,000. Previously, the ceiling was $1 million. As for home equity loans, interest will no longer be deductible unless the loan is being used to buy, build or substantially improve your home. Again, deductibility is only available for interest paid on total debt – home equity loan and mortgage – of $750,000 or less.

**TO ITEMIZE OR NOT TO ITEMIZE**

That is indeed the question for many taxpayers this year. The standard deduction has been increased as follows:

<table>
<thead>
<tr>
<th></th>
<th>2017 TAX YEAR</th>
<th>2018 TAX YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>$6,350</td>
<td>$12,000</td>
</tr>
<tr>
<td>Married Filing Jointly</td>
<td>$12,700</td>
<td>$24,000</td>
</tr>
<tr>
<td>Married Filing Separately</td>
<td>$6,350</td>
<td>$12,000</td>
</tr>
<tr>
<td>Head of Household</td>
<td>$9,350</td>
<td>$18,000</td>
</tr>
</tbody>
</table>
TAX STRATEGIES CONTINUED

There is an additional deduction for taxpayers over the age of 65. Married couples can add $1,300 to their standard deduction, while single filers and heads of households can add $1,600. Personal exemptions, however, have been eliminated. What this means is that you’re going to have to decide whether to take the standard deduction or continue to itemize, realizing that you will not be able to deduct as many expenses as you have in the past. In addition to those already discussed, here are other changes that might influence your decision:

FOR INDIVIDUALS

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Gains</td>
<td>As in the past, long-term capital gains rates apply on sales of securities you’ve held for over a year. Rates remain at 0, 15% and 20%, depending on your income.</td>
</tr>
<tr>
<td>Selling Your Principal Residence</td>
<td>If you’ve owned your home for at least five years and lived in it for at least two, you can exclude capital gains from your taxable income up to $250,000 for a single filer and $500,000 for married couples.</td>
</tr>
<tr>
<td>Alternative Minimum Tax</td>
<td>While the AMT still exists, it will apply only to a few high income households.</td>
</tr>
<tr>
<td>Alimony</td>
<td>For agreements entered after December 31, 2018, alimony will no longer be taxable to the recipient. It will also not be deductible to the payor.</td>
</tr>
<tr>
<td>Kiddie Tax</td>
<td>For children under the age of 19 and college students under the age of 24, unearned income will now be taxed as if it were held in a trust. To understand the ramifications, consider that the top 37% tax bracket now applies to a trust or child subject to kiddie tax, if unearned income exceeds $12,500.</td>
</tr>
<tr>
<td>529 Plans</td>
<td>You may now use these tax-favored plans to pay for not only college, but K-12 private school tuition up to $10,000 a year.</td>
</tr>
</tbody>
</table>

FOR BUSINESS OWNERS

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower Tax Rates for Business Income from Pass-Through Entities</td>
<td>Business owners will be able to deduct 20% of qualified business income from pass-through sources on their personal income tax returns. This deduction phases out beginning at $315,000.</td>
</tr>
<tr>
<td>Corporate Tax Rate</td>
<td>The corporate income tax rate has been lowered from 35% to 21%.</td>
</tr>
<tr>
<td>Business Credits &amp; Deductions</td>
<td>• Business interest deductions are capped at 30% of income, excluding depreciation. \  • Net operating losses deductions are limited to 80% of taxable income.</td>
</tr>
</tbody>
</table>

TAX DOCUMENTS

To prepare for your tax return filings, we suggest you start gathering your documentation now. Essential items to collect include Forms W-2, K-1 and 1099 as well as charitable contribution documentation, and any property tax and mortgage documentation. For those of you who are part of the Lenox Wealth Advisors Comprehensive Personal CFO program, we encourage you to send this information to your Relationship Manager to be scanned and added to your vault, and we can then forward everything to your tax preparer.

TRUST FUNDING AND ANNUAL EXCLUSION GIFTS

You do not need to wait until December to fund your Trusts or to make your annual gifts. The annual exclusion amount for 2019 will remain at $15,000. The limit for exclusion gifts to a non-citizen spouse has increased from $152,000 to $155,000 for 2019. Making these gifts early in the year removes from your estate both the value of the gift and any appreciation on those dollars throughout the course of the year.

ESTATE TAXES

The Estate, Gift, and Generation-Skipping Transfer (GST) Tax exemption for 2019 has increased from $11,180,000 per person to $11,400,000. The Federal Estate, Gift, and GST tax rate remains at 40%. As we noted in last year’s Guide, these limits are at an all-time high and as they continue to rise, those with the ability to do so should consider making substantial gifts out of their estate now in the event these exemptions come down in the future.

Please note that if you have not completed an estate plan, or if your plan has not been reviewed or updated over the last five years, we strongly encourage you to make this a priority for 2019.

Lastly, keep in mind that there have been some recent changes to various State Estate Tax laws. Please reach out to your Relationship Manager to discuss the situation for your state of residence.

ADVANCED PLANNING STRATEGIES

Typically funded by assets that are likely to appreciate, GRATs require their grantors to receive annual annuity payments consisting of principal and interest based on an IRS formula. This formula, also known as a “hurdle rate”, is set by the IRS on a monthly basis. At the end of the GRAT’s term, all appreciation of assets in the trust beyond the hurdle rate is allowed to transfer to your beneficiary with no estate or gift tax liability. As of February 2019, the hurdle rate is 3.2% which remains relatively attractive for planning purposes. Talk to your Relationship Manager for further details.
RETIREEMENT PLANNING

Every year, the Employee Retirement Benefit Institute (EBRI) conducts a Retirement Readiness survey that determines how American workers feel about their prospects for a comfortable retirement. In recent years, confidence has increased, with approximately two out of three workers very or somewhat confident they would be able to retire on time and as planned. Only 17% of those surveyed, however, proclaimed that they were “very confident.”

401(k) and IRA contribution limits have been increased for 2019. Taking advantage of these tax-qualified plans to their fullest extent can make a major difference in your ability to meet retirement goals. The earlier in your career you begin contributing to these plans, the more confident you will probably be as retirement approaches.

Here are the details about the changes that might affect your retirement planning this year:

401(K) PLANS
You may now contribute as much as $19,000 to a 401(k) Plan this year, up from $18,500 in 2018. If you’re 50 years of age or older, you can make an additional catch-up contribution of up to $6,000 (no change from last year), bringing your total 2019 contribution to a potential $25,000. If you wish to make a catch-up contribution, make certain you consult with your Plan Administrator, as not all plans will simply deduct contributions from your paycheck once you’ve reached the $19,000 maximum. Many require you to state your intentions formally by completing an active election document.

Contributions to your 401(k), of course, are made with pre-tax dollars and are allowed to grow on a tax-deferred basis. If your plan allows you to make additional contributions with after-tax dollars, you may be able to contribute as much as $56,000 this year. When you retire, you may withdraw these contributions with no tax liability. Only investment earnings on these assets are taxable. Again, talk to your Plan Administrator for further details, as not all plans offer this benefit.

One last point – if your employer offers a match on 401(k) contributions, consult with your Lenox team to make certain you are maximizing this benefit.

IRAs
Contribution limits on both Roth and Traditional IRAs have increased from $5,500 to $6,000 this year, with an additional $1,000 in catch-up contributions available for participants 50 years of age or older (no change from last year).

- **Traditional IRAs** enable you to make tax-deductible contributions as long as you meet certain criteria. If you and your spouse don’t participate in a 401(k) or other retirement plan at work, your IRA contribution is 100% deductible. If one or both of you does participate in an employer-sponsored plan, you may still be able to deduct all or part of your contributions, if your modified adjusted gross income is under a specific amount ($123,000 for married couples, filing jointly). Finally, even if your spouse doesn’t work, you may be able to establish a spousal IRA on his or her behalf and contribute up to $5,500 a year ($6,500 for spouses 50 years of age and older). These funds become the property of your spouse once they are contributed but can go a long way toward ensuring your joint financial security.

- **Roth IRAs** offer the opportunity to make contributions with after-tax dollars. Your contributions are allowed to grow tax-deferred and when you withdraw assets at retirement, those withdrawals are tax-free. You can only establish a Roth, however, if your Modified Adjusted Gross Income (MAGI) is under a certain amount. MAGI is calculated by taking your Adjusted Gross Income (income minus deductions) and adding back certain items like foreign income, student loan interest deductions and deductions for other higher education costs. See [www.irs.gov](http://www.irs.gov) for further details.

- You can convert your Traditional IRA to a Roth IRA with no limits on income. This strategy, however, requires you to pay taxes on all the assets in your Traditional IRA.
The second longest market rally in history came to an end last year. After nine years of positive returns, the market gave back what appeared to be a tenth year in a flurry of December volatility.

As for this year? It’s hard to say. The economy continues to show signs of strength. The Fed has agreed to monitor conditions closely before doing anything that might upset investors. And yet, there is the uncertainty of trade tariffs, the Mueller investigation and simply the fear that we are approaching the end of a financial era.

In this environment, it is especially important to remember several investment axioms:

1. Asset allocation is by far the most important determinant of portfolio performance, according to landmark academic studies, even more important than securities selection or market timing.

2. Behavioral finance is a discipline that is based on the belief that most people are driven by human tendencies that can sabotage their investment progress. Chief among them is a conformity reflex that can cause us to do what others are doing, even though part of us might know better. For example, many investors flee for the sidelines when markets turn choppy as they did in December. They vow they will return to the market when conditions calm down. As a result, however, they often end up doing the exact opposite of that wise old investment adage, “Buy low, sell high.”

3. If you’re working with Lenox, you’re not in it alone. Asset Allocation remains our central focus in building portfolios for clients, and a key component of proper asset allocation is continuous monitoring of your goals and risk tolerance. We find that the beginning of the year is an ideal time to discuss these topics, along with any other items that may alter your allocation in the coming months such as cash bonuses, employer stock option awards or significant income tax payments. By having this conversation, we can often ward off those behavioral tendencies that can work against your rational self-interests.
Life changes constantly and your insurance needs change with it. That’s why it’s important to review your insurance coverages on a regular basis to make sure it still meets your needs.

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 future tax free distributions for retirement income, college tuition costs, future health care costs and/or future long term care needs?

DISABILITY INCOME INSURANCE

• Is your disability income insurance portable? Does it leave with you if you leave your current employer?

• 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?

1 in 3
Households would feel the financial impact within 1 month, if the primary wage earner died.*

1/3
Of people are worried about long-term care, yet only 15% own long-term care insurance.*

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? Do you understand the benefits of a hybrid policy?

*2018 Insurance Barometer Study, Life Happens and LIMRA
LIVING IN A DIGITAL WORLD

Data security becomes more important each year. Now is the time to take the following steps that might help you mitigate the risk of identity theft:

- **Review Credit Report:** We encourage you to run and review credit reports annually for your entire family to catch any reporting errors or fraudulent activities. You can obtain free annual credit reports, at [www.annualcreditreport.com](http://www.annualcreditreport.com) or call 877-322-8228. A more comprehensive report (as well as your credit score) is available for a fee at [www.myfico.com](http://www.myfico.com).

- **Protect/Check Email:** One of the most common issues today is hackers breaking into personal email accounts. If they gain access, they will be able to steal personal information and even send emails posing as you. You should keep a close eye on any outbound email, change your passwords regularly, and do not allow others to access your email.

- **ID Theft Monitoring Service:** If you have not already, you should consider signing up for a service that monitors your credit report for any changes. This is an important step to make sure there are no unauthorized changes to your credit report.

- **Change Your Password Regularly:** It makes sense to update all your passwords every few months.

- **Review Statements:** Make sure you are regularly reviewing all transactions for all accounts. This is one of the most important ways to ensure there are no unauthorized transactions.

- **Beware of Phishing:** Phishing is a technique used by identity thieves to get your sensitive information by pretending to be a site you trust. You should be suspicious of any incoming phone calls or emails that ask you to provide any confidential information, especially if the request is for usernames and passwords, account numbers, or social security numbers.

- **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.**

- **Have your 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.

RISK MANAGEMENT CONTINUED

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 you are 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.

- Have your 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.

Finally, it is easy to become overwhelmed by the volume of User IDs and Passwords required in our day-to-day lives and the importance of keeping these items secure. You should consider using a “password manager” app like DashLane, 1Password, or LastPass. These applications can generate and keep track of all your passwords in one secure, easy-to-access place. You can also use these types of applications to securely store other sensitive data such as secret question answers, credit card numbers, and addresses.

Other measures to consider include adding digital assets, such as photos and music, to your estate plan. If these assets are extensive, think about adding them to your wills and trusts, so that beneficiaries have access to the necessary online credentials.

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.

Finally, it is easy to become overwhelmed by the volume of User IDs and Passwords required in our day-to-day lives and the importance of keeping these items secure. You should consider using a “password manager” app like DashLane, 1Password, or LastPass. These applications can generate and keep track of all your passwords in one secure, easy-to-access place. You can also use these types of applications to securely store other sensitive data such as secret question answers, credit card numbers, and addresses.
The start of a new year is a perfect time to ensure that you’re not overlooking these essential components of your financial plan:

• Have you remembered to assign both primary and contingent beneficiaries to your life insurance policies and qualified accounts? Are the fiduciaries assigned in your estate plan still able and willing to fulfill the tasks that would be required of them?

• Have you added insurance coverage for any valuable articles acquired in the past year? High valued jewelry, art, and antiques can be separately scheduled on your homeowner’s insurance. We recommend that you take a photograph of all scheduled items and store them along with the receipt or appraisal for each item. Lenox Wealth Advisors Personal CFO clients can store this information in their vault.

• If you’ve been granted Incentive Stock Options by your employer, consider exercising these early in the year. There are two distinct advantages to using ISOs sooner rather than later in the year. First, you’ll get the clock ticking on the holding period required to qualify the proceeds for long-term capital gain treatment (one year from the date of exercise). Exercised before April 15 of the current year, cash will become available before April 15th of the following year. Second, exercising early gives you a long look-back period to form a bail-out strategy in case of significant market declines after exercise.

• By now, you should have started receiving year-end statements from your banks and credit cards. These statements provide valuable insights about your spending patterns.

The accuracy of your living expense number is critical in evaluating your retirement plan model. For those of you who are part of the Lenox Wealth Advisors Personal CFO program, your website includes some valuable technology to assist you in managing and evaluating your expenses.

• Review your financial goals. Has anything changed? Have you made progress on goals you have set in prior years? Or should you think about readjusting your strategy? Once we have an understanding of your current priorities, we can discuss the best way to deploy your savings across your portfolio.